Day: Date:

Analyze the current economic ~~measure~~ situation of Pakistan, including challenges such as inflation, fiscal deficit, foreign debt, and trade imbalance. Suggest viable policy measures to achieve economic stability and sustainable growth in the near future.

Exordium:

"Pakistan's key challenge is to transform recent gains from stabilization into economic growth that is sustainable and adequate for poverty reduction."

— Najy Behassine
WB Country Director
of Pakistan.

Pakistan's economy has turned the corner and stabilized. Yet, the economic outlook remains fragile and any implementation delays in structural reforms or shifts in economic stabilization could dampen the nascent recovery and intensify external pressures. Stabilized economy does not confirm that all troubles have passed away and country is not out of woods. Risks remain

Day ______ Date: ______

high due to elevated debt levels, policy and global trade uncertainties, and exposure to climatic shocks.

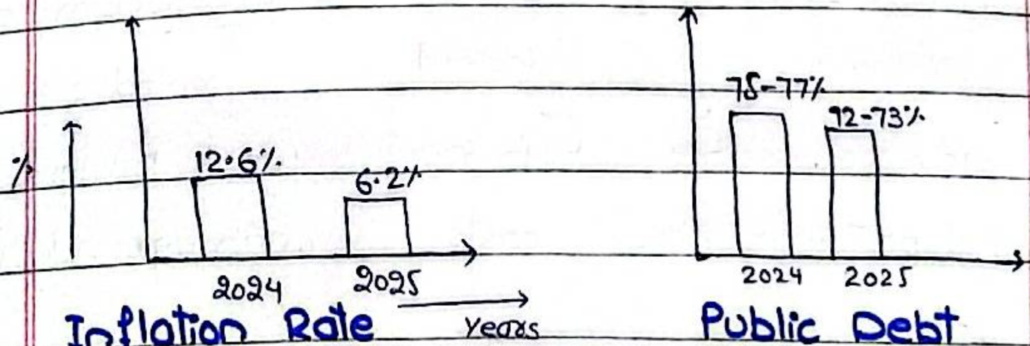
II. Analysis of Pakistan's Economic Situation (2025-26)

Pakistan entered fiscal year (FY25) with the aim for stabilization, not expansion, as' the core macro-economic policy. According to the report of **World Bank** (Pakistan Development Update: Reimagining a Digital Pakistan), Pakistan's economy is stabilizing with easing inflation, improving financial conditions, and current account and primary fiscal surpluses.

State Bank of Pakistan's foreign reserves increased to $11.7 billion by december 2024, improving imports. However, growth under-performed: provisional GDP growth is 2.68 percent, falling short of target and insufficient for job creation amid high population growth. International financial institutions recognize Pakistan's macroeconomic performance during FY2024-25 as a macroeconomic miracle but warn of persistent vulnerabilities.

IMF assessment and Outlook:

According to the IMF's latest projections, released alongside a $2.1 billion disbursement, Pakistan has regained short-term stability. Growth is projected to increase from 2.6% in FY-25 to 3.2% in FY-26, a pace insufficient for long-term development with development reforms.



Inflation Rate

Public Debt

Between FY 2024 and FY2026, Pakistan's economy shows improving inflation control and fiscal discipline, but high debt and persistent trade imbalance continue to constrain sustainable growth and development. In conclusion, economic stabilization has been achieved at the cost of growth and development.

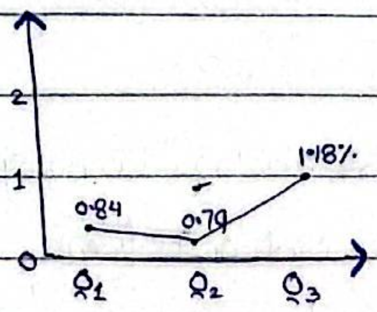
III. Challenges for Economy:

Though Pakistan met all 7 quantitative performance criteria and fulfilled 5 of 8 indicative targets by December 2024, yet the provisional GDP growth reached 2·68 percent – falling short of the government's target of 3·6pc.

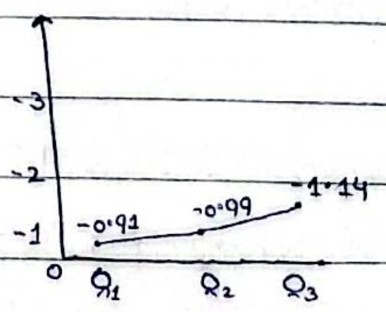
1) Weak Sectoral Performance:

Sectoral Sector comprises mainly

- **Agriculture** → suffered → adverse weather and pest infestations
- **Industries** → declined → High input costs
- **Service Sector** → Muted → weak linkages with agri industry



Agriculture Sector



Industrial Sector

while services alone sustained aggregate momentum at 2·58 percent, 2·59 percent, and 3·99 percent in the three quarters.

Day: Date:

2) Jobless Growth and Rising Employment Pressure:

Economic growth has limited capacity to generate employment. Unemployment is projected to fall only slightly from 8.3% to 7.5%, insufficient to absorb new labor market entrants.

3) Tight Fiscal and Monetary Policies:

While fiscal consolidation has reduced the budget deficit from -6.8% to -4.0% of GDP and generated a primary surplus of 2.5%, tight fiscal and monetary policies suppress investments.

4) Heavy Public Debt:

Pakistan's public debt remains elevated at 72-76% of GDP, with domestic debt accounting for nearly half of GDP.

IV. Policy Measures:

1) Long-term Debt Restructuring:

Domestic debt alone accounts for nearly half of

Day: Date:

GDP, this high debt servicing requirement contrains fiscal flexibility. By effective debt restructing, government can focus on development projects.

2) Human Capital Investments:

Investments in education, technical training, and digital skills aligned with market demand. The outcome of such capital investments is sustained growth and job creation.

3) Strengthen Fiscal Discipline:

By widening the formal tax net, tax base brings retail, agriculture income, and real estate. It protects development and social spending while rationalizing unproductive subsidies.

4) Export-led Growth Strategy:

The stronger foreign exchange inflows reduce trade deficit. The trade should be diversify beyond IT services, agribusinesses, pharmaceuticals, and engineering goods. Moreover, tarrifs on import/export should be low.

Day: Date:

V. Expected Economic Outcomes in FY2026:

According to the report, "State of Pakistan economy 2025-26", by keeping macroeconomic stability baseline, means:

✓ IMF Extended Fund Facility continues

✓ No major global oil price shock

✓ No extreme floods like 2010 or 2022

✓ Exchange rate remains market-based

✓ Better Policy coordination and active boost of investments and private credit

Expected Economic outcomes are:

- Exports: Rise upto 32%, especially with URAAN export strategy
- Imports: Growth slows to 41% by 2028
- Inflation: slightly higher than baseline (7–9%)
- GDP growth: Government target of 4.2% becomes achievable.

The assumed or expected scenario represents a reform-oriented, growth-enhancing path. In this way, optimal public investments and private sector help Pakistan move from stabilization to sustainable growth.

Day: ______ Date: ______

VI. Conclusion:

In conclusion, Pakistan's economy is at cross-roads once again. Although economic stability is significant but this stability suppresses development and capital investments are bare minimum. By coping with fiscal and monetary challenges like fiscal deficit, foreign debt, and trade imbalance, Pakistan can achieve prosperous pathways. Some policy measures like improving sectoral performance, enhancing job opportunities, and strengthening fiscal discipline are viable and essential to opt.