VIS

Credit Rating Company Limited

ECONOMIC UPDATE
JANUARY 2025

GLOBAL ECONOMIC OUTLOOK

The global economic outlook for 2025 remains steady yet subdued, with growth projected at 3.3%—below the historical average of 3.7% seen between 2000 and 2019. This stability masks significant divergences across regions and economies. The United States is expected to lead among advanced economies, with a robust growth forecast of 2.7% in 2025, bolstered by strong consumption, favorable financial conditions, and a supportive labor market. However, other advanced economies, including the euro area and Japan, face slower recoveries. The euro area's growth remains constrained by weak manufacturing performance and geopolitical tensions, while Japan contends with temporary supply disruptions. In contrast, China's projected growth of 4.6% reflects some resilience but is tempered by lingering property market instability and low consumer confidence. India continues to be a bright spot among emerging markets, maintaining solid growth at 6.5%, driven by strong domestic demand and industrial activity. However, other regions like the Middle East, Latin America, and sub-Saharan Africa display mixed results, with some gains offset by policy uncertainties and external pressures.

Global inflation is on a downward trajectory, expected to reach 4.2% in 2025 and 3.5% in 2026. Advanced economies are anticipated to achieve inflation targets sooner than emerging markets, but progress is uneven. While disinflation in goods prices has been achieved, services inflation remains elevated in several advanced economies, such as the United States and the euro area. Emerging markets face additional challenges from persistent pockets of inflation driven by local factors. Monetary policy responses are similarly divergent, with some central banks cautiously easing rates, while others remain vigilant against inflationary pressures. This divergence underscores the complexity of navigating the ongoing disinflation process without disrupting economic stability.

Several external forces continue to shape the global outlook. Trade policy uncertainties, geopolitical tensions, and political instability in certain regions have amplified risks, constraining investment and trade flows. Commodity markets also present mixed signals, with energy prices expected to decline, reflecting weak demand from China and robust supply from non-OPEC+ producers. However, nonfuel commodity prices, particularly food, are set to rise due to challenging weather conditions. Financial conditions vary across regions, with advanced economies benefiting from accommodative environments, while emerging markets face tighter conditions due to a strong US dollar.

The global growth outlook remains precarious, underscored by divergent recovery paths and heightened risks. While advanced economies struggle with tepid recoveries and trade headwinds, emerging markets face external pressures and structural challenges. Policymakers must prioritize balancing inflation control with economic growth, rebuild fiscal buffers, and address structural reforms to enhance resilience. Strengthened multilateral cooperation and a focus on reducing policy uncertainties are essential to foster a more robust and equitable global recovery.

Countires/Regions	Global GDP Growth Rate (%)		
	2023	2024 E	2025 P
World	3.3	3.2	3.3
United States	2.9	2.8	2.7
Europe	0.6	1	1.4
Japan	1.5	-0.2	1.1
United Kingdom	0.3	0.9	1.6
China	5.2	4.8	4.6
India	8.2	6.5	6.5
Middle East and Central Asia	2.0	2.4	3.6

Source: IMF

PAKISTAN ECONOMIC OUTLOOK

Pakistan's economy has entered a phase of cautious stabilization following significant challenges. GDP growth for FY 2024 was recorded at 2.50%, with agriculture leading the recovery at 6.18%, largely due to a low base effect from the devastating 2022 floods.

The services sector continues to dominate, contributing over 58.2% of GDP, driven by trade, telecommunications, and financial services. The industrial sector, however, remains stagnant due to inflation, expensive energy, and declining competitiveness. For FY 2025, the IMF projects GDP growth at 3.00%, with Q1 FY 2025 showing a growth of 0.92%, supported by moderate gains in agriculture and services despite a contraction in industry.

Monetary policy has shifted from aggressive tightening to easing, with the State Bank of Pakistan (SBP) cutting the policy rate from a historic high of 22% to 12% by the end of Jan 2025 as inflation moderated to 4.1%. The stabilization of the exchange rate at PKR 278–280/USD and strong remittance inflows of $2.8 billion monthly have supported the recovery. Further rate cuts are anticipated, contingent on continued inflation stability and external balance improvements.

