1

Global and Domestic Developments

Global growth held steady during CY24 as inflation returned closer to target and the central banks continued to exit monetary tightening cycle. Global trade, fueled by the growth in services, recovered during the year with emerging markets and developing economies (EMDEs) outpacing the advanced economies (AEs). The inflation continued its downhill journey, driven by higher real interest rates, normalization in labor markets and decrease in commodity prices. Financial conditions remained accommodative throughout the year supporting stable growth in equity markets. After peaking during the pandemic, sovereign debt levels continued to decline in AEs, while increasing in emerging markets and low-income countries. The global growth prospects, however, still face challenges, posed by protectionist measures, geopolitical fragmentation, high debt burdens and rising cost of climate change. On domestic front, the economic growth that picked up in the second half of CY23 maintained its momentum during CY24. CPI inflation sharply declined, especially in H2CY24, the current account turned positive, primary balance posted a surplus, and the FX reserves increased significantly. The improvement was supported by better supply chain dynamics, prudent policy measures, reduction in commodity prices, timely securing of assistance under IMF's Extended Fund Facility, higher workers' remittances, stable domestic currency, receding political uncertainty, and regained investor confidence.

1 Global and Domestic Developments

1.1 Global Economic Dynamics

Global economy remained resilient, with steady growth …

Global growth stabilized during CY24, after witnessing deceleration in previous two years. Central banks cut their policy rates amid lowering inflation. This ease in monetary policy stance supported activity in advanced as well as in emerging market and developing economies (EMDEs). As a result, global economy registered a broad-based growth of 3.2 percent during CY24 (**Table 1.1**).

Growth in advanced economies (AEs) remained stable as they grew by 1.7 percent, similar to the growth recorded in CY23. Among major AEs, US economy posted a robust growth of 2.8 percent, mainly driven by strong consumer spending, increased government expenditure and a rebound in exports. While economic growth in UK and the Euro area, though marginally increased on the back of services activity, largely remained subdued due to continued weakness in manufacturing and goods exports. In Japan, output contracted owing to temporary supply disruptions.[1]

Growth in EMDEs, which serve as engine of global growth, moderated to 4.2 percent. This slowdown was attributable to deceleration in few Asian EMDEs such as China and India. Prolonged contraction in China's property sector and associated slowdown in consumption amid persistently low consumer confidence led to a decline in growth to 4.8 percent from 5.2 percent in CY23. In case of India, weak industrial output, muted public sector capital spending, and elevated food prices contributed to a decline in economic growth to 6.5 percent in CY24, compared to 8.2 percent recorded in the previous year.

Global Economy: Real GDP Growth **Table 1.1**

			percent
	2023	**2024**	**2025***
World	3.3	3.2	3.3
Advanced Economies	1.7	1.7	1.9
EMDEs	4.4	4.2	4.2
EMDEs - Asia	5.7	5.2	5.1
USA	2.9	2.8	2.7
Euro Area	0.4	0.8	1
GCC	0.4	1.8	4.2
UK	0.3	0.9	1.6
Japan	1.5	-0.2	1.1
China	5.2	4.8	4.6
Turkey	5.1	2.8	2.6
India	8.2	6.5	6.5
Russia	3.6	3.8	1.4
Saudi Arabia	-0.8	1.4	3.3
United Arab Emirates	3.6	4.0	5.1
Pakistan (FY)**	-0.2	2.5	3.0

*Projections
**Fiscal Year
Source: International Monetary Fund

Gulf Cooperation Council (GCC) region, which is a major export destination and source of remittance flows for Pakistan, registered a stable growth of 1.8 percent in CY24. This upturn in economics activity was driven by improved performance of non-oil sectors on the back of diversification efforts throughout the region.

