Innovation & Technology Centre
Modeling Lab

State of the Pakistan Economy, Growth And Inflation, pending the Budget Financial Year 2024-2025

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GDP Growth and Inflation, for FY 2024-25, pending the Budget for FY 2025-26

GDP growth

The Lahore School of Economics Modelling Lab projects that Pakistan's GDP growth over the fiscal year FY 2024-2025 (Jul-Jun) will be 2.44% (Table 1). This gives a very weak recovery from the 1.7% GDP growth estimated for FY 2023-2024, and the flatlining of GDP growth before that.

Table 1: Estimates of Annual GDP Growth for FY 2024-25 based on (Q3)

	FY 2022-2023 (est) ($ bn)	FY 2023-2024 (est) ($ bn)	FY 2024-2025 (est) ($ bn)
GDP Supply plus Demand Shock Y (S+D)	369.21	346.37	**382.18**
C			**275.83**
I			**56.36**
G			**48.99**
NXn			**1.00**
GDP Growth Rate (%)	0.05%	1.68%	**2.44%**

Our estimate of GDP growth of 2.4% for FY 2024-2025 appears to lowball growth slightly, compared to the World Bank's higher-end estimate of 2.7%, the IMF's estimate of 2.6%, and the ADB's estimate of 2.5% (Table 2).

Table 2: Comparator Growth Rate Projections FY 2024-2025	
Government of Pakistan (SBP/PBS)	2.68%
International Monetary Fund (IMF)	2.60%
World Bank (WB)	2.70%
Asian Development Bank (ADB)	2.50%

Source: *SBP State of the Economy (April 2025), PBS NAC Meeting (May 2025), IMF WEO (FY, Oct2025(P)), World Bank Pak Development Update (April 2025), Asian Development Outlook (ADO) (FY 24-25 (P))*

The Pakistan Bureau of Statistics, National Income Accounts Committee, has just lowered its estimated GDP growth for Q3 from 2.7% to 2.4%. So, the Modeling Lab's estimate of GDP growth for FY 2024-2025 and GOP's estimate appear to converge.

Sectoral growth

The Lahore School's Modeling Lab's low estimate of GDP growth for FY 2024-2025 is based partly on a sustained weakness in sectoral growth observed over the fiscal year. Sectoral growth in our macro model constitutes a supply shock, whereas the model also incorporates demand shocks.

The major productive sectors, manufacturing and agriculture, have weakened sectoral growth. Large Scale Manufacturing contracted by 1.9% over the fiscal year (Table 3). After a flatlining last year, and a huge contraction the prior year.

Table 3: Sectoral Growth Rates

	FY 2022-2023	FY 2023-2024	FY 2024-2025
Agriculture	1.55%	1.50%	0.60% *
Industry	-2.90%	0.07%	-1.90% *
LSM	-2.90%	0.07%	-1.90% *
Services	0.90%	0.33%	1.43% **

Source: **SBP State of the Economy (April 2025), **GOP FY 24-25 Half Yearly Report*

The malaise in large-scale manufacturing, which should have led GDP growth, leaves it reliant on agriculture, of which GOP policy should have been more mindful. Unfortunately, agricultural growth has been a quarter of its trend growth, at 0.56% over the fiscal year (Table 3).

A contraction in the growth of major crops, wheat, rice, maize, sugarcane, and cotton, has laid agricultural growth so low, by 13% (Table 4).

Table 4: Agriculture Growth Rates FY 2024-2025

Agriculture	**0.56%**
Important Crops	**-13.49%**
i) Wheat	-8.91% (decrease in production from 31.81 to 28.98 million tons)
ii) Maize	-15.40% (decrease in production from 9.74 to 8.24 million tons)
iii) Rice	-1.38% (decrease in production from 9.86 to 9.72 million tons)
iv) Sugarcane	-3.88% (decrease in production from 87.64 to 84.24 million tons)
v) Cotton	-30.70% (decrease in production from 10.22 to 7.08 million bales)

Source: *PBS-NAC Meeting (May, FY 2024-25)*

Beginning with wheat, which has contracted by 9%, based on a drop in production from 32 million tons to 29 million tons. Maize has contracted by 15%, based on a decline in output from 10 million tons to 8 million tons. The contraction in rice has been slight by 1.4% due to a fall in production from nearly 9.9 million tons to approximately 9.7 million tons. Sugarcane has contracted by 4% due to a fall in output from 88 million tons to 84 million tons. While cotton had the most significant contraction by 31%, dropping from 10 million bales to 7 million bales.

