OICCI Economic Update

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The First Port of Call for Foreign Investors

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Inflation nosedived to nine years low of 2.4 percent in January 2025, and it is, perhaps, bottoming out in this quarter, signaling a potential decline this quarter. This represents a remarkable recovery in terms of price stability. However, the challenge now lies in maintaining inflation within the State Bank of Pakistan's (SBP) target range of 5-7 percent while simultaneously reviving much-needed economic growth. Achieving this will require structural fiscal reforms, which are currently lacking.

It's the confluence of global and domestic factors which have brought inflation down. The prices moved up in 2022 and 2023 due to global commodity supercycle along with the sharp currency depreciation. The policy mix at home was adverse too, as both the government and central bank were running loose fiscal and monetary policies, respectively. It kept the demand unabated in an unfavorable global environment and the economic management got out of control of the hands of the then administration.

The economy was on the brink of default before austerity measures were implemented by the caretaker government, along with unexpected support from the IMF in the form of a stand-by facility. Subsequently, both the monetary and fiscal policies were tightened and the overall indicators started shaping better. This, with global commodity reversal, has resulted in attaining short to medium term macroeconomic stability.

However, this stability has come at a cost. Economic growth and job creation remain absent, and stability without a sustainable growth trajectory is of little benefit. The challenges are particularly acute in the rural economy, where the government is phasing out support prices without offering an alternative plan for farmers. This has hit them hard, and the ongoing winter drought is worsening the situation.

As for the monetary easing, urban demand is picking up. However, fiscal policy remains tight, deliberately restraining high growth. Fiscal austerity is coming at the cost of disproportionately high taxation on the formal sector amid low development spending. Apparently, there is little or no resolve on broadening the taxation and bringing large array of informal sector into the foray, and slashing inefficient current expenditure. It is likely to keep the growth in check, and if there is a growth spurt, it would be short-lived.

The authorities are desperate to bring back growth. They are attempting to revive the real estate and construction sector. Real estate activity has slowed due to higher transaction taxes, while construction remains sluggish due to reduced government development spending, weakened purchasing power, and taxation challenges. The government is considering lowering transactions and other taxes to stimulate these sectors. While this may provide temporary relief and improve growth figures, long-term sustainability remains uncertain.

A more effective approach would be to rationalize taxation across all sectors. The current system unfairly benefits the informal sector while discouraging capital formation and wealth creation through high income taxes. Investment in productive sectors is lacking, and without it, quality growth will remain unattainable.

Nevertheless, the 1,000 basis points of monetary policy easing in the past six reviews is expected to spur economic demand and help generate short-to-medium-term growth momentum. Early signs of recovery are already visible in key indicators. The data suggests economic activity is picking up, particularly in Karachi. Growth in the second quarter is likely to improve from the dismal 0.9 percent recorded in the first quarter, and the second half of the fiscal year is expected to outperform the first half.

The key to sustainability is to remain firm on the IMF program. However, IMF compliance alone will not suffice, as the institution primarily focuses on achieving a certain level of primary fiscal balance without concern for the underlying methods. In the upcoming March review (with the IMF team expected to arrive by late February), the IMF may grant a waiver for the FBR's revenue shortfall since the overall primary balance remains in line. All attention is now on the FY26 budget and the IMF's push to expand the tax net—targeting retailers, realtors, farmers, and other under-taxed sectors—while alleviating the disproportionate burden on the formal corporate and salaried classes.

The IMF is likely to be broadly satisfied with SBP's performance. The central bank continues to purchase foreign exchange from the interbank market, reducing the likelihood of immediate IMF pressure for currency adjustments, despite PKR appreciating against competitor currencies. With real interest rates remaining significantly positive, the IMF is unlikely to demand an immediate halt to SBP's monetary easing policy.

Will the current account surplus continue?

The current account remains in good shape, posting a surplus of $1.2 billion in 1HFY25, compared to a deficit of $1.4 billion in the same period last year. This, along with positive capital and financial accounts, helped SBP increase its foreign exchange reserves by $2.3 billion in 1HFY25, reaching $11.7 billion. Goods imports rose by 9 percent to $27.7 billion in 1HFY25, while goods exports increased by 7 percent to $16.2 billion, worsening the trade deficit for goods by 13 percent to $11.5 billion. A similar trend is observed in the services sector, where import growth outpaced exports despite the strong performance of ICT exports. Consequently, the services deficit increased by 17 percent to $1.6 billion. The overall trade deficit for goods and services widened by 13 percent to $13.1 billion. The primary balance also deteriorated, with the deficit rising by 11 percent to $4.5 billion.

Pakistan's economic performance in 2024

Balance of Payment

In $Million | 6M

	6mFy23	6mFy24	6mFy25	Yoy
Current Account Balance	**-3,847**	**-1,397**	**1,210**	
Trade Balance	**-15,551**	**-10,229**	**-11,514**	**13%**
Goods Exports (fob)	14,222	15,146	16,229	7%
Goods Imports (fob)	29,773	25,375	27,743	9%
Services Balance	**-254**	**-1,361**	**-1,589**	**17%**
Services Exports	3,870	3,791	4,050	7%
Services Imports	4,124	5,152	5,639	9%
Primary Income Balance	**-2,672**	**-4,054**	**-4,507**	**11%**
Primary Income Credit	346	383	540	41%
Primary Income Debit	3,018	4,437	5,047	14%
Secondary Income Balance	**14,630**	**14,247**	**18,820**	**32%**
Secondary Income Credit	14,776	14,468	19,156	32%
Workers' Remittances	*14,418*	*13,436*	*17,846*	*33%*
Financial Account Balance	**-566**	**4,929**	**544**	**-89%**
Direct Investment	-282	1,064	1,353	27%
Portfolio Investment	-1,033	71	-69	
Other Investments	743	3,794	-740	
Net Errors and Omissions	*-188*	*-635*	*-116*	*-82%*
Overall Balance	**-4,284**	**3,006**	**1,711**	

Exhibit 1: Balance of Payment

There is no improvement in the current account balance until we reach the secondary balance, where the standout performer is home remittances. These inflows have not only offset the growing deficits in trade and income accounts but have also helped keep the current account in surplus. Inward remittances improved by 33 percent to $13.4 billion in 1HFY25.

However, the improvement in the financial account is much smaller than last year, increasing by only $544 million in July–December 2024, compared to a surplus of $4.9 billion in the same period last year. The higher inflows last year were due to stronger net external assistance received by the government, which stood at $2.1 billion in 1HFY24 but have now turned negative at $353 million in the first half of this year. As a result, the overall balance of payments surplus has declined to $1.7 billion in 1HFY25 from $3.0 billion in the same period last year.