Exports grew by 11.9% in FY 2024, led by textiles, while imports remained constrained, falling slightly by 0.73%. Service exports, particularly ICT, expanded by 25%, contributing an additional $600 million. Remittances rebounded strongly, averaging $2.8 billion monthly in FY 2024–25, compared to $2.2 billion in FY 2023. The capital markets saw record performance, with the KSE-100 index surging by 137% since July 2023, reflecting investor confidence and economic improvements. Foreign Direct Investment (FDI) increased to $1.87 billion in FY 2023–24, with China being the largest contributor.

On the fiscal front, Pakistan achieved a significant milestone with a primary surplus of 0.9% of GDP in FY 2024 and a fiscal surplus of 1.5% in Q1 FY 2025, driven by record SBP profits of Rs. 2.5 trillion. The fiscal deficit narrowed to 6.8% of GDP in FY 2024, though rising debt servicing costs—now 7.7% of GDP—continue to strain fiscal resources. The debt-to-GDP ratio improved to 67.4% in FY 2024 from 74.8% in FY 2023, with external debt declining to 22.8% of GDP.

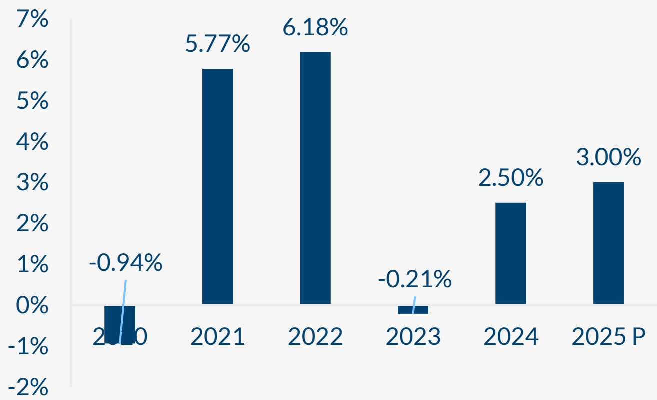
Energy and structural reforms are underway, including renegotiations of Power Purchase Agreements with Independent Power Producers (IPPs) and the establishment of the Special Investment Facilitation Council (SIFC) to streamline investments. These initiatives aim to address inefficiencies and foster a sustainable recovery, though challenges such as structural bottlenecks, revenue shortfalls, and reliance on external support persist. Sustained reforms, fiscal discipline, and investment-friendly policies will be crucial for long-term economic resilience and growth.

In July 2024, Pakistan successfully entered a 37-month IMF loan agreement of approximately of $7 billion. The tenure of the loan is 3 years. The new program aims to support the government of Pakistan to implement much needed reforms to broaden the tax base and abolishment of exemptions.

GDP GROWTH TRENDS

In FY 2024, Pakistan recorded a moderate GDP growth rate of 2.50%, primarily driven by a 6.18% growth in the agriculture sector, which benefitted from a low base effect following the devastating floods of 2022. The industrial sector grew modestly by 1.21%, while the services sector remained a key driver of economic activity. For FY 2025, the International Monetary Fund (IMF) has projected a slightly higher GDP growth rate of 3.00%. In the first quarter of FY 2025, the economy posted a growth of 0.92%, with sectoral growth rates of 1.15% in agriculture, - 1.03% in industry, and 1.43% in services.

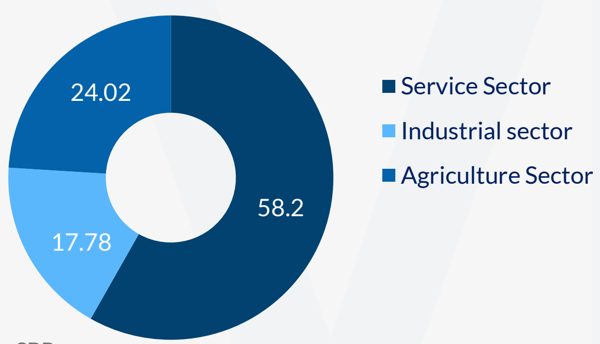
GDP Growth Rate



Source: SBP

Historically a dominant contributor, agriculture's share in GDP has declined as the economy diversifies. However, it remains a cornerstone for employment and food security. The industrial sector has been stagnant due to high inflation, energy shortages, and declining competitiveness. These challenges have impeded its ability to contribute. The services sector is now the largest contributor to GDP, accounting for over 58.2%. Its growth is powered by thriving sub-sectors such as trade, telecommunications, and financial services, which continue to drive economic modernization and urbanization.

