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Pakistan's Economic Recovery Strategies and the Role of the IMF (2023–2025)

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Abstract

This paper examines the economic recovery plan of Pakistan between 2023 and 2025 including how the IMF involvement helps in the direction of fiscal, monetary, and energy reforms. The objective is to assess how effective these strategies are in the achievement of macroeconomic stability and balancing of growth and welfare. The study utilizes a mixed methods methodology that incorporates a qualitative policy analysis, macroeconomic trend analysis and key-informant interviews. The findings indicate that the balance-of-payments crisis was mitigated through stabilization, such as disinflation and fiscal tightening, and an improved reserve. Nevertheless, trade-offs between austerity policies and social protection that include subsidies and energy reforms are still a challenge. The conclusion reiterates the need to have structural reforms, as in the form of increased taxation and reforms in the energy sector to ensure a sustainable recovery in the future in order to avoid future economic crises.

Keywords: Pakistan; economic recovery; IMF programs; stabilization; fiscal consolidation; balance of payments; social protection

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INTRODUCTION

The macroeconomic agenda in Pakistan between 2023 and 2025 was predetermined by acute balance-of-payments (BoP) squeeze, high inflation, exchange-rate volatility, and narrow fiscal space. The BoP stress was expressed in shortage of foreign-exchange, reduced imports, and increased rollover risk on the external liability, and internal inflation and currency depreciation increased the cost-push pressures and deteriorated the real purchasing power (Zakaria et al., 2023). Concurrently, fiscally constrained the capacity of the state to insulate households and firms by using general subsidies and expenditure, and rather, adjustment pressures were increasing within the revenue mobilization, expenditure restraint, and quasi-fiscal liability areas, particularly in the power sector where distribution inefficiencies and price distortions have recurrently created arrears and circular debt relationships (Abdullah et al., 2024). These pressures ensured that recovery was not so much about the traditional bounce of the growth but ensuring that the bare macro stability (liquidity, reserves, and confidence) were restored and social spending was tried to be preserved and political feasibility was maintained (International Monetary Fund, 2024a).

The 20232025 timeframe stands as an analytical outlier since it embodies a sharp succession of emergency stabilization to a medium-term frame of reform which is anchored in consecutive IMF involvements. The 202324 Stand-By Arrangement (SBA) was a short-horizon policy anchor to stabilize urgent priorities on disinflation on tight monetary policy, more flexible exchange-rate policy to mitigate FX shortages, and front-loaded fiscal policy to restore credibility, after which a transition to a longer-term reform-oriented program framework under the Extended Fund Facility (EFF), and climate-linked financing instruments (International Monetary Fund, 2025). This shift is important as it redefined the kit of recovery instruments of the state: the instruments of crisis containment (the avoidance of disorderly default processes) were replaced by institutionalized reform undertakings in the area of taxation, government-funded financial management, the control over the functioning of state-owned enterprises, and the sustainability of the energy sphere. It also made better the arguments on the interaction of externally provided adjustment with domestic distributional results- especially when tariff rationalization and tax changes are matched with an increase in living standards, and when green transitions can be moderated (or limited) by fiscal conditionality and the structure of finance (Aiyar, 2025).

It is on this background that the issue of economic recovery in Pakistan in 2023-2025 can be captured as the necessity to get out of a pattern of repetitive external funding deficits and inflationary volatility without precipitating welfare-cutting adjustment that would hurt the political backlash, but in this case the IMF role is controversial as it is able to offer a credibility anchor and financing stimulus and at the same time increase the severity of austerity trade-offs at the cost of social protection and inequality (Kentikelenis and Stubbs, 2023). In line with this, this research seeks to evaluate Pakistan recovery policies in 2023-2025 and determine the influence of IMF involvement on policy decisions and performance; the objectives of the analysis include mapping the main fiscal, monetary, energy, and structural policies; analyzing the design/conditionality of programs; the analysis of macro performance (growth, inflation, reserves, fiscal, and external balances); and distributional impacts (poverty risk, employment, real wages, and subsidy reform effects).

The research questions dealt with in the study include: What strategies were adopted? What happened to IMF conditionality, and implications on sequencing and priorities? What were the macroeconomic changes that can be measured? What were the trade-offs made between stability, growth and welfare? The time frame is limited to 2023-2025 and this is seen as a discrete recovery window where the programme is determined by the crisis stabilization and eventual program consolidation, it is important as it informs future stabilization packages, the future sustainability of debt and how the social protection is designed into the adjustment programmes. The major assumptions and constraints are lags and revisions in the official figures, inability to isolate the IMF effects of global shocks as well as domestic political cycles and attribution issues where other overlapping reforms and external circumstances interactively achieve results.