Thus, the reliance on foreign exchange reserve buildup is now on the current account, as the financial account is drying up while capital account inflows, such as foreign direct investment (FDI) and portfolio investment, remain minimal. However, sustaining the current account surplus is becoming increasingly challenging. With successive monetary easing and improving economic sentiment, imports are picking up.

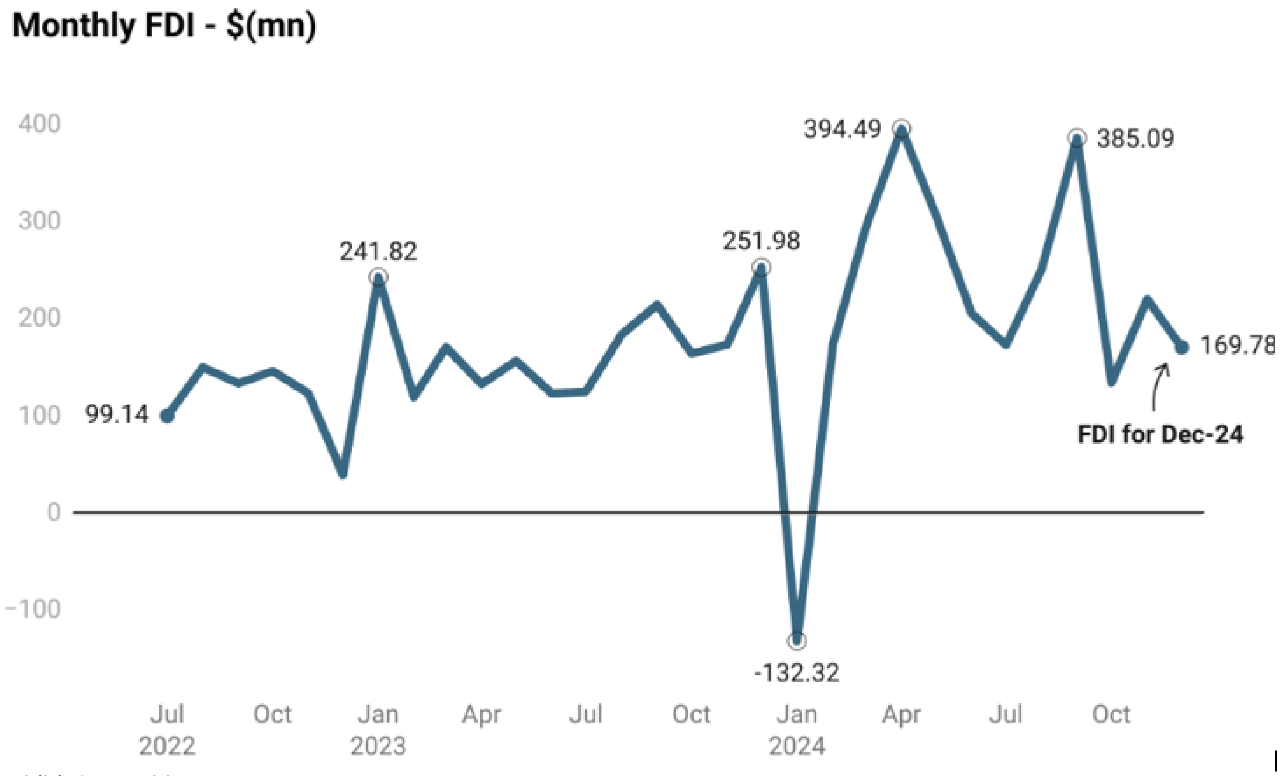


Exhibit 2: Monthly FDI

Monthly imports recorded by the Pakistan Bureau of Statistics (PBS) have exceeded $5 billion in the last two readings, and this trend will soon reflect in payment data recorded by the SBP. Oil imports have increased recently, primarily due to reduced smuggling from Iran and greater availability of low-cost, dollar-based financing to oil marketing companies. Banks have also been aggressively lending to avoid the high taxes. Additionally, demand is gradually recovering across various sectors, further driving import growth.

On the other hand, challenges persist in sustaining export growth. While export orders, particularly in textiles, remain strong as demand recovers in key importing countries and competitors like Bangladesh face their own hurdles, risks to exports remain. Uncertainties lie in the status of Pakistan's Generalized System of Preferences Plus (GSP+). If revoked, textile exports to the EU could decline by 30-40 percent. Additionally, there is a potential risk that US administration may impose duties on imports, which could negatively impact Pakistan's exports to the American market.

Such pressures would further strain the trade deficit, and remittances alone have limited growth potential. The recent surge of over 30 percent in remittances is due to a combination of factors, including a shift from informal to formal channels due to stricter anti-money laundering measures, an increase in overseas migration, and growing freelance income. However, moving forward, these drivers are expected to weaken, leading to a slowdown in remittance growth, thereby testing the resilience of the current account.

To maintain a balance of payments surplus in the absence of financial assistance, FDI must increase. However, achieving this requires structural reforms, which remain a crucial challenge.

Imports for 1HFY25 reached $27.7 billion, up 9 percent from last year. The largest increases were in machinery imports, which rose by 33 percent to $4.0 billion, and textile imports, which surged by 53 percent to $2.6 billion. In the machinery sector, the backlog from restrictions imposed over the past two years is now clear. Meanwhile, textile imports have increased due to poor domestic cotton output, as value-added exporters prefer imported yarn and other intermediates for easier tax adjustments. Going forward, petroleum imports are expected to rise, along with a general increase in imports driven by improved economic demand.

Exports growth is primarily driven by food and textiles. Within food exports, rice shipments may start tapering off and could decline in 2HFY25. However, textile exports are expected to continue growing as orders rise, with businesses shifting from Bangladesh to Pakistan. Despite this, rising energy costs, new income tax impositions, and delays in tax refunds are making exporters less competitive.

ICT exports continue to be a standout performer, rising by 28 percent to $1.8 billion in 1HFY25. This marks the 15th consecutive month of year-on-year growth in ICT exports. Since FY20, exports have already doubled, and the positive momentum continues. Confidence among IT companies is growing, and they are expanding their global footprint, with a particular focus on the GCC region. Relaxed policies on external outflows and increased retention limits have provided further incentives for expansion.

