# Economy of Pakistan: Challenges and prospects

1. Introduction

2. Historical Background and Contemporary overview of Economy

3. Macro challenges in the Economy of pakistan that hinders the sustainable Economic Growth

3.1 Huge ration of informal economy of pakistan that undermines the real potential
(IPRI report : 60% of pakistan's economy is informal)

3.2 Trade deficit and growing gap between imports and export's ratio
(State Bank of Pakistan's report 2021)

3.3 De industrialization due to unease of doing business
(Foreign Companies are shutting their businesses and vulnerability of local industries)

3.4 Agriculture decline due to unpredictable climate changes that

eventualy creates food insecurity
(2025's disasters and loss in agriculture sector)

3.5 Mistrust among foreign investors that is impacting negatively to the Country's economy
(SIFC remains unsuccesful to bring major investment)

3.6 Fiscal deficit that ultimately impacts the overal economy
(FY 2025-26 Budget analysis)

## 4. Key Prospects that Brings Hope for the Economic Growth

4.1 Macroeconomic Stability laid down primary setup for economic growth.
(Stability indicators of FY 2025)

4.2 Civil-Military balanced relations illustrates Political Stability that is prerequisite for economic stability
(Good relation between current government and military establishment)

4.3 Improvement in global position of pakistan and growing diplomatic engagements could bring trade collaborations and investment opportunities (Balanced foreign policy and diplomatic engagements by current government)

4.4 Potential of rare earth minerals in pakistan and emerging global interest is the catalyst for economic growth of pakistan (Pak-US mineral collaborations, 2025)

4.5 Investment in Human Capital by present government will definitely results in economic growth (vocational training, prime minister's initiatives to send students abroad for AI trainining, laptop scheme)

4.6 Digitalization of economy and vast potential in the IT sector of pakistan (Adoption of Blockchain, AI technology and emphasizes to boost IT sector)

5. Conclusion

"Pakistan is a rich Country, inhabited by poor people." This quote corelates with the current economy of pakistan. A Country which holds dymamic resources, human capital, and strategic location; but still vulnerable to economic growth. Pakistan's economic history remains a roller coaster with no certain and sustainable economic development. The country always remained dependent on foreign assistant and agriculture sector; a minor unstability in these leads pakistan towords economic slowdown. In current fiscal year, pakistan have achieved stability in macroeconomy, but this growth is weak from the basis. Sustainable growth demands the economy which is enhanced by real time and long term economic flow. The country is also vulnerable to informal sector that is more than formal sector of economy. This means an economy with no real time data, no fair revenue collection, and ineffective economic policy making. There are several other challeges as well: Growing trade deficit causes shortage in economic reserves, Industries are being closed completely and partially with the downfall in the trust of foreign investors, decline in the agriculture sector which is the main source for rural economy and food supply in the country, and alarming stage of fiscal deficit where expenses are increasing and revenue generation is stagnated. where there are challenges in the economy of pakistan, there are prospects for economic growth as well. with the stability in macro economy, political stability indicators, enhancement of global position and golden age of pakistan diplomacy, potential in the rare earth mineral, investment in human capital and transformation towards digital economy the country is moving towards economic sovereignty and development. Dr Akbar S. Zaidi wrote in his book, "Issue in Pakistan's economy," ~~that~~ about economic trajetory of pakistan since its inception. He wrote that the country remain dependent on foreign money inflows, weak institutions and dependence on agricultural sector have cause economic downfall of the country. Though, there are several challenges in the economy of Pakistan that raise serious concerns, there are some positive developments as well that provide hope for long term sustainable economic development.

Akbar S. Zaidi ~~wrote~~ in his book, " issues in Pakistan's Economy" wrote that pakistan economic downfall is because of historically reliance on foreign aid, institutional weaknesses, and dependence on agriculture sector. He declared these challenges as core issues in pakistan economic instability since its inception. In early years, though pakistan grows in agriculture but political instability hindered the growth that was required. second decade of independence, in Ayub Khan era, pakistan has achieved momentum in economic growth, but could not maintain that trajectory. Zulfiqar Ali Bhutto's nationalization policy impacted negatively in major sectors of economy. Then policies of Zia ul haq and political instability of 1990s has harmed again the economic growth. Musharaf era of governance has reliefed the economic stress on the country but that was again the stability for short term and could not be transformed into sustainable economic development. This roller coaster routine is continued till today and the country is still facing the same crisis which it was in before 20th century. The economic challenges are almost lies in the same sector of previous decades.