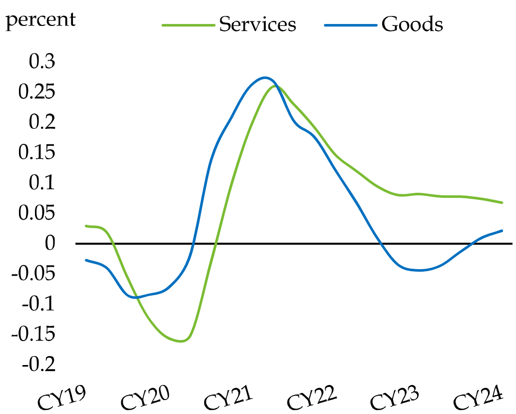
… along with services driven recovery in trade.

Following contraction in CY23, global trade registered a growth of 3.3 percent during CY24. Expansion in trade was fueled by services, which grew at 6.8 percent, partially due to price inflation, while merchandise trade grew at 2.1 percent, still below the 2022 peak level.[2] Trade growth in EMDEs largely outpaced AEs,

[1] These supply disruptions were linked to the shutdown of a major automotive plant in the first quarter.
[2] Source : United Nations Conference on trade and development, Global Trade Update, December 2024.

expanding overall by US$ one trillion in CY24 **(Figure 1.1)**.

Global Trade in Goods and Services **Figure 1.1**



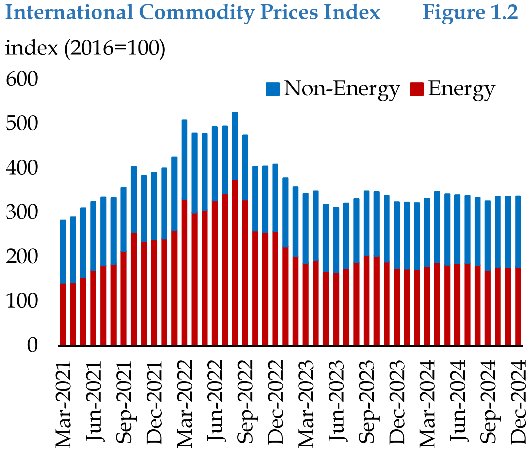
Source: UN Trade and Development

In line with expectations, global inflation continued to decline…

Global headline inflation fell from an annual average of 6.7 percent in CY23 to 5.7 percent in CY24, with AEs returning to their inflation targets sooner than EMDEs.[3]

Decline in energy prices, normalization in labor markets and higher real interest rates helped in bringing inflation back to target range **(Figure 1.2)**.

International Commodity Prices Index **Figure 1.2**



Source: International Monetary Fund

After posting a remarkable decline of 35.1 percent on average in CY23, energy prices further declined by 4.4 percent in CY24, supporting the global journey towards disinflation. Moderation in energy prices was driven by weaker Chinese demand and rising global supplies, offsetting OPEC led efforts to shore up the market. It is worth noting that although goods prices reduced during the year, services price inflation kept running above pre-pandemic averages in many economies, most notably in the US and Euro area. This was partly driven by rapid wage increases, which were catching up with post-pandemic inflation surge.

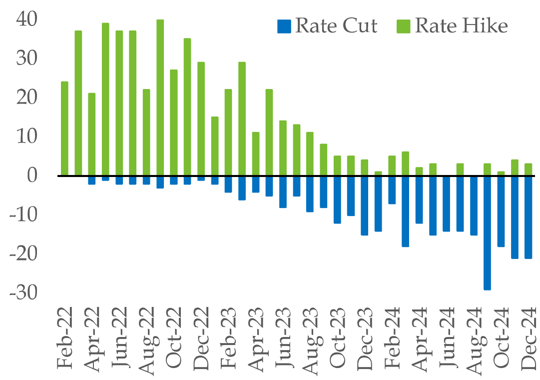
…followed by a globally synchronized monetary easing…

As inflation returned to targets, central banks around the world continued to lower interest rates. On cumulative basis, 198 policy rate cuts and 31 rate hikes were observed during CY24 **(Figure 1.3)**. Major central banks continued to ease monetary policy through the year, with pace of normalization reflecting varied inflation circumstances. Many AEs where underlying inflation cooled more in line with expectations were ahead of the US in the easing cycle.[4] At the same time, a number of central banks in emerging markets were cautious in regard to cutting interest rates, owing to potential external risks triggered by interest rate differentials and associated depreciation of domestic currencies against the US dollar.