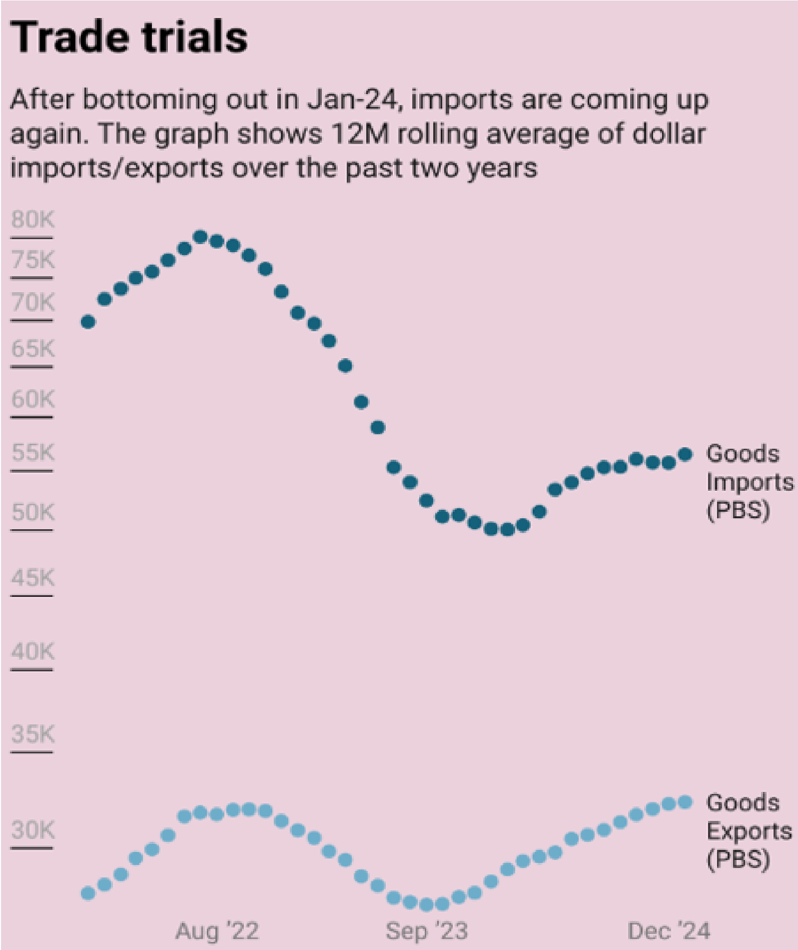


Exhibit 3: Trade Trials

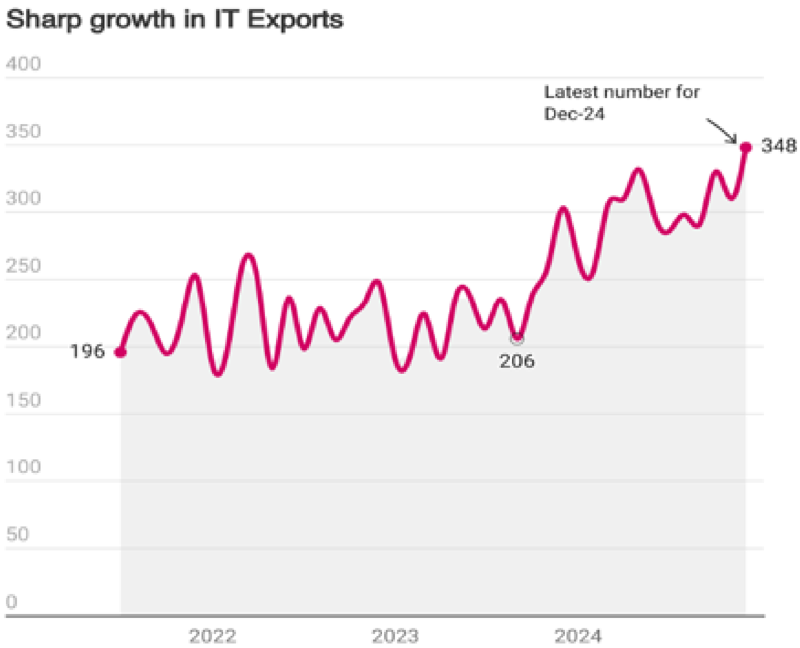


Exhibit 4: IT Exports

Painful fiscal discipline

Although monetary policy remains accommodative, growth prospects remain subdued due to continued fiscal tightening. The government has no room to loosen fiscal policy, as the country must maintain a primary fiscal surplus throughout the IMF program. This is a painful process, but necessary to gradually unwind the accumulated debt. Until that happens, the taxation burden will remain high. Unfortunately, due to under-taxed informal sector, the government continues to impose the burden on the formal sector, including companies and salaried individuals.

Consolidated Fiscal Operations

in PKR billion I 1HFY25

	1QFY25	2QFY25	1HFY25	1HFY24	YoY
Total Fiscal Revenue	**5,827**	**3,937**	**9,764**	**6,854**	**42%**
Total Tax Revenue	2,776	3,292	6,067	4,834	26%
Federal Tax Revenue	2,563	3,062	5,625	4,469	26%
Provincial Tax Revenue	213	230	443	365	21%
Total Non-Tax Revenue	**3,051**	**645**	**3,696**	**2,020**	**83%**
Federal Non-Tax Revenue	2,997	503	3,553	1,941	83%
Provincial Non-Tax Revenue	54	143	143	79	81%
Total Fiscal Expenditure	**3,931**	**7,370**	**11,302**	**9,262**	**22%**
Total Current Expenditure	**3,537**	**6,581**	**10,118**	**8,565**	**18%**
Total Development Expenditure and Net Lending	**277**	**467**	**744**	**661**	**13%**
Statistical Discrepancy	117	322	439	36	
Overall Budget Balance	**1,896**	**(3,434)**	**(1,538)**	**(2,408)**	**-36%**
Primary Balance	**3,202**	**303**	**3,604**	**1,812**	**99%**
Total Fiscal Financing	**(1,896)**	**(3,434)**	**(1,538)**	**2,408**	
External Fiscal Financing	(157)	(198)	(79)	608	
Domestic Fiscal Financing	(1,739)	(3,236)	1,617	1,799	-10%
GDP (Rs. in Billion)	*124,150*	*125,150*	*124,150*	*106,045*	
Budget Deficit (to GDP)	*-1.5%*	*-2.7%*	*-1.2%*	*-2.3%*	
Primary Balance (to GDP)	*2.6%*	*0.3%*	*2.9%*	*1.7%*	

In 1HFY25, the government recorded a primary fiscal surplus of Rs3,604 billion (2.9 percent of GDP),

Exhibit 5: Fiscal Operations

In 1HFY25, the government recorded a primary fiscal surplus of Rs3,604 billion (2.9 percent of GDP), compared to a surplus of Rs1,812 billion (1.7 percent of GDP) in the same period last year. The primary surplus comfortably exceeds the IMF target of Rs2,877 billion and is on track to achieve the full-year target of Rs2,435 billion.