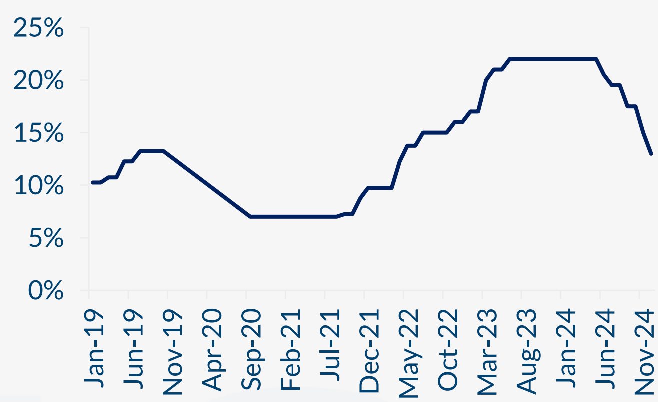
Sector contribution to GDP In FY 2024 (In %)



Source: SBP

Pakistan's monetary policy, steered by the State Bank of Pakistan (SBP), has transitioned from aggressive tightening to gradual easing to address shifting economic challenges. After inflation peaked at 37.97% in mid-2023, the SBP raised the policy rate to a historic high of 22% to curb inflation and stabilize the exchange rate. With inflation moderating to 4.1% by December 2024 and the exchange rate stabilizing at PKR 278–280/USD, the SBP shifted focus to economic growth, cutting the policy rate to 13% by year-end. This easing aims to lower borrowing costs, stimulate private-sector investment, and boost economic activity, supported by improved remittances, fiscal discipline, and declining global commodity prices. Looking ahead, further rate cuts are anticipated, contingent on continued inflation stability and external balance improvements. However, risks such as potential inflationary shocks and exchange rate volatility remain, underscoring the need for vigilant policy management and structural reforms.

Policy Rate



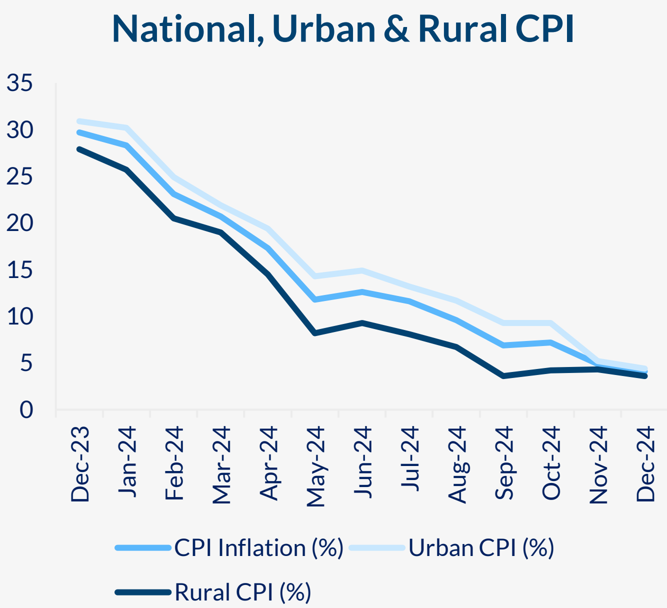
Source: SBP

INFLATION

Inflation has considerably declined in Pakistan. Consumer Prices Index (CPI), which peaked at 37.97% in May 2023, fell to 4.1% in December. Inflation fell relatively quickly due to a stable exchange rate, low global commodity prices, tightening of monetary policy, and favourable base effects from elevated inflation of the previous year.