LITERATURE REVIEW

The given research takes stabilization theory as the main perspective, regarding recovery in IMF-supported situations as a chain of policies that ensure the restoration of macro-balance (fiscal discipline, monetary tightening when necessary, exchange-rate flexibility, and reserve rebuilding) under the limitations of binding external-finance (International Monetary Fund [IMF], 2024a; IMF, 2024c). IMF conditionality frameworks describe the effects of program targets and structural benchmarks in shaping domestic policy options (IMF, 2024e), and debt sustainability frameworks clarify the limitations on viable policy options in weak external positions (IMF and World Bank, 2024). Lastly, the political-economy literature observes that the IMF involvement often spreads to distributional areas (inequality, social expenditure), but usually in mission-enhancing directions in line with the macro priorities (Kaya, 2024).

Empirical studies are still ambiguous, though there is some recent evidence pointing to important channels. To begin with, the IMF involvement may work via credibility and expectations where IMF messages and program indicators influence the perceived risk and sovereign spreads (Sagna and Zerbo, 2025). Second, IMF conditionality is often linked to structural reform acceleration especially with respect to institutional and policy reforms, which enhance allocative efficiency in the long run (Apeti and Gomado, 2025). Third, the social cost literature asserts that despite the IMF seeking to increase the language of protection (e.g., social spending floors), it can be enforced and pursued with a lack of ambition, thus protection is more of a damage control than a growth-and-welfare approach (Kentikelenis and Stubbs, 2024). Distributional On distributional outcomes, new cross-program evidence indicates that broad assertions of systematic gender-worsening effects are not strong when credible counterfactuals are employed (Eicher et al., 2024). Another issue is, does IMF assistance aid capital flight; some evidence has been recently found that there is no regular rise in flows to secrecy jurisdictions during programs, but the discussion highlights governance and enforcement as primary interveners (Aiyar & Patnam, 2025).

Repeated IMF cycles and constraints in enacting policies affect the recovery debates in Pakistan. IMF surveillance reports and program documents focus on structural bottlenecks: the narrow revenue base and poor compliance, continuous circular debt and tariff-setting distortion in the energy sector, the SOE ineffective and high dependency on imports, which increase the pass-through of exchange rates and inflation (IMF, 2024b; IMF, 2024c; IMF, 2024d). The reviews of SBA note that there can be no room to slip dynamics - stability gains should be achieved through disciplined fiscal implementation, exchange rate set by the market, and a continuous wave of reforms (IMF, 2024a; IMF, 2024b).

Typical recovery toolkit involves (i) fiscal policies (taxation, subsidy rationalization, spending reprioritization), (ii) monetary policy to re-pin the inflation expectations, (iii) exchange-rate flexibility to absorb shocks and restore reserves, and (iv) structural policies (energy prices, SOE, competition, and transparency) (IMF, 2024e; Hanedar and Munkacsi, 2025). In the case of exterior vulnerability, the enhancement of the public-debt FX risk management is becoming a component of the stabilization capacity (Jonasson et al., 2024).

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The current literature tends to frame the IMF episodes in Pakistan as the repetition of the same crisis, however, fewer studies combine (i) a more detailed mapping of the policy sequence in 2023–2025 fiscalreforms, monetaryreforms, energyreforms, (ii) IMF design/conditionality mechanisms, and (iii) the simultaneous monitoring of macro stabilization and social consequences in a single, coherent framework (IMF, 2024c; IMF, 2025a).

METHODOLOGY

3.1 Research Design

This paper uses a convergent mixed-methods approach (the combination of i) qualitative analysis of policy/documents, (ii) macro-data trend analysis, and (iii) key-informant interviews to describe the economic recovery policies of Pakistan and the role of IMF in 2023 2025. The convergence is suitable since the stabilization pathway of Pakistan is a policy process (conditionality, reforms, compliance) and outcomes pathway (inflation, reserves, fiscal/external balances) that should be viewed in tandem (International Monetary Fund, 2024a; Peters and Fàbregues, 2024). The 2022 is used as the baseline (pre-recovery/peak stress comparator) and the changes observed are tracked to 2023-2025, which aligns the Pakistani calendar-year reporting with the fiscal-year (FY) series, with the help of consistent conversions (e.g. FY averages vs end-period values) where needed (International Monetary Fund, 2024b; International Monetary Fund, 2025a). Mixed-method integration is the operationalization of the joint displays that combine program conditions and evidence of implementation with macro and social indicators, generating meta-inferences of how and why the outcome changed (Peters and Fàbregues, 2024).