[3] Source: International Monetary Fund, World Economic Outlook, January 2025.
[4] US Federal Reserve cut the federal funds rate by 50 bps on September 18, 2024.

Central Banks's Policy Rate Decisions **Figure 1.3**

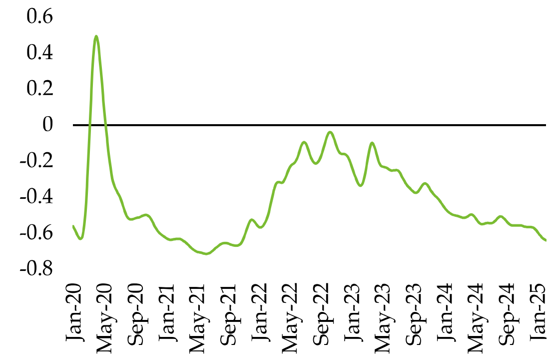
Number of Central Banks



Source: CB Rates.com

Financial Conditions Index **Figure 1.4**

index



Source: St louis Fed

As global disinflation continues to progress, challenges to price stability, from services inflation perspective, still persist. This has forced some central banks to delay their monetary easing, putting public finance under more pressure, especially in countries where debt-servicing costs are already high.

...supporting accommodative financial conditions…

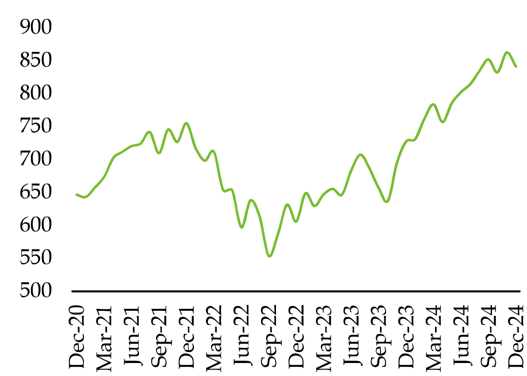
Markets reacted exuberantly to the prospect of central banks exiting from tight monetary policy cycle during CY24. As a result of accommodative financial conditions, capital flows to emerging markets improved and some low-income and frontier economies regained market access **(Figure 1.4)**. Although, long-term yields inched up, in tandem with repricing of policy paths,[5] resilient corporate valuations kept the financial conditions accommodative. The increase in yields is likely to put pressure on fiscal discipline in some countries that are already strained by inability to rein in spending or raise taxes.

…leading to steady growth in equity markets

Global equity markets manifested double-digit growth of 15.7 percent during CY24. Most notable contribution to this growth came from the US and Asian markets.[6] Rapid ascent of equity markets during the year was, however, interrupted during August 2024, resulting from market correction based on fears of recession in the US combined with Bank of Japan's decision to raise interest rates, which resulted in rapid unwinding of Japanese yen funded carry trades **(Figure 1.5)**.

MSCI Global Equity Price Index **Figure 1.5**

index



Source: Bloomberg

[5] US, Japan, UK and majority of the economies in Euro area observed rise in long term bond yields.

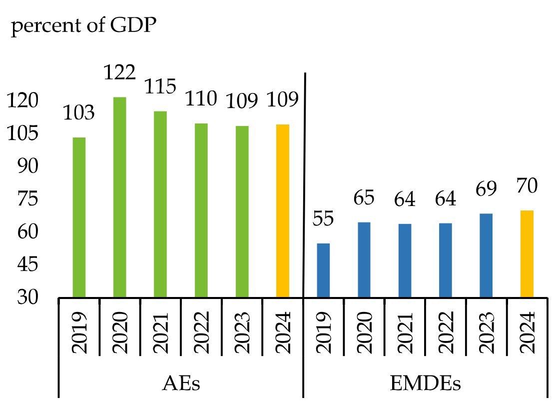
[6] During CY2024, S&P 500 posted returns of 23.3 percent, while NASDAQ composite jumped 28.7 percent. In Asia, Shanghai composite index gained 12.6 percent during the year whereas NIKKI 225 returned 19.2 percent making it the second best performing equity market of the year.