Urban and Rural areas followed the national inflation trend. Historically, rural inflation has been higher than urban inflation, but as of November 2023, rural inflation rates have fallen below urban CPI. In Nov 2023, CPI inflation in rural and urban areas was 27.5%

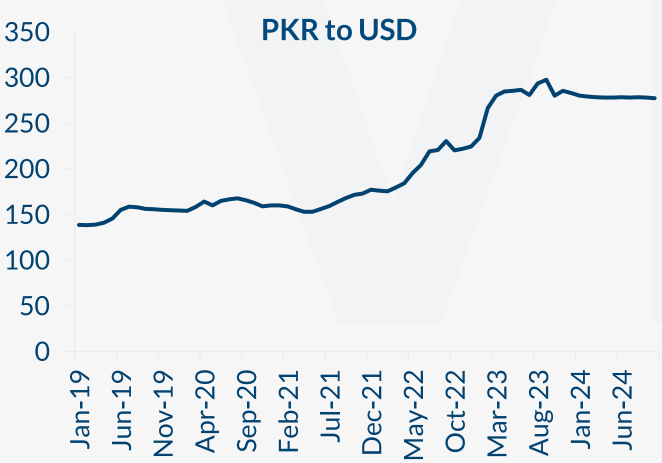
and 30.9%, respectively, which fell to 4.3% and 5.2% in Nov 2024. Core inflation was recorded at 3.8% and 4% in urban and rural respectively. Energy inflation, which was particularly high in urban areas, fell to 0.8% compared to 10.4% in December 2023.



Source: SBP

EXCHANGE RATE

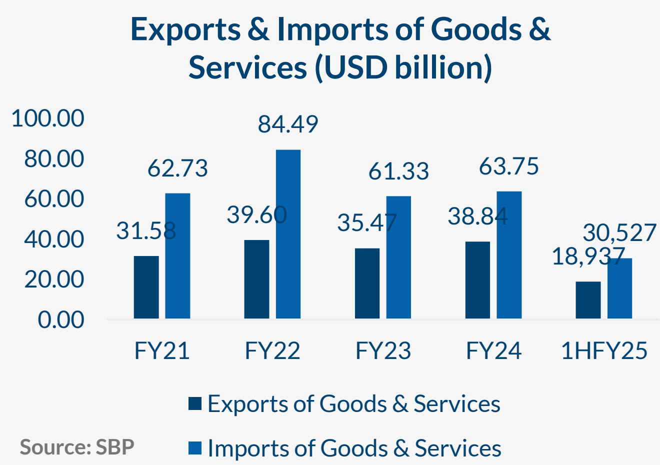
The Pakistani rupee stabilized within the range of Rs. 278-280 per USD due to a market determined exchange rate policy and inflows from remittances. However, external shocks and macroeconomic imbalances pose risks, with analysts projecting a potential 4% annual depreciation.



Source: IMF

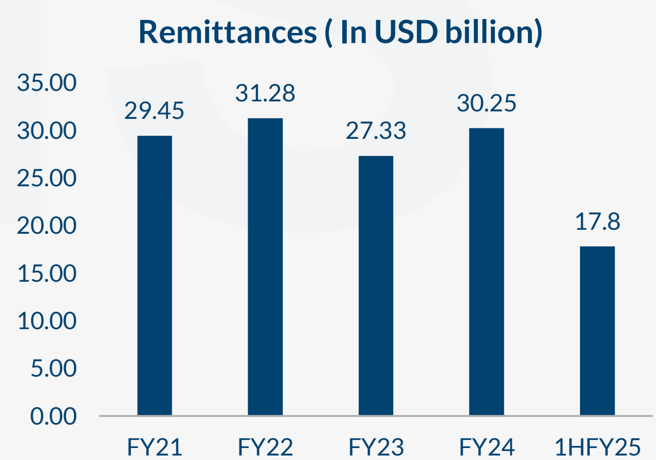
EXTERNAL TRADE AND CAPITAL MARKET

Pakistan's external trade has shown promising trends, with exports witnessing robust growth and imports gradually rising as restrictions ease. Exports grew by 11.9% in FY 2024, while imports slightly decreased by 0.73% due to earlier restrictions. Textile products led exports (54.29%), while petroleum dominated imports (30.86%). Service exports, particularly information and comm9unication technology exports grew by 25%, adding $600 million to the total. Despite these gains, easing import restrictions could strain the current account if exports do not grow in tandem.