3.2 Data Sources

IMF program and surveillance reports are the most important corpus of policies: SBA review reports and other statements about Pakistan (International Monetary Fund, 2024b; International Monetary Fund, 2024c), 2024 Article IV and EFF request package (International Monetary Fund, 2024d), and further EFF/RSF reviews in 2025 (International Monetary Fund, 2025a; International Monetary Fund, 2025b). These reports are supplemented with IMF policy recommendations on conditionality and program design, and IMF recommendations on safeguarding social spending in the adjustment (International Monetary Fund, 2024a; International Monetary Fund, 2024e). In the case of the external-financing and debt constraints, the updated Bank-Fund LIC debt sustainability guidance supplement is used as the reference point in interpreting risk channels in the study (International Monetary Fund and World Bank, 2024).

In its outcomes, the paper relies on the official Pakistan macroeconomic data provided by the State Bank of Pakistan (reserves, exchange rates, balance of payments, monetary aggregates), the Pakistan Bureau of Statistics (CPI inflation, national accounts where applicable) and the Ministry of Finance/Economic Survey (fiscal aggregates, debt, subsidies/expenditures). Cross-checking and harmonization International datasets (IMF Data portals/IFS, World Bank macro series, and rating-agency publications) are only used when there is a difference in timing or definition of domestic series (International Monetary Fund, 2024d).

3.3 Variables / Indicators (Operational Definitions)

Indicators are defined to match standard stabilization diagnostics and Pakistan's policy debate (International Monetary Fund, 2024a; International Monetary Fund, 2024d):

- **Stability**: CPI inflation (y/y, monthly); gross international reserves (end-period, USD); exchange-rate volatility (rolling 30-day standard deviation of daily log changes in PKR/USD).
- **External sector**: current account balance (USD and % GDP); exports/imports (USD); workers' remittances (USD).
- **Fiscal**: revenue-to-GDP; primary balance-to-GDP; public debt-to-GDP; energy and generalized subsidy spending (where reported), plus arrears proxies for quasi-fiscal pressures.
- **Real economy**: real GDP growth; investment proxy (gross fixed capital formation where available); unemployment rate or closest labor-market proxy reported in official series.
- **Social**: poverty/headcount proxies (when updated), real wage proxy (nominal wage indices deflated by CPI), and targeted cash transfers (coverage/expenditure) to gauge "social protection effort" during adjustment (International Monetary Fund, 2024e).

3.4 Sampling (Interviews)

Interviews (not compulsory, and preferred) will focus on 1825 key informants in: (a) macroeconomists and experts in public finance, (b) commercial bankers/treasury practitioners, (c) business/trade representatives, (d) policy experts in the energy sector and (e) development/social protection practitioners. Purposive sampling will be done based on three criteria; (1) direct participation in policy design and/or implementation or analysis of market response (20232025), (2) sector expertise (published works/position), and (3) representation of competing perspectives of IMF-led adjustment. The sampling will be maintained until thematic saturation (no new themes of significant value) is achieved (Lyhne et al., 2025). Semi-structured interviews (4575 minutes) are recorded as per the consent or written in detailed notes in case of refusal to be recorded.

3.5 Methods of Analysis

The analysis of documents is based on a qualitative structured content method: (1) develop a codebook that is linked to conditionality categories of IMF performance (quantitative performance targets/objectives, indicative targets, structural targets) and to policy domains (fiscal, monetary/exchange rate, energy, governance/SOEs, and social protection); (2) code each IMF review based on the stated conditions, sequencing, and stated implementation status; and (3) generate a planned vs implemented matrix by comparing the program commitments to the future review results and domestic policy actions (International Monetary

Trend analysis creates a harmonized data (monthly/quarterly/annual) between 2022 and 2025. The main plan is descriptive and comparative: (i) pre/post (2022 baseline vs 20232025), (ii) regime-period (SBA phase vs EFF phase), (iii) volatility and co-movement checks (e.g. exchange-rate volatility vs inflation, reserves vs current account). In any case where data quality is sufficiently good, a parsimonious time-series extension (e.g. ARDL) that tests robustness may be optionally used to test robustness, although only after it is ensured that stationarity and structural break considerations are taken into account and that results are interpreted with caution as associative but not causal (Alvarez and Kroen, 2025).

Triangulation and integration are applied by performance of joint displays that are aligned (a) to IMF policy terms and conditions and review results, (b) monitored policy acts and time, and (c) macro/social indicators movements, and cross-tabulated with interview evidence to generate consistent meta-inferences regarding the channels of IMF impact (conditionality discipline and credibility/signaling) (International Monetary Fund, 2024a; Sagna and Zerbo, 2025; Peters and Fàbregues, 2024).