However, markets stabilized afterwards, with Chicago Board Options Exchange Volatility Index (VIX) returning to its historical average and a rally in AEs driven by expectations of more business-friendly policies in the US.

While debt levels continued to decline in AEs, EMDEs faced increased debt stress

After peaking during the pandemic at 121.8 percent, the sovereign debt-to-GDP ratio continued to improve in the AEs, declining to 109.4 percent by the end of CY24. On the contrary, the ratio continued to rise significantly in EMDEs vis-à-vis the pre pandemic levels, increasing to 70 percent from 68.5 percent observed in the previous year **(Figure 1.6)**. Besides the fiscal challenges, notable depreciation of EMDEs' currencies against the US dollar contributed to the rise in dollar denominated debt.

General Government Debt **Figure 1.6**



Note: 2024 represents IMF estimates
Source: IMF WEO October 2024

1.2 Domestic Economic Developments

Macroeconomic fundamentals gained further stability during CY24…

In the wake of abating macroeconomic vulnerabilities, domestic economy gained further strength in CY24. Inflation pressures steadily retreated, current account balance turned positive, fiscal consolidation strengthened, and FX buffers improved. The economic recovery was supported by coordinated and corrective policy response on monetary and fiscal fronts, improved supply chains, favourable international commodity prices, and successful engagement with the IMF. This resulted in better credit rating by international rating agencies, and revival in investors' confidence.

The real GDP grew by 2.2 percent in CY24 compared to a *contraction* of 0.2 percent during last year.[7] The growth was driven by agriculture and services sectors while industrial sector struggled to contribute in overall economy **(Table 1.2, Figure 1.7)**.

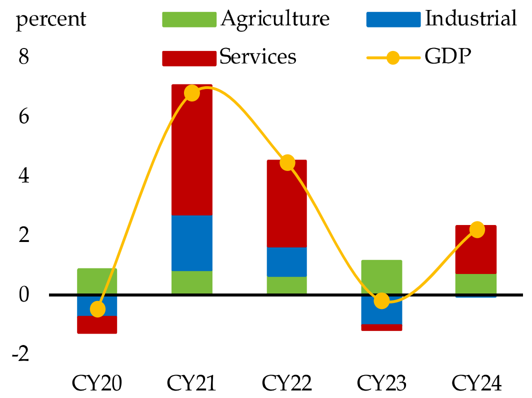
Key Economic Indicators of Pakistan* **Table 1.2**

	CY20	CY21	CY22	CY23	CY24
Real Sector			(percent)		
Real GDP Growth	-0.5	6.8	4.5	-0.2	2.2
Industrial Sector Growth	-3.9	9.9	5.2	-5.6	-0.3
Agricultural Sector Growth	3.7	3.8	3.1	4.8	3.2
Service Sector Growth	-0.9	7.5	4.9	-0.3	2.6
LSM Growth (Average YoY)	-9.0	17.5	6.7	-9.1	0.5
Inflation (Average)	9.5	9.5	19.9	30.8	12.6
External Sector			(billion US$)		
SBP Reserves (End-of-Period)	13.4	17.7	5.6	8.2	11.7
Current Account Balance	-0.7	-12.3	-12.2	-1.0	0.7
Exports (Goods & Services)	27.3	35.6	39.0	36.2	40.2
Imports (Goods & Services)	52.1	76.5	76.6	58.1	66.8
Remittances	25.9	31.1	29.9	26.4	34.7
PKR/USD Rate (End-of-Period)	159.8	176.5	226.4	281.9	278.6
Fiscal Sector			(percent)		
Fiscal Deficit (as % of GDP, FY)	-8.1	-7.1	-7.9	-7.8	-6.8
Revenue Growth (YoY)	10.1	17.5	16.9	34.3	37.2
Expenditure Growth (YoY)	9.4	11.3	31.1	30.3	16.9
Monetary Sector			(percent & trillion Rupees)		
Credit to Private Sector (YoY Growth)	4.5	19.6	13.4	-1.1	23.7
Financing	3.5	3.6	5.6	7.2	6.3
Domestic	2.7	1.7	5.7	7.0	6.7
External	0.8	1.9	-0.1	0.2	-0.4