Source: SBP

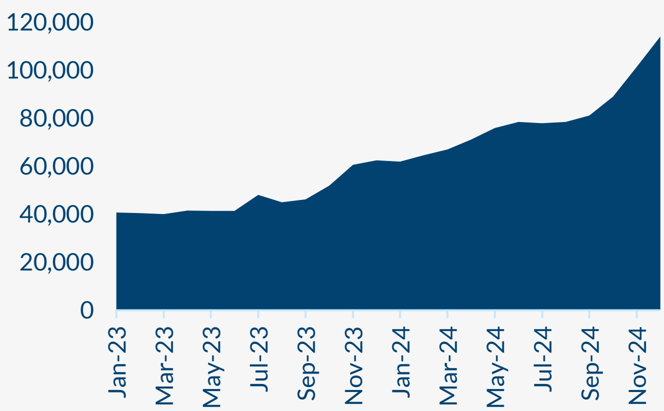
Remittances have also rebounded significantly, averaging $2.8 billion per month in FY 2024– 25, compared to $2.2 billion in FY 2023, driven by exchange rate stabilization and policy measures promoting formal remittance channels.



Source: SBP

The capital markets have recorded exceptional performance, with the KSE-100 index surpassing the 110,000 mark in December 2024. This represents a 137% surge since July 2023, making it the best-performing stock market globally in dollar terms. The rally reflects improved investor confidence, economic stabilization, and falling interest rates, with market capitalization reaching Rs. 1414 trillion by year-end.

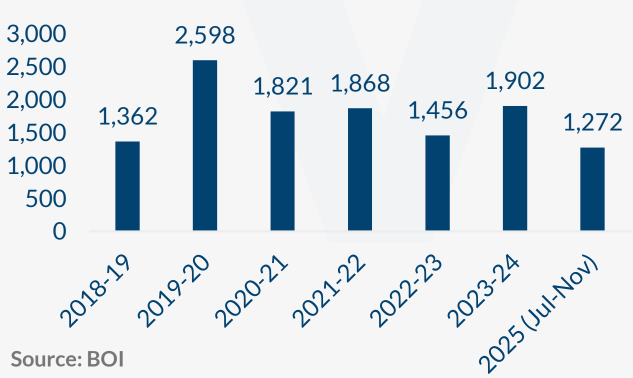
KSE-100 Index



Source: SBP

FDI inflows increased to $1.87 billion in FY 2023–24, with China as the largest contributor. The power sector emerged as the top recipient of FDI, attracting $799.9 million. Despite this growth, overall FDI remains below historical peaks, indicating room for improvement through strategic reforms and enhanced investor-friendly policies.

NET FDI (in USD Millions)



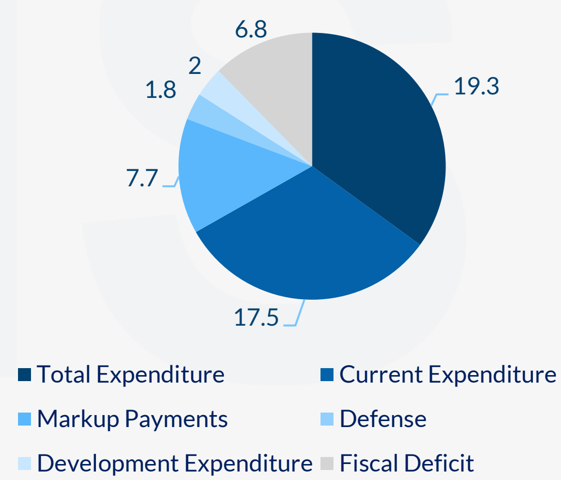
Source: BOI

FISCAL AND DEBT POSITION

Pakistan's fiscal position has historically been challenging, reflecting its persistent struggle to manage rising expenditures. Despite efforts to enhance revenue generation through tax and non-tax measures, the revenue-to-GDP ratio has steadily declined, falling to 12.5% in FY24 compared to an average of 14.3% between 2014 and 2019. The fiscal deficit narrowed to 6.8% of GDP in FY24, down from 7.9% in FY23. However, debt servicing costs have surged, with interest payments rising sharply from 4.9% of GDP in FY21 to 7.7% in FY24. These payments consume a substantial share of fiscal resources, leaving limited room for public welfare and development spending, the latter being crucial for sustained economic growth and infrastructure improvement.