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3.6 Reliability / validity / Ethics

The lack of credibility is addressed by source triangulation (IMF documents, domestic data, and interviews), transparent audit trail (coding memos, decision logs), and harmonization of definitions of data sources (Taylor et al., 2024; International Monetary Fund, 2024d). In order to reduce interpretive bias, two coders working independently code at least a set of documents and adjudicate differences through codebook refinement. Ethics in interviewing comprise informed consent, confidentiality/anonymity (except in case of explicit permission), and safe storage of transcripts/notes with identifiers eliminated.

RESULTS

4.1 Macroeconomic outcomes (growth, inflation, monetary conditions, and reserves)

The recovery outlook of Pakistan during FY2023 to FY2025 indicates that contraction will be replaced by moderate growth and the disinflation process will be fast with reserves being restored. The growth in real GDP changed to 2.6% (FY2024) and 3.0% (FY2025 est.), and average CPI inflation had dropped to 23.4% (FY2024) and 4.5% (FY2025 est.), as opposed to -0.2% (FY2023). Gross reserves rose to US$9.390bn (FY2024) and US$14.506bn (FY2025 est.) as compared to the US 4.455bn (FY2023), with the import cover also climbing to 2.3 months.

Table 1: ***Selected Economic Indicators (FY2023–FY2025; IMF Program vs. Estimate)***

Indicator	FY2023	FY2024	FY2025 (Prog.)	FY2025 (Est.)
Output & prices				
Real GDP at factor cost (% change)	-0.2	2.6	2.6	3.0
GDP deflator (% change)	26.0	22.1	5.1	4.2
CPI inflation, period average (%)	29.2	23.4	5.1	4.5
CPI inflation, end-period (%)	29.4	12.6	6.5	3.2
PKR/US$ (period avg, % change)	39.8	13.9	...	...
PKR/US$ (end-period, % change)	39.6	-2.6	...	...
Saving & investment (% of GDP)				
Gross saving	13.0	12.6	13.5	14.8
Government saving	-5.5	-4.9	-3.1	-2.8
Nongovernment saving (incl. PSEs)	18.5	17.5	16.6	17.6
Gross capital formation (incl. inventories)	14.0	13.2	13.5	14.3
Government	2.3	1.9	2.5	2.6
Nongovernment (incl. PSEs)	11.7	11.2	11.1	11.7
Public finances (% of GDP)				
Revenue and grants	11.5	12.7	15.9	15.9
Expenditure (incl. statistical discrepancy)	19.3	19.5	21.6	21.2
Budget balance (incl. grants)	-7.8	-6.8	-5.6	-5.4
Budget balance (excl. grants)	-7.8	-6.9	-5.7	-5.4
Primary balance (excl. grants)	-1.0	0.9	2.1	2.4
Underlying primary balance (excl. grants)	-0.7	0.9	1.0	1.3
Total GG debt excl. IMF obligations	76.1	68.1	71.2	70.6
External GG debt	28.7	22.8	24.0	22.5
Domestic GG debt	47.4	45.4	47.3	48.1
GG debt incl. IMF obligations	78.5	70.4	73.6	72.9
GG + guaranteed debt (incl. IMF)	83.5	74.4	77.6	76.6
Monetary sector				
Net foreign assets (annual change; % of initial	-6.0	2.1	2.8	5.3

broad money)				
Net domestic assets (annual change; % of initial broad money)	21.6	13.8	8.2	8.4
Credit to private sector (annual change; % of initial broad money)	0.2	1.6	2.8	3.0
Net claims on government (annual change; % of initial broad money)	13.9	23.8	1.9	11.3
Broad money (percent change)	15.6	16.0	11.0	13.7
Reserve money (percent change)	22.5	2.3	11.5	11.7
Private credit (percent change)	0.6	6.0	11.0	12.0
6-month T-bill rate (period avg, %)	18.3	21.5	...	...
External sector				
Merchandise exports (US$; % change)	-14.2	11.1	1.1	4.3
Merchandise imports (US$; % change)	-26.3	0.9	8.6	11.2
Current account balance (% of GDP)	-1.0	-0.6	-0.1	0.5
Financial account (US$ bn)	-1.6	6.2	4.3	2.4
External public & PPG debt (% of exports)	259.0	245.4	251.4	246.3
Debt service (% of exports)	57.9	42.2	40.4	38.0
Gross reserves (US$ mn)	4,455	9,390	13,921	14,506
Months of next year's imports	0.8	1.6	2.3	2.3
Memo items				
Underlying fiscal balance (excl. grants; % GDP)	-7.6	-6.9	-6.7	-6.5
Net GG debt (incl. IMF; % GDP)	72.4	64.5	67.5	66.5
Terms of trade (% change)	-1.4	-4.2	-5.3	-10.5
Real per capita GDP (% change)	-2.1	0.6	0.7	1.1
GDP at market prices (PKR bn)	83,651	105,190	115,446	113,748
Population (mn)	231.5	236.0	240.5	240.5