However, this comes at the cost of imposing disproportionately high taxes on the formal sector. In 1HFY25, FBR revenues increased by 26 percent to Rs5,625 billion, equivalent to 4.9 percent of GDP based on the government's nominal GDP estimate. This marks the highest-ever tax revenue collection in the first half of the fiscal year as a percentage of GDP. Interestingly, nominal GDP is likely to be around Rs114-117 trillion, compared to the government's estimate of Rs124 trillion, due to plummeting inflation and lower real GDP growth.

The expected FBR revenues for the full year are forecasted to reach Rs12,000 billion, compared to the IMF's target of Rs12,913 billion. Even at this lower collection, it is estimated to be 10.5 percent of GDP, making possibly the highest-ever tax revenue in terms of GDP share. Within this, reliance is shifting toward direct taxes—49.5 percent of FBR taxes in 1HFY25 were direct, compared to 48 percent in the same period last year.

Historically, FBR tax collection was dominated by indirect taxes, with a significant portion coming from the import stage. In FY20, 43 percent of FBR taxes were collected at the import stage. However, the FBR stopped publishing granular data after that. The share of tax collection at the import stage has been declining with falling imports—GST at the import stage, along with customs duties, accounted for an average of 40 percent of total taxes during FY19-22, but this has dropped to 34 percent in FY23-24.

With import restrictions and a slowdown in the overall economy, the tax balance has shifted towards direct taxes. The share of direct taxes increased from an average of 38 percent during FY15-22 to 47 percent in FY23-24 and has reached nearly 50 percent in 1HFY25. This shift is primarily due to the imposition of a super tax on large formal businesses and higher taxes on both salaried and non-salaried individuals.

Imports are gradually picking up and are expected to remain high in 2025 and 2026, which will help rebalance tax collection to some extent and slightly reduce dependence on direct taxes. As a result, any new taxes or increases in tax rates in the formal sector are unlikely in the upcoming budget.

Another critical factor is the cost of debt servicing, which likely peaked in 1HFY25. Despite falling interest rates, debt servicing expenses increased by 22 percent to Rs5,142 billion in 1HFY25. Interest payments reached their highest point in 2QFY25, rising 35 percent year-on-year to Rs3,835 billion. However, most T-bills borrowed at peak rates have now matured, and floating bonds have been repriced. As a result, debt servicing costs are expected to decline significantly in 2HFY25 as the impact of a 1,000-basis point reduction in interest rates becomes evident.

This may provide the government with some fiscal space to increase subsidies, which fell by 37 percent to Rs237 billion in 1HFY25. Additionally, the government may slightly accelerate the currently low pace of development spending, which stood at Rs165 billion.

The key factor remains the primary surplus target. As long as the government stays on track to achieve this, there will likely be no new tax impositions, while there may be room to allocate more spending toward subsidies and development projects.

FBR desperate measures

The government has failed to collect Rs50 billion from retailers, while revenue from advance income tax and the Federal Excise Duty (FED) on real estate has declined despite rate increases. Additionally, provinces continue to show reluctance in imposing taxes on the agriculture sector.

The FBR is sensing the IMF's concerns and is resorting to desperate measures in response. The tax authority has proposed that the government create a new category of "ineligible persons." A tax amendment is in the works that would bar individuals classified as ineligible from purchasing cars and real estate, opening bank accounts, and conducting business.

However, this does not eliminate the non-filer category, which was introduced in the 1990s and has been extensively used over the past decade to generate revenue through higher withholding tax (WHT) rates on non-filers. This effectively serves as an implicit amnesty scheme. The FBR's reluctance to impose higher WHT on non-filers stems from the fact that doing so would reduce a significant portion of revenue currently collected from them. The FBR appears to be repeating past mistakes. Despite repeatedly increasing GST, corporate, and individual tax rates over the last 15 years, tax collection as a percentage of GDP has remained stagnant.

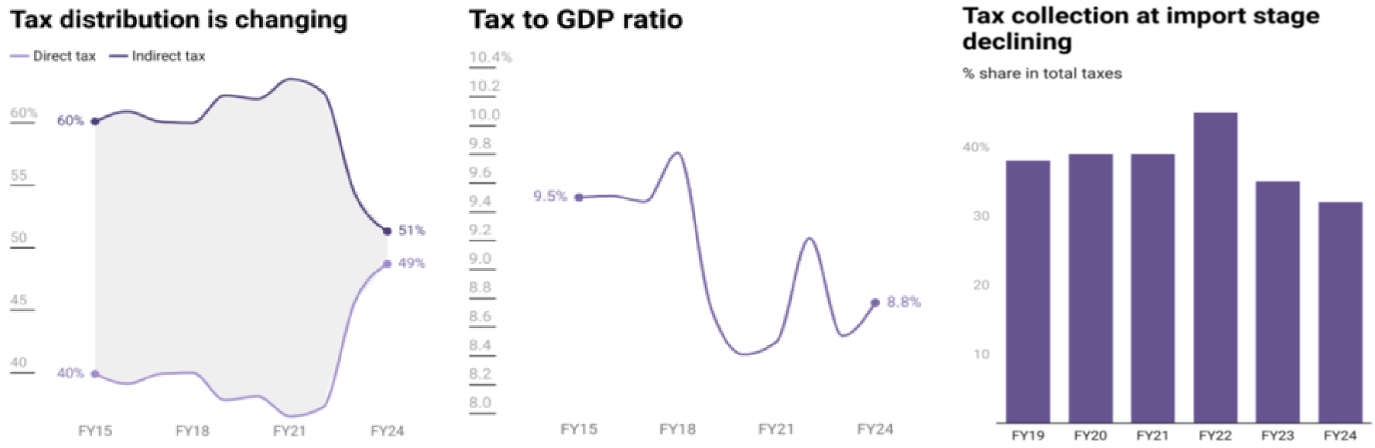


Exhibit 6: Tax Landscape in Pakistan

Inflation and interest rate outlook

Headline inflation dropped to a nine-year low of 2.4 percent in January 2025, compared to 28.3 percent in the same month last year. The average inflation in 7MFY25 stood at 6.5 percent, a sharp decline from 28.7 percent in the same period last year.

Headline inflation appears to be phasing out. The third quarter of FY25 is expected to see the lowest inflation, with the CPI projected to fall below 2 percent in March due to a negative electricity tariff adjustment. However, from April onward, the base effect will begin to reverse, potentially causing inflation to rise in the fourth quarter of FY25. Beyond that, increasing economic demand could start reflecting in inflation. Additionally, as employers demand higher wages, a wage-price spiral may trigger a second-round impact in FY26.