For the first time in 16 years, Pakistan recorded a primary surplus of Rs. 952.92 billion (0.9% of GDP) in FY24, marking a significant turnaround from a primary deficit of Rs. 825.53 billion (1.4% of GDP) in FY23 and an average deficit of Rs. 1.13 trillion over the previous five years. Notably, in 1QFY25, the country achieved a fiscal surplus of 1.5% of GDP—the first in 24 years—alongside a primary surplus of 2.4%. This milestone was largely driven by record profits from the State Bank of Pakistan (SBP), which reported Rs. 2.5 trillion in earnings.

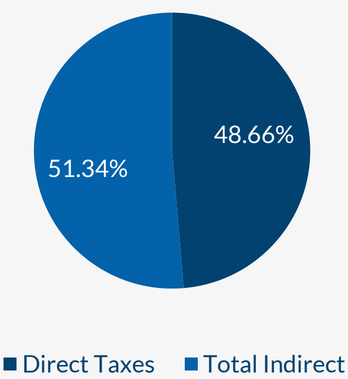
Fiscal Trends FY 2024 (% of GDP)



Source: SBP

Pakistan continues to rely heavily on indirect taxes which are inherently regressive in nature. The share of indirect taxes in FY 2024 was 51.34 %. Sales tax, customs, and excise duties, which are indirect taxes, continue to contribute a larger share of total tax revenue.

Share of Direct & Indirect Taxes FY 2024



Source: SBP

The debt-to-GDP ratio improved to 67.4% in FY 2024 from 74.8% in FY 2023, primarily due to external debt repayments. External debt now accounts for 22.8% of GDP, down from 28.6% in FY 2023.

Year	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Domestic Debt To GDP	49.0	47.0	46.7	46.2	44.6
External Debit to GDP	27.6	24.4	27.3	28.6	22.8
Total Public Debt to GDP	76.6	71.4	74.0	74.8	67.4

Source: SBP

GOING FORWARD

Pakistan's economic recovery will hinge on the consistent implementation of fiscal and structural reforms introduced under the IMF Stand-By Arrangement. Stabilizing the currency, broadening the tax base and meeting external debt obligations will remain top priorities in the short term.

While the road ahead may be challenging, a commitment to long-term reform, greater transparency, and collaboration with global partners could pave the way for economic stability and resilience. The coming months will be critical in shaping Pakistan's ability to navigate these challenges and set the stage for inclusive growth.

KEY ECONOMIC INDICATOR

External Sector	Jul-Nov FY2024	Jul-Nov FY2025
Remittances ($ billion)	11.053	14.766
Exports FOB ($ billion)	12.364	13.283
Imports FOB ($ billion)	21.202	22.972
Current Account Balance ($ million)	-1,676	944
FDI ($ million)	856	1123.6
Portfolio Investment ($ million)	38.8	148.7
Total Foreign Investment ($ million)	894.8	1272.3
Exchange Rate (PKR/US$)	282.9	278.42
Real Sector		
CPI (National) % (AVG)	29.2	4.1
Policy Rate (percent)	22	13
Fiscal Sector		
FBR Revenue	3,485.00	4,295
Non-Tax Revenue	1586	3192
Fiscal Balance	-862	495
Primary Balance	1430	3,124
PSX Index*	59171	110423
Market Capitalization (Rs trillion)	8.609	14.014
Energy Sector		
Oil Production ('bbl)	54,103,202	9,869,076
Gas Production ('mmcf)	2,398,202	450,549
Power Generations (GWh)	61,254	58,840
Fuel Cost (Rs/KWh)	8	8.3

Source: Mof

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