It becomes stabilized and then levels off slightly. This year (FY2023: -0.2%) is followed by an activity bouncing back in FY2024 (2.6%), and the activity increases the following year (3.0%). This profile describes a stabilization episode: the growth is not voluminous, but still because the adjustment has not yet taken place. The most obvious signal of recovery is disinflation. Average inflation decreases to 29.2% (FY2023) to 23.4% (FY2024), then to 4.5 (FY2025 est.) - a large margin lower than 5.1 in the program. The inflation at the end of the period decreases even at a greater pace (29.4% 12.6% 3.2%). It means that the dynamics of crisis inflation have changed to re-anchor price expectations.

External stabilization improves significantly (CA + reserves). The current account changes to -1.0% of GDP (FY2023) and -0.6% (FY2024) to a small surplus +0.5% (FY2025 est.). The reserves increase to US$4.455bn to US$9.390bn to US14.506bn (FY2025 est.), which is equivalent to increasing the import cover to 0.8 to 2.3 months. These are typical BoP repair markers. Fiscal adjustment is reflected in the primary balance the most. The total deficit to go down (-7.8% -6.8% -5.4% of GDP) the larger one is the change in the primary deficit (-1.0%) to primary surplus (0.9 schools then 2.4) - the usual measure of underlying fiscal effort in IMF programs. Ratios of debt decrease to positions during crises and again increase (of interest-growth-exchange-rate mix and deficits that remain large).

4.2 External Sector Results (BoP Composition)

The balance-of-payments data indicate that the current account deficit has been reduced by -US$3.275bn (FY2023) to -US$2.072bn (FY2024) and narrowed further to +US2.113bn (FY2025

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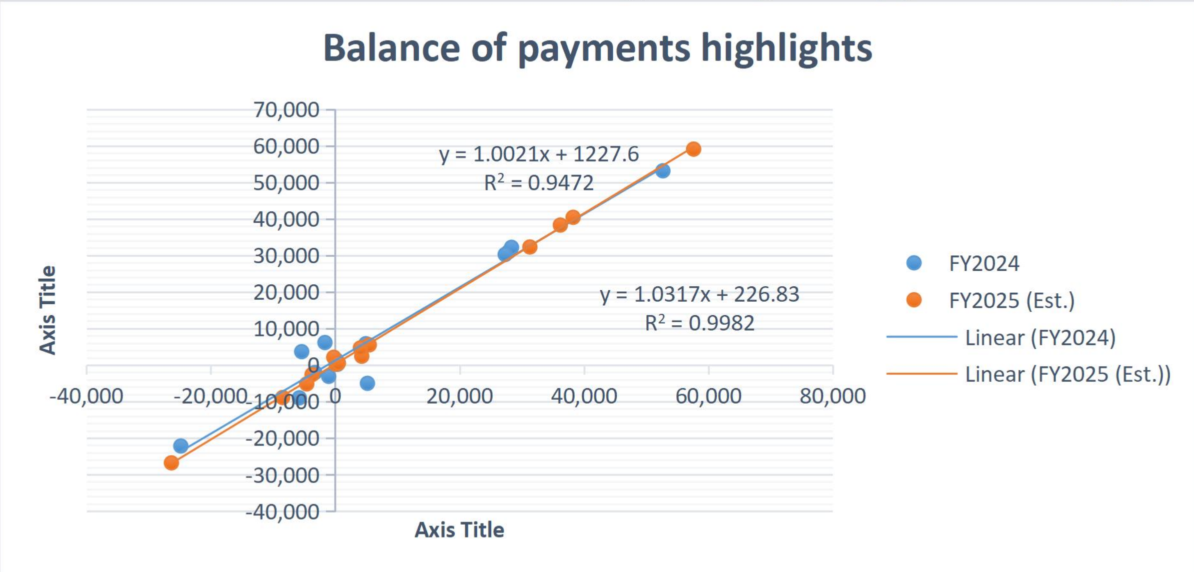
est.), with a major contribution being an increase in transfers (including remittances), and much smaller but controlled deficit on goods. Remittances of workers increased to US38.300bn (FY2025 est.), US30.251bn (FY2024) and US27.333bn (FY2023).