To categorize the economic challenges of pakistan, informal sector of the economy comes at the top. This informal sector ratio is more than that of formal economy. The informal sector statistics varies due to different mechanis adopted by different institution. world economic report of 2024 says that informal economy is about 40%, while the Islamabad policy research institute's report shows that this sector is about 60% of economy. This huge informal setor of economy raised serious concerns that how can an economy grow when its 60% of economy is out of record. out of record not only evade the taxation but also manipulate the tax-to-GDP ration to which the an investor sees at first before investing in any country. This economy of invisibility has contributed and has been contributing in economic downfall of the country.

Moving forward, another

major challenge in pakistan's economy is its growing trade deficit. Trade deficit is the term used to highlight the disparity among imports and exports of a country that eventually results in shortage of foreign exchange reserves and fiscal space. According to the State Bank of Pakistan data of 2025, pakistan has imports of almost 71 billion dollars and exports of 32 billion dollars in fiscal year 2025-24. This report highlights the trade deficit of 29 billion US dollar annually. If foreign remittances are not in place, pakistan would not survive with this huge deficit. The country's declining exports sector is alarming for economy of pakistan sustainable economic development.

Another factor that is being emerging is de-industrialization in the country. Industries are considered as backbone of any economy. unfortunately Pakistan's industrial sector is in downfall. A sector which was the main factor in economic growth in 1960's and so on, is now at the mercy of goverment harsh policies, while foreign companies are investing in other regional countries, they are shutting their businesses in pakistan. Foreign companies of household commodities, pharmaceutical, automobiles, service sector or any other telecommunication, all ~~are~~ have partially or completely closed their outlets in pakistan. These steps worked by government ineffective policies, bureaucratic hurdles, prices of energy sector, and unstable policies of different governments. political instability and informal sector are also major factors. while foreign companies have closed their businesses, local or domestic industries are uncapable due to professionalism and technological back-wardness. This industrial decline is also hindering the economic progress.

Similarly, agricultural decline is also a major challenge for the economy of pakistan. where this decline is because of structural failures, the main reason is climatic unpredictability. According to UN report of 2022, pakistan was at the top of most effected countries because of climate change. where this change in ecosystem has effected the country in other domains, agriculture is the most effected by it. In recent floods of 2025, almost crops in Punjab are vanished by floods. The floods of 2022, have also effected the agriculture sector of pakistan severely. Agriculture sector contributes almost 24 % in total GDP of pakistan, and due to recent floods, this has impacted the overall GDP. GDP growth stagnated at 2.6 % despite of 4 % target set by the government in recent budget, is mainly because of loss in agriculture sector. This creates challenge of food insecurity and price hikes in pakistan, as industries and urban sector is mainly dependent on it.

Above these all challenges, no major foreign direct investment has forced the economy into more challenges. Foreign investments are one of the primary factors for economic uplift. The countries like China, India, and bangladesh have stabilize and rise their economy because of foreign investments. These are the foreign investors that shapes the economic trajectory more than domestic investors. Unfortunately, the country is struggling in term of foreign investment. More on this, those which were already here in the country, have been shifting their businesses outwards. The initiative of special investment facilitation council of 2022, has also failed to bring foreign investment in the country. This growing mistrust in the foreign investors linked with pakistan is also challenging for economic growth in coming years.

Last but not the least is the fiscal deficit ~~of~~ in the budget. Fiscal deficit is the term used when the expenses of the government is more than revenue generation. This deficit is not of today's problem but this is continued from the decades. Every year, budget is unable to balance the expenditure over revenue. In recent budget of FY 2025-26, the expenditure is around 18.7 trillion rupees where the revenue generation target is at 11.2 trillion rupees. This shows the budget deficit of around 8 trillion rupees. This impose more burden on already shrinked economy. unregularized expenditures could be mitigated through austerity measures but it need strong political with effective policies for long term. This budget deficit has becomes the norm of every year and at the end this gap is fulfilled by cut in development budget or by foreign bailout packages. This is the one of the major factor that has been resulted in economic downfall.

These are the macro economic challenges that pakistan is currently struggling with; ahead will be the positive side, the hopes in the economy that could be transformed into sustainable economic growth.