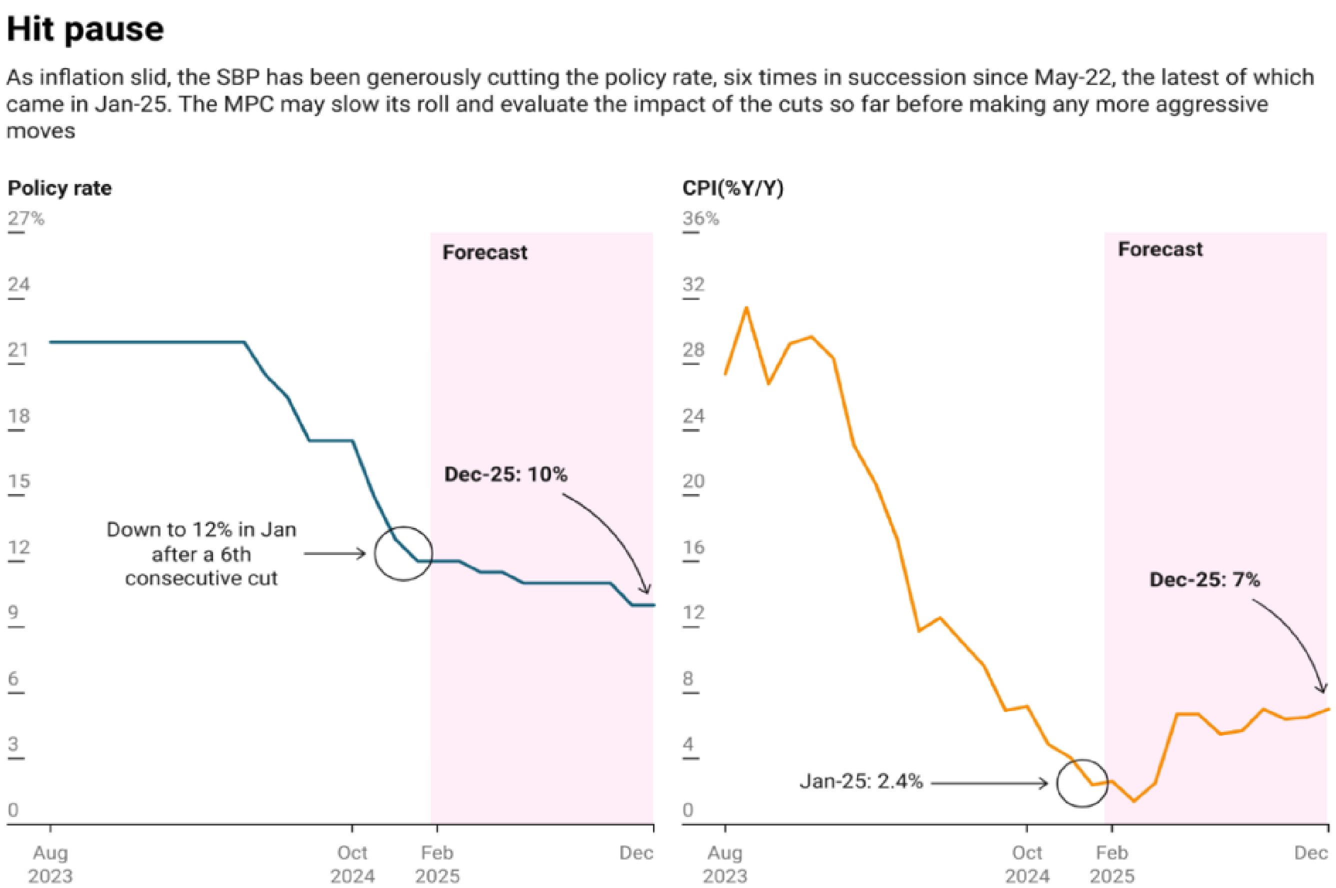


Exhibit 7: CPI and policy rate- present and forecast

This significant drop is attributed to subdued domestic demand resulting from last year's tightening, a high base effect, and a reversal in global commodity prices. Fiscal consolidation is also contributing to curbing inflation. On average, the monthly increase stood at 0.3 percent over the past 12 months, compared to 2.2 percent in the preceding 12 months. The primary driver of this decline is food inflation, which dropped by 3.1 percent year-over-year in January 2025. Additionally, energy prices have also eased.

However, core inflation is not declining as rapidly as headline inflation. In January 2025, it fell to 8.8 percent compared to 20.5 percent in the same period last year. Inflation in health, education, and miscellaneous items remains in double digits, affecting the urban middle class. Meanwhile, rural economic distress persists, with rural core inflation still in double digits. Coupled with falling farm incomes, this is keeping demand from the rural segment subdued.