Table 2: ***Balance of Payments Highlights (US$ mn)***

Indicator (US$ mn)	FY2023	FY2024	FY2025 (Prog.)	FY2025 (Est.)
Current account	-3,275	-2,072	-229	2,113
Balance on goods	-24,819	-22,177	-26,330	-26,786
Exports, f.o.b.	27,876	30,980	31,305	32,302
Imports, f.o.b.	52,695	53,157	57,634	59,088
Services (net)	-1,042	-3,110	-3,716	-2,622
Income (net)	-5,765	-8,986	-8,440	-8,902
—of which: interest payments	4,933	5,828	5,484	5,508
Current transfers (net)	28,351	32,201	38,257	40,423
Workers' remittances	27,333	30,251	36,201	38,300
Capital account	375	202	141	200
Financial account	-1,643	6,152	4,272	2,402
Overall balance	-5,384	3,654	4,049	4,650
Change in reserve assets (– = accumulation)	5,185	-5,016	-4,568	-5,177
Net use of Fund credit and loans	199	1,362	519	527



The deficit in goods is still structurally high. The goods balance remains substantially negative (approximately, -US$25-27bn), as imports recover as the situation normalizes at the same time there is a slower increase in exports. Therefore, it is not export-led recovery yet. The shift to a surplus is transfer-based. Net current transfers increase sharply (to about US$40.4bn), and workers remittances skyrocket to US$38.3bn (FY2025 est.). This is the prevailing short run motivation of the CA improvement regardless of the existing trade gap. Services and income are dragons. The net income is highly negative (interest and profit outflows) and the services are also negative i.e. the surplus has been obtained despite these leakages not due to the improvement of the structure. The accumulation of reserves is planned and in huge amounts. The net balance becomes positive and the reserve assets

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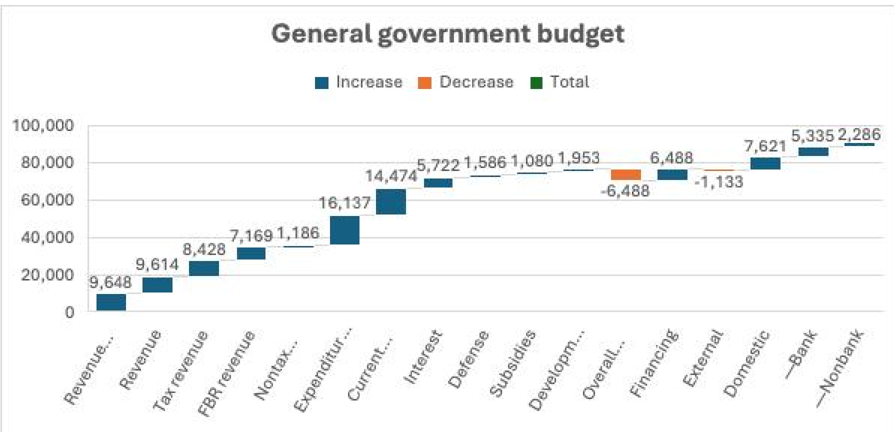
accumulate at large amounts (negative change in reserve assets in IMF presentation). This implies that there is a reinstated FX supply and increased control over external financing.

4.3 Fiscal Consolidation Results (Levels and Ratios)

Fiscal accounts are pointing of consolidation by way of increased revenues and better balances of the primary, but the interest costs were high. Revenue and grants increased to PKR 18,046bn (FY2025 estimate), PKR 13,321bn (FY2024), and PKR 9,648bn (FY2023), as did the balance of the same (including grants) -PKR 6,488bn (FY2023) to -PKR 7,155bn (FY2024) to -PKR 6,119bn (FY2025 PKR 1,080bn (FY2023), PKR 1,149bn (FY2024) and PKR 1,298bn (FY2025 est.) were the subsidies.

Table 3: ***General Government Budget (PKR bn)***

Item (PKR bn)	FY2023	FY2024	FY2025 (Prog.)	FY2025 (Est.)
Revenue and grants	9,648	13,321	18,402	18,046
Revenue	9,614	13,269	18,353	17,997
Tax revenue	8,428	11,159	14,545	14,015
FBR revenue	7,169	9,311	12,332	11,744
Nontax revenue	1,186	2,110	3,808	3,982
Expenditure (incl. stat. discrepancy)	16,137	20,476	24,888	24,166
Current expenditure	14,474	18,653	21,811	21,529
Interest	5,722	8,160	8,930	8,887
Defense	1,586	1,859	2,152	2,194
Subsidies	1,080	1,149	1,418	1,298
Development expenditure & net lending	1,953	1,996	2,938	2,966
Overall balance (incl. grants)	-6,488	-7,155	-6,485	-6,119
Financing	6,488	7,155	6,485	6,119
External	-1,133	-321	642	985
Domestic	7,621	7,476	5,843	5,134
—Bank	5,335	5,233	4,090	3,594
—Nonbank	2,286	2,243	1,753	1,540