This contraction of agriculture in major crops cannot be attributable to the weather, which has remained on trend. It must therefore be attributable to GOP policy, which removed the support price for major crops like wheat, rice, sugarcane and cotton, established since the seventies.

Indeed, the Pakistan Bureau of Statistics has estimated the contraction in major crops in purely the quantum of production terms, for example, wheat dropping from 32 million tons to 29 million tons. The impact on GDP has to be mediated further by the drop in wheat prices to give the total drop in the value of output of the crop. Wheat prices have been observed to fall on average by Rs 1000 between the current and the last wheat crop. This is a reduction in the value of the wheat crop, and therefore crop income, by near 25%. Therefore, the contraction in the value of major crops, determining the impact on GDP, and incomes, is underestimated by the Pakistan Bureau of Statistics, and is bound to be much higher.

Nota bene, our estimates of GDP growth take the Pakistan Bureau of Statistics sectoral growth estimates, signed off by the National Accounts Committee, at their reported face value cited in (Table 4). But our caveat

holds, that this will give a final estimate of GDP growth that will likely be an overestimate, requiring a final revision downwards if sectoral growth is re-estimated in value terms.

Inflation

We estimate FY 2024-2025 inflation at 8.37% (Table 5). Our estimate compares to the GOP's upper-range estimate of 5% to 7.5%. The IMF has a lower estimate of inflation of 5.1%.

Table 5: Price Model Estimated for FY 2020, FY 2021, FY 2022, FY 2023 FY 2024 & FY 2025

Time Period	Persistently Large Output Gap (% of GDP)	Budget Deficit (obs) (% of GDP)	Impact of Depreciation on Inflation (est) (%)	Impact of ΔCommodity Prices on Inflation (est) (%)	Model Estimated Inflation (%)	GOP Inflation (%)	IMF Inflation (%)
FY 2020-2021	-1.80	5.20	-0.78	9.07	13.49	8.20	8.90
FY 2021-2022	0.00	7.00	3.59	7.70	15.88	11.00	12.15
FY 2022-2023	0.00	5.00	26.26	2.04	33.30	38.0	29.18
FY 2023-2024	0.00	7.5	6.04	5.39	18.9	23.41	23.40
FY 2024-2025	**-1.60**	**6.0**	**0.00**	**3.97**	**8.37**	**5.50-7.50**	**5.10**

Our model shows that the most significant contributor to double-digit inflation, which peaked at 38% two years ago, has been the depreciation of the exchange rate. (Table 5) shows that after substantive depreciation from FY 2021-2022 to FY 2023-2024, the exchange rate has stabilized over the current FY 2024-2025. This slide has been halted much to the credit of GOP policy, of finally realizing the need to stop the disastrous depreciation, and effectuating it through monetary policy and careful open market operations by the State Bank.

The impact of energy prices is the second major contributor to inflation, after the perennial fiscal deficit. Energy pricing, with a 0.52% pass-through coefficient into the general price level, contributed nearly 5.5% to inflation last FY 2023-2024, as Table 5 shows. Tables 6 and 7 show that energy prices still contribute approximately 4% to inflation in FY 2024-2025. Table 6 also notes that this increase in energy prices is contributed to more by GOP's increase in taxes, than supplier's prices.

Table 6: Energy Equations FY 2024-2025
(weighted %age change in Consumer Price)

Energy Source: Supplier price+ Taxation – Subsidies= Consumer price

	ΔSupplier Price	ΔTaxation	ΔConsumer Price
Petrol	-1.05%	0.56%	-0.49%
Kerosene	-0.04%	0.00%	-0.04%
HSD	-1.16%	0.50%	-0.66%
Electricity	1.42%	0.53%	1.95%
Coal	3.80%	0.00%	3.8%
Natural Gas	19.45%	22.18%	41.64%
Weighted Average	3.74%	3.96%	7.70%

Share of Supplier Price Change in Increase in Total Consumer Prices (%)	**48.52%**
Share of Tax Change in Increase in Total Consumer Prices (%)	**51.48%**

Table 7: Calculation of Impact of ΔCommodity Prices on Inflation (est) (%)

β_{mp}	Share of intermediate imported products in value added	51.50
mp*	Change in the value of commodity prices	7.70
MP	Impact of commodity prices on Inflation	3.97

However, the macro trade-off with GDP growth has been the primary causal factor in bringing inflation down into single digits by the current FY 2024-2025. Growth in the productive sectors has been low, as observed above in Table 3. Manufacturing has been flatlined or contracting for the previous two years, FY 2023-2024 and FY 2022-2023, respectively. For FY2024-2025, the malaise in manufacturing growth has worsened to -1.9%. Which surely puts the onus of generating growth in the productive sectors, on agriculture.