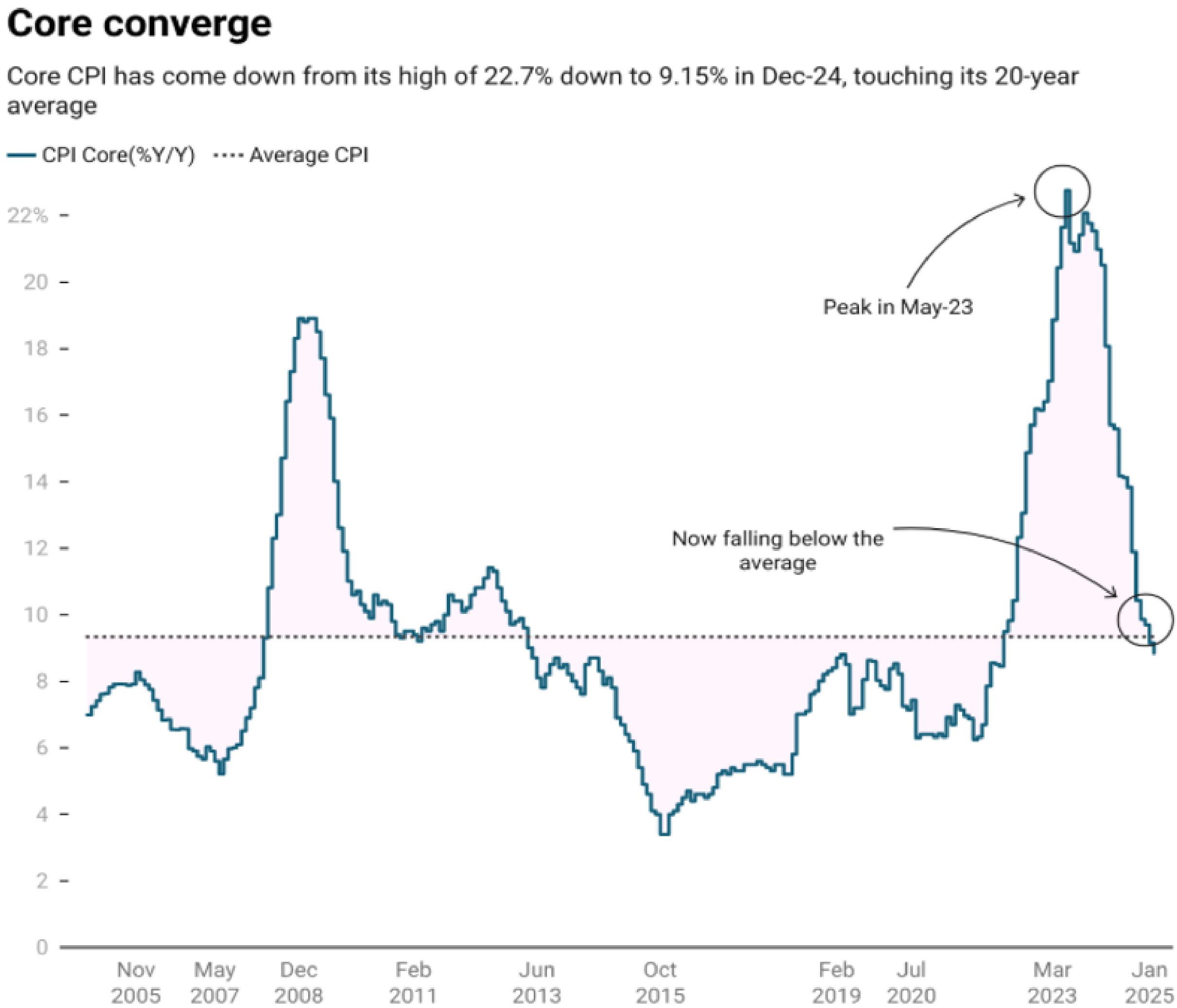


Exhibit 8: CPI Core Coverage

The average inflation for FY25 is projected to be between 5.5 percent and 6.5 percent, while calendar year 2025 (CY25) is expected to see an average inflation rate of 7-8 percent.

After reducing rates by 1,000 basis points (a 45 percent decline) over six reviews, the SBP is expected to pause going forward. Although the SBP has not provided explicit forward guidance, the latest monetary policy statement indicates that the committee believes a cautious stance is necessary to ensure price stability. As a result, the pace of monetary easing will slow, and the SBP may soon pause rate cuts to assess their impact on overall demand. By December 2025, interest rates are expected to range between 10 percent and 12 percent.

If SBP continues to lower policy rates into single digits, it could put undue pressure on the currency. In such a scenario, the central bank may be forced to reverse course.

Currency - a slight depreciation warranted in the coming months

The currency has remained stable so far, supported by the current account surplus, which allows SBP to purchase dollars from the interbank market to build reserves. SBP has published its buying data with a lag, showing that it acquired $3.8 billion from the interbank market over five months, from June to October 2024. The largest increase was recorded in October, at $1.0 billion, helping the SBP build reserves. However, recently, growing financial account payments and rising imports have caused some unease among banks' treasury offices.

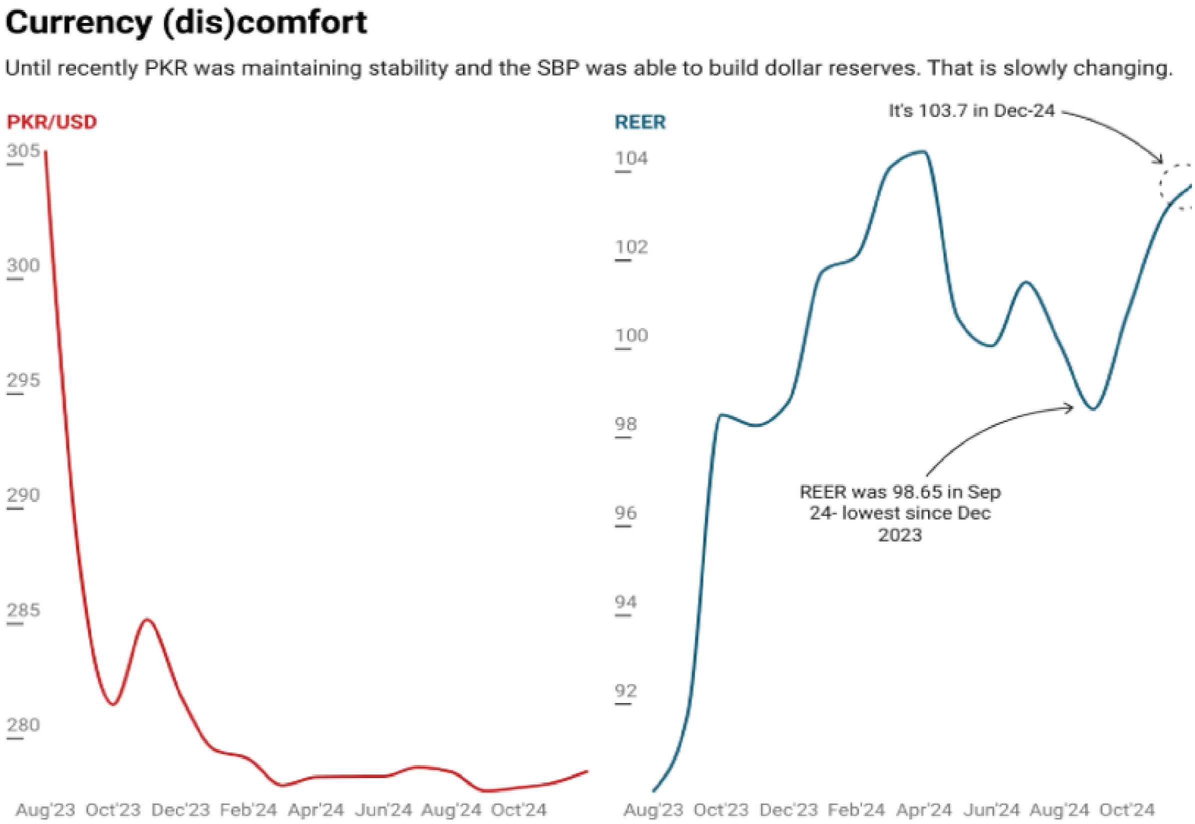


Exhibit 9: Currency and REER

With the pace of rate cuts slowing in the US and the dollar index rising, expectations of a slight PKR depreciation are growing. Recently, the PKR has been appreciating against many currencies, as its value remains closely tied to the USD, which is not a natural trend.