The growth of revenue is high (nominal and policy). Revenue increases to PKR 9,648bn (FY2023) to 13,321bn (FY2024) and 18,046bn (FY2025 est.), which represents the effects of inflation/nominal GDP and tax/admin.The largest spending pressure is interest. Interest rate moves out of PKR 5,722bn to 8,160bn and remains at 8,887bn, illustrating that high rates and

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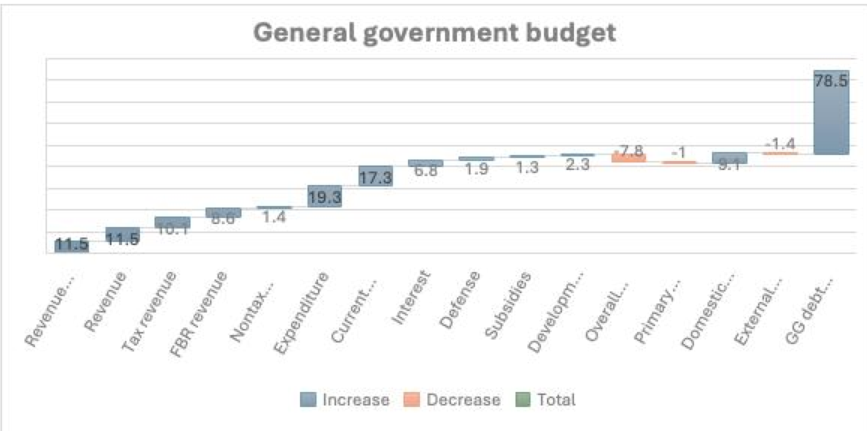
debt stock have the power to crowd out space to development and social spending despite a decrease in deficits.

Share terms include subsidies which are enormous in cash. The subsidies are substituted by PKR 1,080bn by 1,149bn by 1,298bn, i.e. absolute spending remains the same even when the policy objectives are to reduce them relative to GDP. The deficit is reduced and the financing is turned to less bank pressure. The total deficit is much better in percentages (Table 4), and the rupee table indicates that domestic financing decreases to PKR 5,134bn (FY2025 forecast) and 7,621bn (FY2023) respectively, and bank financing also becomes more relaxed, which is significant to lessen monetary-fiscal feedback.

Table 4: ***General Government Budget (% of GDP)***

Item (% of GDP)	FY2023	FY2024	FY2025 (Prog.)	FY2025 (Est.)
Revenue and grants	11.5	12.7	15.9	15.9
Revenue	11.5	12.6	15.9	15.8
Tax revenue	10.1	10.6	12.6	12.3
FBR revenue	8.6	8.9	10.7	10.3
Nontax revenue	1.4	2.0	3.3	3.5
Expenditure	19.3	19.5	21.6	21.2
Current expenditure	17.3	17.7	18.9	18.9
Interest	6.8	7.8	7.7	7.8
Defense	1.9	1.8	1.9	1.9
Subsidies	1.3	1.1	1.2	1.1
Development exp. & net lending	2.3	1.9	2.5	2.6
Overall balance (incl. grants)	-7.8	-6.8	-5.6	-5.4
Primary balance (excl. grants)	-1.0	0.9	2.1	2.4
Domestic financing	9.1	7.1	5.1	4.5
External financing	-1.4	-0.3	0.6	0.9
GG debt incl. IMF obligations	78.5	70.4	73.6	72.9



The first is revenue mobilization, which is evident in ratios. The revenue-and-grants increase to 11.5% - 12.7% -15.9% of GDP, and tax revenue to 10.1% -10.6% -12.3% (FY2025 est.). That is a big financial undertaking ratio-wise. Deficits are reduced, and the main surplus becomes firmer. The total balance becomes better to -5.4% of GDP and the key balance becomes stronger to +2.4% of GDP which is the equivalent indicator that the fiscal policy is tightening net of interest.

Interest is high though later shows a downward trend. The interest stands at 6.8 per cent (FY2023), 7.8 per cent (FY2024), 7.8 per cent (FY2025 est.), which is still quite high, which is why headlines deficits are huge even with primary surpluses. Rationalization of subsidies can be seen in GDP share. Subsidies decline to 1.3% (FY2023) to 1.1% (FY2024) and remain at an average of 1.1% (FY2025 est.) - in keeping with containment and not abolition.