*All data are on Calendar Year unless stated otherwise.
Source: Ministry of Finance, Pakistan Bureau of Statistics and State Bank of Pakistan

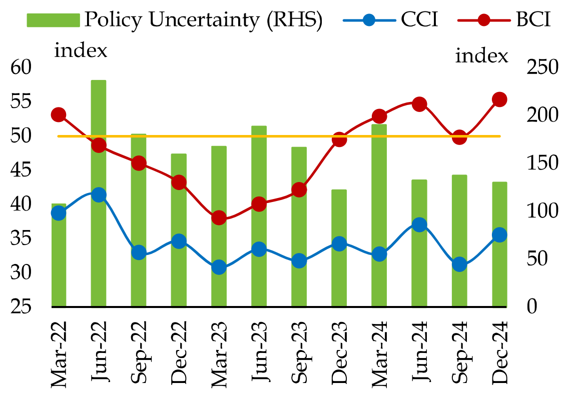
[7] In terms of fiscal year (FY), real GDP growth increased from negative 0.2 percent in FY23 to 2.5 percent in FY24. Calendar year estimates of GDP provided in Table 1.2 are based on Quarterly NIA data recently released by PBS.

GDP Growth & Sectoral Contributions **Figure 1.7**



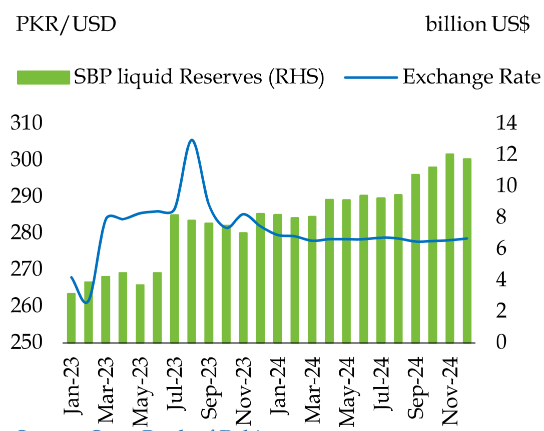
Source: Pakistan Bureau of Statistics

Consumer and Business Confidence **Figure 1.8**



Source: State Bank of Pakistan and PolicyUncertainty.com

SBP Reserves and Exchange Rate **Figure 1.9**



Source: State Bank of Pakistan

The first half was characterized by a renewed confidence in economy amid improved macroeconomic environment…

The opening months of CY24 witnessed spike in economic uncertainty driven by the general elections, which, however, swiftly receded towards the end of the year **(Figure 1.8)**. The renewed economic optimism—backed by consistent improvement in macroeconomic conditions—was evident from sustained recovery in Business Confidence Index (BCI), reduced country risk premium[8], substantial increase in market capitalization, stability in exchange rate and subsiding inflation[9] **(Figure 1.9)**.

The better availability of imported inputs coupled with substantial increase in crop output helped ease supply bottlenecks, resulting in industrial production[10] to grow by 2.9 percent, on average, during H1CY24. This contributed to the disinflationary momentum in the economy.

