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Pakistan's Economic Stability: Gains on Paper, Challenges on the Ground

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Pakistan has seen some encouraging signs recently, including rising foreign exchange reserves, a lower debt-to-GDP (Gross Domestic Product) ratio, and improved import cover. However, these positive numbers mask deeper economic challenges, stagnant growth, limited reforms, and persistent vulnerabilities that threaten long-term stability.

Khuram Shehzad, advisor to the finance minister, noted that foreign exchange reserves have climbed to nearly $17 billion, with remittances reaching a record $38 billion in FY2025 (July-June). Inflation has fallen to 3.5 percent, and the country posted a current account surplus of $1.81 billion alongside a primary balance of payments surplus of 3.2 percent of GDP. While these figures may satisfy international creditors, ordinary Pakistanis continue to struggle. Unemployment remains high and underreported, purchasing power is weak, and the cost of living is still burdensome despite lower inflation rates. The fiscal surplus largely reflects austerity measures, cutting development spending and restricting imports, rather than real economic expansion, placing a heavy burden on lower-middle-class families and informal workers.

Economic growth itself is fragile. Real GDP grew by 2.68 percent in FY2025, but large-scale manufacturing (LSM) contracted by 1.5 percent. Cement shipments grew slightly, but domestic sales declined. Automobile production's temporary rise owes more to eased import rules than industry strength. Traditional sectors like textiles and construction remain weak. Meanwhile, exports rose just 4 percent, while imports jumped 11.5 percent, widening the trade deficit to $24.4 billion. The economy remains vulnerable to global shocks, such as oil price swings.

Remittances continue to prop up the economy, but this reliance is risky. While remittances reached $38.3 billion, an all-time high, they cannot replace broad industrial growth. Inflation figures look better on paper, yet basic goods remain expensive for many households. Without reviving manufacturing and exports, remittances merely mask structural problems.

Tax revenues improved, with Federal Board of Revenue (FBR) collections rising 25.9 percent. Still, the tax burden falls heavily on salaried workers and small businesses, while agriculture, real estate, and retail largely avoid fair taxation. The government meets International Monetary Fund (IMF) conditions but risks widening inequality by shielding powerful elites.

Structural reforms have stalled. Privatization of loss-making state-owned enterprises (SOEs) remains stuck, circular debt in the power sector is unresolved, and energy pricing reforms continue to strain consumers. Agriculture policies lack necessary reforms, and promising sectors like digital services suffer from fragmented policy support.

Foreign direct investment fell 7.6 percent this year, and portfolio investment posted net outflows. Despite improvements in reserves and credit ratings, investor confidence remains weak.