4.4 IMF-Program Implementation (Headline Performance Outcomes)

By the time of the second EFF review, the IMF reported that **six of seven quantitative performance criteria and four of eight indicative targets were met at end-June 2025**, and that **a primary surplus of 1.3% of GDP was achieved in FY25**, with **gross reserves at US$14.5bn at end-FY25 (up from US$9.4bn a year earlier)**.

DISCUSSION

The recovery path of Pakistan in FY2023-2025 is typical of a classic stabilization roadmap: restoring external liquidity, bringing down inflation, and regaining policy credibility before a fuller growth recovery can be achieved (International Monetary Fund, 2025). The findings demonstrate that there was an improvement in macro-stability and a transition between emergency containment and program consolidation which is in line with the stabilization theory of focus on the restoration of exterior imbalances and grounding of expectations. Actual expansion relocated through the relative stagnation into modest growth, and inflation slowed drastically and reserves had recuperated to a more manageable coverage of imports-now pointers that the immediate BoP and confidence crisis had been held in check (International Monetary Fund, 2025).

The IMF has played its role in terms of sequencing policy priorities and monitoring. The design of the programs had a focus on fiscal tightening by mobilizing revenue and exercising discipline in expenditures to provide and maintain primary surpluses, and the monetary policy was disinflationary in orientation and an exchange-rate system aimed to mitigate the shortages of foreign-exchange and absorb shocks (International Monetary Fund, 2024; International Monetary Fund, 2025). Conditionality in this framing operates in two ways: (i) commitment/discipline (quantitative targets and structural benchmarks limiting discretion) and (ii) credibility/signaling (reassuring markets and other lenders that adjustment is being implemented). The fact that the frequency of target compliance was reported to be high, and waivers were used when necessary, indicate that compliance was very general even during high risky times, which supports the hypothesis that IMF engagement can be used as a coordination and credibility mechanism in periods of high risk (International Monetary Fund, 2025).

Nevertheless, the findings also point to the fundamental trade-off, that is, the stability gains were secured in a situation when fiscal space was still constrained and when the energy-related pressures demanded politically expensive price and subsidy reform. The IMF employees talk about the need to protect the vulnerable and to achieve the fiscal targets and impose structural changes over and over again, which suggests that recovery is supposed to be a social one (International Monetary Fund, 2024). However, the rest of the literature warns that these social-protection obligations under IMF programs may be small compared to the distributional shock of rapid disinflation plans, tariff measures and universal-based consumption taxes, particularly when inflation has already reduced real incomes (Kentikelenis and Stubbs, 2024).

On the whole, the data points towards an interpretation of stabilization-first: the IMF-backed framework contributed to an enhancement of reserves, inflation, and external balances, though the sustainability of recovery is determined by whether structural adjustments (tax capacity, energy-sector viability, and governance) are converted into outcomes of investment, productivity, and improved welfare (Instead, the IMF-backed framework served to improve the outcomes of investment, productivity, and improved welfare) instead of repetitive adjustment cycles (International Monetary Fund, 2024)

CONCLUSION

The economic recovery of Pakistan in 2023-2025 was more a stabilization-based structural shift of acute balance-of-payments strain to a more comfortably manageable macro environment. The facts within the results suggest that recovery strategy, which involved tightening of monetary and fiscal conditions, increased focus on revenue collection and primary surpluses, and reforms of high-leakage sectors, principally energy, and anchoring on external conditions to restore confidence and reserves. Over the period, the directionally consistent aspects of the macro indicators became better according to the stabilization theory: inflation slowed significantly, foreign exchange reserves increased, and the external balance became stronger, whereas real growth rebounded to the narrowing growth since the contraction. These returns are indicative that the policy blend including program surveillance and funds assisted avert instant crisis danger and rebuild fundamental policy trustworthiness.

Simultaneously, the recovery highlights the stability-welfare trade-off that is lasting. Fiscal austerity and energy-price/subsidy changes can introduce short-run costs in the form of increased living standards and reduced targeting of social protection, so social protection standards and targeting are the focus of the validity and sustainability of adjustment. Hence, the sustainability of recovery after 2025 will be determined less by short-term balance-sheet mendering and more by whether reforms are grounded in structural causes of recurrent crises such as small taxation power, circular debt dynamics in the energy sector and investment inefficiencies and vulnerable groups by providing credible social floors on spending, lowering target and sequencing of policy to vulnerable groups.

In general, the paper finds that the IMF engagement significantly impacted the sequence and incentives of policies, which had led to stabilization outcomes that were at least in the long run, and that to achieve long-run recovery, translation of conditional reforms into local institutional capacity and inclusive growth would be necessary to prevent Pakistan to fall back into the traps of recurring external financing gaps.

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