Exports grew with a healthy pace owing to stable global economic activity particularly in Pakistan's major export destinations, better agriculture output and low production costs **(Figure 1.10)**. Also, workers' remittances surged by 30.2 percent in the first half backed by better

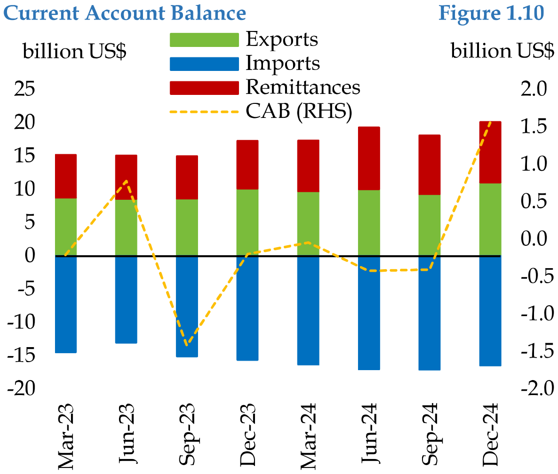
[8] During Jan-Jun CY24, the Credit Default Swap (CDS) declined by 16.1 percent and further declined by 1.2 percent during Jul-Dec CY24.

[9] The CPI inflation decrease from 30.8 percent in December 2023 to 12.6 percent in December 2024.

[10] Proxied by Large Scale Manufacturing (LSM) index.

economic conditions, especially in the Middle East region, government's measures to incentivize remittances through formal channels and reduced exchange rate spread between open and interbank markets. As a result, the current account deficit amounted to US$ 0.5 billion only, despite higher growth in imports.

Current Account Balance **Figure 1.10**



Source: State Bank of Pakistan

However, the latter half witnessed a mixed macroeconomic picture…

The economic activity experienced a slowdown in the second half of CY24. The agriculture sector grew with a sluggish pace due to decline in production of major crops like cotton, rice, sugarcane and maize, along with higher base effect. Also, industrial sector posted subdued growth[11] in response to fiscal consolidation measures[12] which drove up the cost of production. The performance of the services sector decelerated in H2CY24, which also contained the economic momentum.

Nonetheless, inflation continued to follow a downward trajectory in H2CY24, as a result of coordinated monetary and fiscal measures, stable currency, benign global commodity prices, and improved supply chain. It fell to 4.1 percent in December 2024 from 12.6 percent in June 2024. Accordingly, SBP moved towards aggressive monetary easing, reducing the policy rate to 13.0 percent by end CY24 from 22.0 percent in June-2024, in five consecutive policy reviews.[13]

On external front, the continued strength of exports and workers' remittances delivered a current account surplus of US$ 1.2 billion in H2CY24 (overall surplus of US$ 0.7 billion in CY24).

Build-up in SBP FX reserves eased pressures on domestic currency

The SBP FX reserves increased to US$ 11.7 billion by end CY24, compared to US$ 8.2 billion in corresponding period in the previous year. In addition to external account resilience, build-up in FX reserves was supported by a number of factors including the disbursement of first tranche from IMF under EFF program, FX purchase by SBP in open market, reduced economic uncertainty and upgraded country credit rating.[14]

Along with this improvement, continuity of administrative measures to curb speculative demand for FX and reduced spread between open market and interbank rate, contributed to an average rupee appreciation of 1.2 percent against US$ during the year under review.

Fiscal balance reversed its course to consolidation…

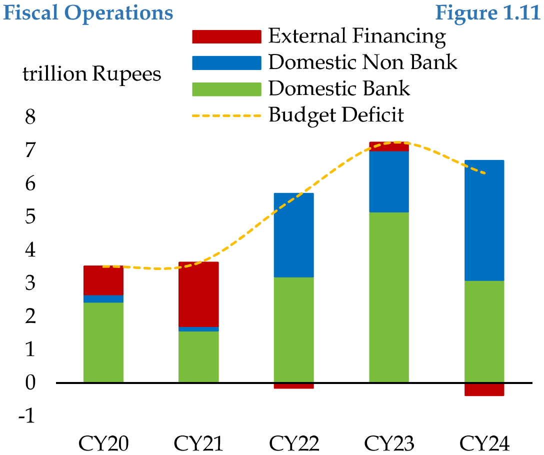
Fiscal deficit declined to Rs 6.3 trillion in CY24