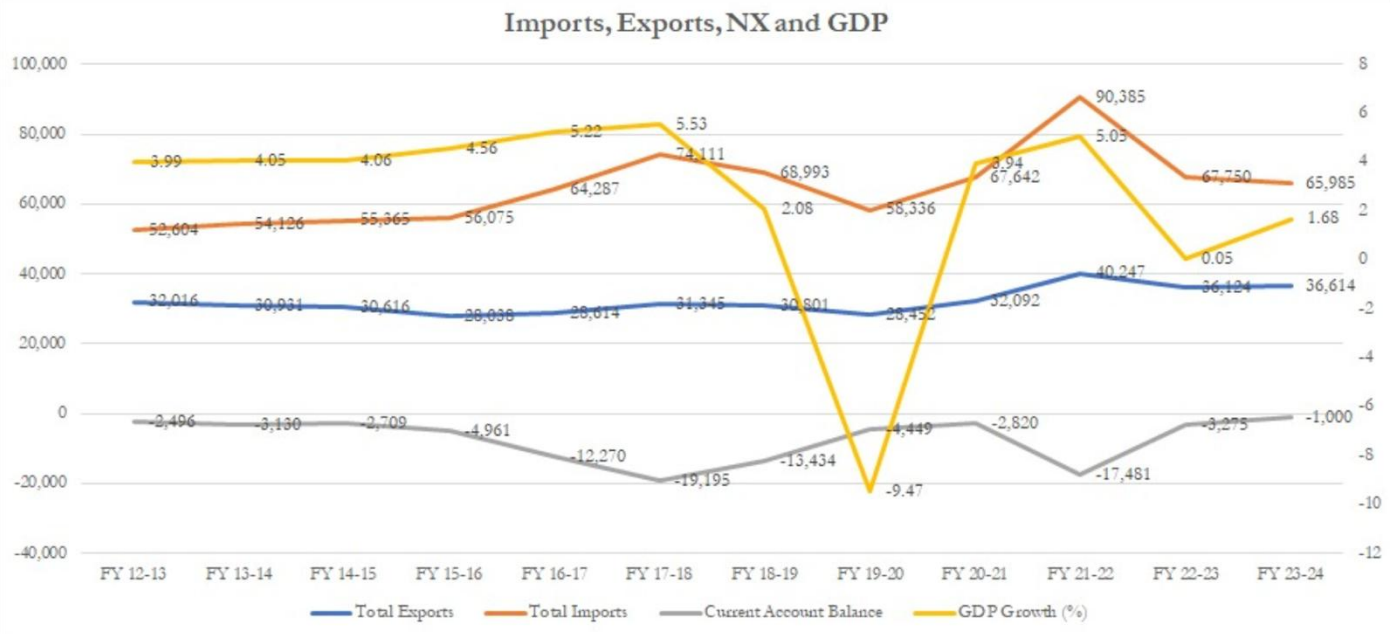
Unfortunately, GOP policy has not raised agricultural growth but lowered it. Agricultural growth in the previous two years was below trend, approximating 1.6%, as Table 3 shows. For FY 2024-2025, agricultural growth has now fallen to a third, at 0.5%. This drop in agricultural growth has been based on a contraction in the growth of all major crops. Which implies that GOP policy removed the support prices for these major crops.

Hence, inflation has been brought down to single digits at the expense of growth in agriculture. Such a policy could be argued for, sacrificing agricultural growth if manufacturing growth had been robust. However, with manufacturing already contracting, to kill off growth in the only remaining productive sector, agriculture, has been an expensive policy instrument to bring down inflation.