The real effective exchange rate (REER) has been creeping up, reaching 103.7 in December 2024, and is expected to exceed 105 soon if the nominal exchange rate is not adjusted.

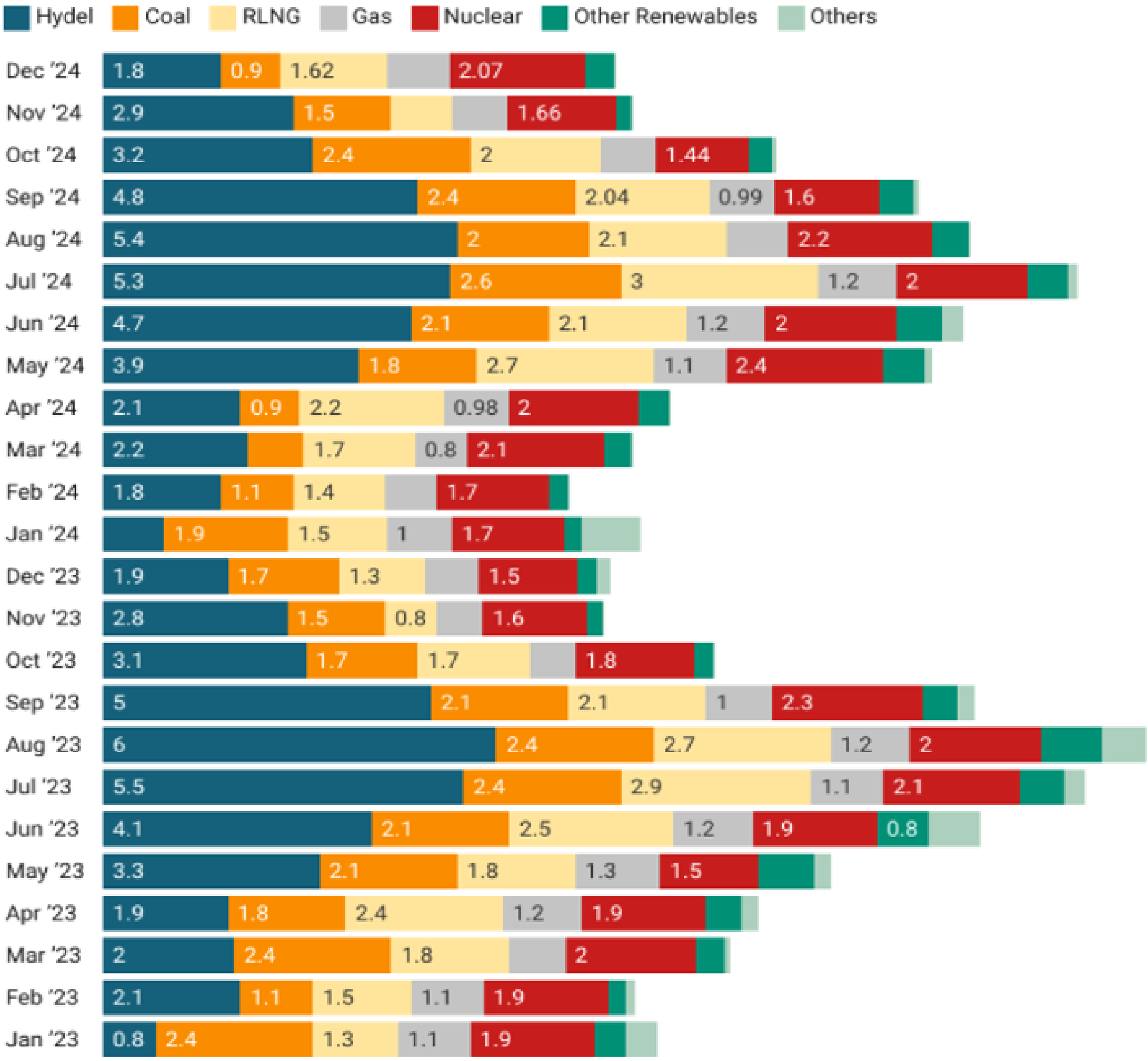
Textile exporters have raised concerns about squeezed margins due to the lack of domestic currency depreciation. Pressure is expected to increase as imports continue to rise, likely to stay above the $5 billion monthly mark. This is making it increasingly difficult for SBP to continue purchasing dollars from the interbank market.

The IMF will be closely monitoring SBP's interventions and may not push for a currency adjustment in the upcoming March review. However, by July, if the PKR remains stable against the USD, the REER could rise to the 108-109 level. At that point, a currency depreciation of a few percentage points cannot be ruled out.

Energy Reforms – A Turf War

There seems to be no end to the complexities of Pakistan's energy sector. The latest example is the discontinuation of gas supply to captive power generation, where the power and petroleum divisions hold conflicting views. The power division, in collaboration with the finance ministry, requested the IMF to impose the condition of ending gas supply to captive power plants by January 1, 2025—without fully considering the implementation challenges. The objective was to force industrial consumers to shift to the national grid, thereby increasing electricity consumption and reducing the per-unit capacity cost.

Electricity generation by sources



However, not all captive power consumers have access to the grid, and setting up the necessary infrastructure requires significant investment—often amounting to billions of rupees—and could take months, if not years, to complete. Many industrial players, including major textile exporters, cannot operate without a reliable energy supply. Meanwhile, gas marketing companies are concerned about this move, as captive users are among their most profitable consumers and help cross-subsidize lower-paying households. If captive users transition away from gas, the gas sector's circular debt will inevitably increase, forcing the government to impose significant hikes in household gas tariffs.

Another challenge is the declining demand for gas due to rising prices, while the government remains obligated to import RLNG from Qatar. With virtually no gas storage facilities available, the government is compelled to curtail domestic gas production to accommodate imported RLNG. This shift is making the energy mix more expensive, as RLNG is priced higher than indigenous gas, further exacerbating the balance of payments crisis due to a higher import bill.

On the ground, however, very few captive users are shifting to the grid. Only those with access to both gas and the grid—and for whom grid electricity proves to be more cost-effective—are making the switch. Others are exploring alternative energy sources, such as solar, biomass, and other renewable options, to minimize their dependence on the grid. As a result, the power and finance ministries' goal of increasing grid-based electricity consumption remains unfulfilled.