[11] The LSM index *shrank* by 1.8 percent during H2CY24.
[12] The fiscal consolidation measures include withdrawal of energy subsidies to export oriented industries, upward revisions in energy prices, and elimination of certain tax exemptions.
[13] Policy rate remained at 22.0 percent until June 10, 2024
[14] In July and August 2024, Fitch and Moody's upgraded the rating for Pakistan to CCC+ and Caa2, respectively, from CCC and Caa3.

from Rs 7.2 trillion in CY23, representing an annual decrease of 12.5 percent. The significant reduction in deficit was due to a broad-based increase in revenues as both tax and non-tax revenues rose by 26.9 percent and 69.5 percent, respectively, which outweighed the increase in expenditure of 16.9 percent. FBR revenues, however, widely missed the target during second half of CY24.

The government's initiatives[15] to improve expenditure management and optimize resource mobilization were reflected in the overall fiscal position. Moreover, the government shifted from external to domestic resources for financing budgetary gaps. Among domestic sources, banking sector financed 46.6 percent and non-banks provided 53.4 percent of the total budget deficit in CY24 **(Figure 1.11)** (**for details see Chapter 3 on Banking sector**).

Fiscal Operations **Figure 1.11**



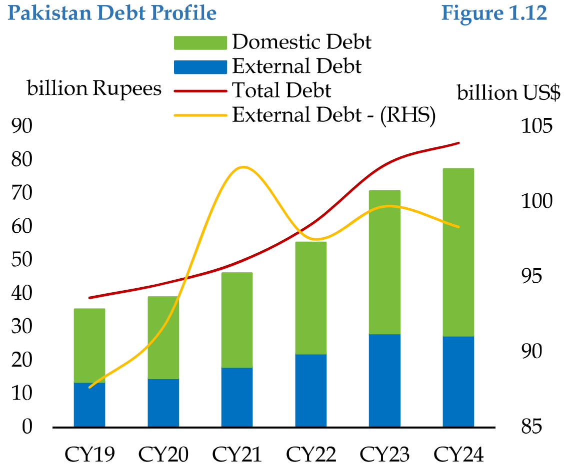
Source: Ministry of Finance

…leading to better debt management and fiscal sustainability…

Total public debt increased by 8.4 percent in CY24, substantially down from 29.5 percent growth in CY23. The continued stabilization and improved macroeconomic conditions helped government in bringing public debt-to-GDP ratio down to 67.5 percent in June 2024, compared to 74.9 percent in June 2023. A number of initiatives, including prioritizing long-term debt to reduce refinancing risks, re-profiling existing debt to extend maturities and diversifying financing sources to secure low-cost funding, helped strengthen debt management and fiscal sustainability.[16]

The external debt, denominated in US$,[17] decreased by 1.4 percent, reaching US$ 98.3 billion by the end of CY24. The modest decline in external debt was primarily due to repayment of principal and interest along with limited external financing inflows. Moreover, in PKR terms, the external debt shrank by 2.5 percent, partly due to the appreciation of the domestic currency **(Figure 1.12)**.

Pakistan Debt Profile **Figure 1.12**



Source: State Bank of Pakistan

Inflation came down significantly…

Average national CPI inflation reached 12.6 percent in CY24, down from 30.8 percent in CY23. With food group being the primary

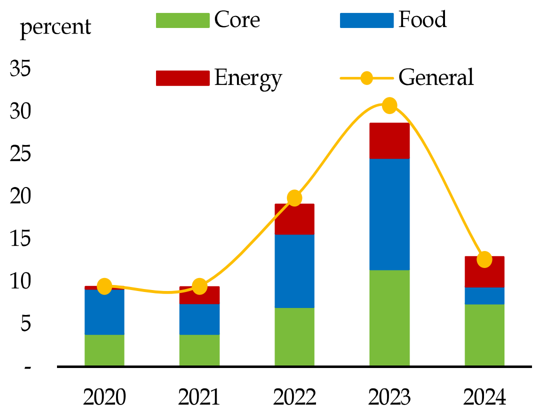
[15] These initiatives include broadening the tax base, strengthening federal-provincial institutional arrangements and ensuring debt sustainability. The National Fiscal Pact has been signed in September 2024 which brings all provinces to work for enhancement of revenue mobilization.