The Achilles heel of the Current Account

The well-noted constraint on GDP growth in Pakistan, is current account. This structural hypothesis put forward by Chaudhry (2019)[1], Amjad and Shahzad (2019)[2] the ADB (2009)[3] posits that Pakistan's GDP growth is simply import constrained. Figure 1 shows that over the last decade, from FY 2021-2022, low GDP growth, below 5% per annum, has kept a lid on the current account deficit.

Figure 1: GDP Growth, Imports, Exports and CA Balanc



[1] Chaudhry, A., & Chaudhry, T. T. (2019). Economic Challenges Facing Pakistan in the Regional and Global Environment 2017-2019.

[2] Amjad, R., & Shahzad, A. (2019). Breaking out of Pakistan's Stop-Go Economic Cycles: Do the "Twin" Fiscal and Current Account Deficits Hold the Key? 1999-2019.

[3] Felipe, J., McCombie, J. S., & Naqvi, K. (2010). Is Pakistan's growth rate balance-of-payments constrained? Policies and implications for development and growth. *Oxford Development Studies*, *38*(4), 477-496.

High GDP growth, above 5% per annum, blows up the Current Account deficit. And this behaviour of the Current Account deficit is not well explained by exports, but by imports, which are observed to be very elastic with respect to GDP. Only remittances bail us out, an exogenous variable not in our control, while deficits in tradeable continue, as Table 8 shows.

Table 8: Current Account Balance FY 2024-2025

Million US$	Jul 24-25	Aug 24-25	Sep 24-25	Oct 24-25	Nov 24-25	Dec 24-25	Jan 24-25	Feb 24-25	Mar 24-25	Apr 24-25 (P)	Jul-Apr (24-25)
Exports-Goods	2,374	2,477	2,635	3,022	2,745	3,060	2,992	2,603	2,773	2,611	27,276
Exports-Services	633	617	662	688	666	792	692	713	726	716	6,933
Primary Income Credit	85	77	146	89	83	99	74	65	79	82	794
Total Exports	**3,092**	**3,171**	**3,443**	**3,799**	**3,494**	**3,951**	**3,758**	**3,381**	**3,578**	**3,409**	**35,003**
Imports-Goods	4,819	4,709	4,696	4,612	4,100	4,895	5,443	5,063	4,943	5,237	48,619
Imports-Services	824	899	920	953	866	1,035	1,024	973	943	904	9,430
Primary Income Debit	849	636	799	992	924	835	825	636	736	685	7,921
Total Imports	**6,492**	**6,244**	**6,415**	**6,557**	**5,890**	**6,765**	**7,292**	**6,672**	**6,622**	**6,826**	**65,970**
Exports-Imports	-3400	-3073	-2972	-2,758	-2,396	-2,814	-3,534	-3,291	-3,044	-3,417	-30,967
Remittances	3,154	3,102	3,058	3,104	3,080	3,288	3,135	3,194	4,248	3,429	32,847
Current Account Balance	**-246**	**29**	**86**	**346**	**684**	**474**	**-399**	**-97**	**1,204**	**12**	**1,880**
Foreign Exchange Reserves	**9,102.2**	**9,436.9**	**10,701.7**	**11,156.4**	**12,037.9**	**11,710.5**	**11,418.3**	**11,249.5**	**10,676.3**	**10,214.4**	**10,214.4**

Source: SBP (May, 2025)

Export led growth has always been held out as the solution. But now, even the prospect of this growth path is threatened by a global trade environment fractured by a tariff war. The primary question then is, what growth path does Pakistan take now? Given an uncertain global trade environment, potential losses to Pakistan exports in the US market, estimated by Chaudhry & Andaman, (2025)[4] at about $0.6 bn, some retaliatory tariffs in the EU market, and with all developing countries questing for tariff hopping. At the very least, this global uncertainty signals a greater reliance on internal growth.

One solution offered by the Lahore School's Modeling Lab's trade model for Pakistan, shows GDP growth to be constrained primarily by investment, which in turn is constrained mainly by import of investment goods. This finding argues for policy to liberalize import of investment goods, to raise investment and GDP growth. But the Current Account has to be balanced, for sustainability, by cutting imports, which can be through cutting non-wage consumption goods.

4 Chaudhry, A., & Andaman, G. (2025). Assessing the impact of trade restrictions on Pakistan's exports: US tariff policies and the EU's carbon border adjustment mechanism (Working Paper). Lahore School of Economics.