For a meaningful shift to the grid, power tariffs would need to come down. Negotiations with older independent power producers (IPPs) have resulted in only a marginal tariff reduction of Rs1.3 per unit. Recently, there have been some positive developments, including declining fuel oil prices, a stable PKR, and falling global and local interest rates. These factors are contributing to lower Fuel Cost Adjustments (FCA) and Quarterly Tariff Adjustments (QTA), which may help manage annual capacity payments. Additionally, the per-unit surcharge for legacy debt costs is expected to decrease. However, apart from these external factors, no substantial structural reforms have been introduced to reduce transmission and distribution losses or improve operational efficiency.

To encourage electricity consumption during the low-demand winter season, the government introduced lower tariffs (based on marginal costs) for incremental usage. However, the impact has been minimal. Power generation in December 2024 increased by just 1 percent year-on-year (YoY) to 7,800 GWh (10,484 MW), yet it remained 2 percent lower than the reference generation for the month. Total power generation in 1HFY25 stood at 66,641 GWh (15,091 MW), reflecting a 3 percent YoY decline. This is despite the cost of power generation falling by 10 percent (Rs9.09/KWh) YoY—lower than the reference cost—indicating a potential reduction in QTA in the coming months.

The IMF review is on track

The IMF's first biannual review is scheduled for March, with staff-level engagement set to begin by the end of February. SBP's performance is commendable, as all quantitative targets have been comfortably met, including the floor on international reserves, the ceiling on net domestic assets of the SBP, the ceiling on the SBP's net foreign currency swaps/forward position, and others. The monetary policy stance remains appropriate, with real interest rates well into positive territory. The IMF is unlikely to have concerns about a further reduction in interest rates by 100-200 basis points. Additionally, the IMF is not expected to raise issues regarding the currency market, as the SBP has been actively purchasing dollars from the interbank market to build reserves and reduce forward liabilities, while the curb market remains aligned with interbank rates.

IMF may push for broadening the taxes

The IMF board may grant a waiver for not meeting the indicative target for FBR tax revenues, as the primary surplus remains on track. However, there are concerns regarding the indicative target for FBR revenues and the need for broader tax reforms, even though the overall primary fiscal surplus remains on track. The IMF may push for creating fiscal space to increase spending on the Benazir Income Support Program (BISP) and other subsidies, which would require higher revenue generation. Despite this, the IMF may grant a waiver for missing the indicative FBR revenue target, preventing contingency measures from being triggered.

That said, the IMF mission chief may express dissatisfaction with the lack of progress in broadening the tax base and is likely to push for increased revenue collection from the real estate and retail sectors. Additionally, the Fund may insist on the implementation of agricultural income tax by all provinces. However, there is little to no chance of rationalizing (lowering) taxes on the salaried class or the corporate sector.

Pakistan Quantitative Performance Criteria and Indicative Tarets FY2024/25					
(PKR in billion, unless otherwise indicated)					
	end-Jun 2024 (Proj.)	end-Sep 2024 (IT)	end-Dec 2024 (PC)	end-Mar 2025 (IT)	end-Jun 2025 (PC)
1. Quantitative Performance Criteria					
Floor on net international reserves of the SBP (millions of U.S. dollars)	-12349	-12150	-12050	-10200	-8650
Ceiling on net domestic assets of the SBP (stock, billions of Pakistani rupees)	15542	15044	15211	15179	15820
Ceiling on SBP's stock of net foreign currency swaps/forward position (negative, millions of U.S. dollars)	-3450	-3250	-3000	-2750	-2500
Ceiling on the general government primary budget deficit (cumulative, excl. grants, billions of Pakistani rupees)	-401	-198	-2877	-2707	-2435
Ceiling on the amount of government guarantees (stock, billions of Pakistani rupees)	4585	5100	5200	5400	5600
Cumulative floor on targeted cash transfers spending (BISP) (billions of Pakistani rupees)	472	101	235	415	599
Cumulative floor on the number of new tax returns from new filers (thousands)	142	75	225	300	450
2. Continuous Performance Criteria					
Zero flow of SBP's credit to general government	0	0	0	0	0
Zero ceiling on accumulation of external public payment arrears by the general government	0	0	0	0	0
3. Indicative Targets					
Floor on the weighted average time-to-maturity of the local currency domestic debt securities stock (years)	2.7	2.8	2.8	3	3
Cumulative floor on general government budgetary health and education spending (billions of Pakistani rupees)		685	1405	2150	2863
Ceiling on the aggregate provincial primary budget deficit (cumulative, billions of Pakistani rupees)	-650	-342	-750	-1028	-1217
Floor on net tax revenues collected by the FBR (cumulative, billions of Pakistani rupees)	9251	2652	6009	9168	12913
Floor on the consolidated net tax revenues collected by Provincial revenue authorities (cumulative, billions of Pakistani rupees)	835	184	376	606	918
Floor on net tax revenues collected by the FBR from retailers under the Tajir Dost scheme (cumulative, billions of Pakistani rupees)	10		23.4	36.7	50
Ceiling on net accumulation of tax refund arrears (cumulative, billions of Pakistani rupees)	56	32	43	56	-24
Ceiling on power sector payment arrears (cumulative flow, billions of Pakistani rupees)	475	255	461	554	417

Quest for high growth momentum continues

The government is becoming increasingly desperate to revive economic growth momentum. The erosion of purchasing power in 2022 and 2023 has left a lasting impact. Lifestyles have adjusted downward, and firms are operating at a new equilibrium with low-capacity utilization. Investment remains scarce, and demand recovery is taking time. While the 1,000-basis point decline in interest rates is expected to stimulate economic demand, its impact will be diluted by the continuation of tight fiscal policies. Additionally, both the government and the central bank remain cautious about removing lending restrictions and opening LCs, as evidenced by the persistence of high taxes (withholding and FED) on automobiles and the low financing limits for consumer car loans.

Another major factor hampering growth is stagnation in the real estate sector. Transaction volumes have shrunk to a fraction of their previous levels, and construction activity has significantly declined. Real estate players are lobbying for fiscal, regulatory, and monetary relief to support the housing sector. A task force has been formed and is expected to deliberate on these issues in the coming months. A key concern is the excessively high transaction taxes, including advance income tax and the Federal Excise Duty (FED). If these taxes are reduced in the upcoming budget, real estate activity could rebound, driving growth in the construction sector as well.

However, relieving the restictions on real estate and automobile sectors carries the risk of triggering a balance of payments crisis. Economic activity is already picking up gradually due to monetary easing and declining inflation, but the pace of recovery remains slow without further stimulus. The government faces a difficult challenge in balancing growth and stability while staying within the IMF's framework.