Among them, macroeconomic stability achieved in recent years brings hope for future opportunities. No doubt that macroeconomic stability is the prerequisite for long term economic growth. Inflation has down from 26 % in recent year to 4 % in current year. Foreign reserves are growing. GDP growth is maintained despite devastating disasters. Stock exchange statistics shows trust of investors. These are the major factors that shows the economic stability and could be transformed into sustainable development.

Though these are good signs, but these are not enough unless these statistics are not utilized properly. Stability is achieved, but above mentioned challenges still persists, the government should make effective policies to achieve real time growth. Early stability ~~growth~~ is always been major challenge for economy but pakistan has gained this. only need is to utilize this opportunity to bring long term and sustainable growth.

Similarly, indicators of political stability, owing to balance in civil military relations, is ~~opesi~~ optimistic. In a country like Pa-kistan, history shows good economic growth when civil military strategic elite was at one stage. political stability brings long term policies and their effective implementation. "Pakistan beyond the crisis state" book by Maleeha lodhi, in which she wrote that the political instab-ility has remained one of the major factor challenges for pakistan's economic growth. Hopefully, the current relations and trust in the strategic elite of pakistan apparently shows political stability.

Where the internal factors contributes in economic growth, external factors are also holds more weightage. In this globalized world, diplomatic engagements and foreign relations plays key role in economic growth. Pakistan is currently in its golden era of global diplomacy and it has maintained balanced foreign policy. Analysts says that these diplomatic efforts will ultimately results in economic and trade agreements. As recently, Pakistan have signed multiple MOU's with different countries including Azerbaijan, Turkey, Saudi Arabia, Iran, and Malaysia as well. These achievements brings hope for future economic prosperity. The prime minister and foreign minister are active in diplomatic fronts, with ~~only~~ 55 foreign tours only prime minister has marked in 2025. Undoubtedly, this would result in economic growth.

Moving forward, the untapped reserves of minerals are also game changer for Pakistan's economy. As the world is in search of rare earth elements with continued tussle with China and the USA. In the 21st century, rare earth minerals are scarce and vital reserves. As China is the dominant country in rare earth supply chain and America wants to minimize the dependence on China, Pakistan's recent engagement with America on rare earth is remarkable. Pakistan have signed above 500m dollar deal with american companies, reported by Reuters. Initially this is good step and by the time pakistan should be independent on mining and processing of rare earth elements that would bring real and indepen-dent economic development.

Similarly, the government is also seems interested to invest in human capital. As famous economist said, Robert M. Sollow, "the real time growth is not money but ideas, an investment in human capital and technology is what keep that engine running." The government has revamped and takes new initiatives in providing vocational training to the talented youth. Prime minister while addresing the laptop scheme ceremony has pledged that he will send the students abroad to enhance their knowledge and skills in modern technologies of IT and Artificial Intelligence.

Multiple technocrates and policy analysts have praised this steps as it would results in catalyst for technological advancement in the country.

In last, transformation towards digital economy, as government has taken key policy measures, is providing hope for economic growth. The government has taken initative of crypto regulation in the country; adapletion of Blockchain technology is also remarkable step towards modern world. The upcoming world would be based on blockchain and crypto-digital reserve, the timely decision by pakistan to adopt this technology would provide extraordinary results. History shows that early decisions have provide tremendous results no matter in which field they are. Major countries like UAE, the USA have completely adopted the crypto reserves as national reserves assets. As pakistan has one of the major investors of crypto market, the regulation of it will definitely provides revenues. The government should also provide more opportunities for IT sector as well to ensure the growth of futuristic economic models.

To summarize all the discussion, pakistan has always remained vulnerable to the economy, with ~~recent~~ the current persistent challenges as well; but there are several opportunities, if utilized properly, Pakistan can ensure sustainable economic development. The historical trajetory of the country's economy was quite unbalanced since its inception. The economy is still facing multiple challenges in terms of informal economy, trade deficit, de-industrialization, agricultural decline, fiscal deficit, and mistrust of foreign investors in invest in the country. Among these challenges, there are several hopes as well as country has achieved stability in broader term; political stability can be seen, pakistan emergence as middle power in diplomatic circles, potential of rare earth minerals and transformation towards digital economy. It is the high time for pakistan ~~that~~ to decide that how these opportunities and prospects are transformed in long term sustainable economic growth in order to overcome the decade old economic crisis.