[16] State of Pakistan's Economy, Half Yearly Report, July-December FY2025, Government of Pakistan, Finance Division, Economic Advisor's Wing.

[17] Includes Government debt from IMF and Foreign exchange liabilities.

contributor, the downward trends in core and energy groups also added to overall disinflation. The core inflation, though relatively sticky, also fell to 13.5 percent in CY24, compared with 20.8 percent in previous year **(Figure 1.13)**.[18]

CPI Inflation and Components **Figure 1.13**

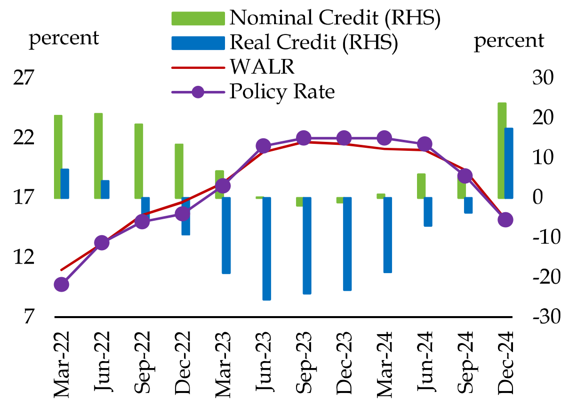


Source: Pakistan Bureau of Statistics

Private sector credit growth revived…

With the onset of monetary easing and reduced borrowing cost, the private sector credit growth reversed its trend and turned *positive* during CY24, with quarterly average growth of 8.9 percent. Particularly, credit surged by 23.7 percent during Q4CY24 on account of banks' efforts to avoid ADR-linked taxation **(Figure 1.14)**.

Interest Rates and Credit Growth **Figure 1.14**



WALR = Weighted Average Lending Rate
Source: State Bank of Pakistan

The revival in private sector credit was driven by better availability of loanable funds on account of net budgetary retirements and improved credit demand conditions amid receding borrowing costs. The expansion in private sector credit was particularly strong in the manufacturing, information technology, consumer finance, and energy sectors, among others.

…and the banking sector exposure to government descreased

The government's consistent reliance on the banking sector for budgetary support resulted in banks' exposure to further rise to 64.2 percent in H1CY24 from 60.8 percent in December 2023. However, in H2CY24, banks' exposure to public sector shrank to 59.1 percent due to retirements in budgetary borrowing.

The banking sector continued to display steady performance. Its financial soundness indicators related to solvency, earnings, and liquidity showed improvement while asset quality indicators reflected contained risks from delinquencies (**for details Chapter 3: The Banking Sector**).

[18] Inflation continued its downward trajectory post-review period and declined to 2.4 percent in January 2025. While, monetary policy rate further reduced by 100 bps to 12.0 percent in January 2025, amidst risks of adjustments in administered energy prices, fiscal measures and protectionist policies in major economies that may weigh on inflation outlook.

Going forward

Global growth is expected to remain stable, albeit low, over the coming years.[19] Heightened policy uncertainty and trade policy shifts represent key downside risks to the outlook. Other risks include geopolitical conflicts, extreme weather events related to climate change and weaker growth in major economies. Further disruptions to the disinflation process, potentially triggered by spikes in commodity prices, could prevent central banks from further easing monetary policy, posing significant challenges for the fiscal and financial stability.

The domestic economic activity is improving gradually, with inflation coming down significantly. Current account deficit remained in check while fiscal consolidation is well on track. These positive developments are expected to boost the economic recovery further. However, to ensure sustainable growth and price stability, continuity of consolidation measures, timely interventions and implementation of reforms to address structural challenges are essential.

[19] IMF in their WEO update of January 2025, forecasts global economy to grow at 3.3 percent in both 2025 and 2026, below the historical pre-pandemic average of 3.7 percent.