Inflation and Business Survival in Pakistan

What happens when rising costs consistently outpace a business's ability to generate income? For companies in Pakistan, this is no longer a theoretical concern — it is a daily struggle. Inflation is doing more than lifting price tags; it is quietly tightening profit margins, disrupting financial planning, and forcing difficult operational decisions.

In this climate, business sustainability — the ability to remain financially stable, competitive, and resilient over time — is under mounting threat. As the cost of inputs continues to rise and consumer spending declines, businesses across nearly every sector are finding it harder to stay profitable. This article reflects how inflation is changing the economic landscape in Pakistan, steadily draining profitability and challenging the lasting sustainability of enterprises.

Inflation, Costs, and Squeezed Margins

When inflation rises faster than business revenues, the outcome is predictable yet painful: squeezed profit margins, growing uncertainty, and increasingly survival-driven decisions. In Pakistan, this is not a temporary event — it has turned into a structural challenge. Inflation rose to 38% in May 2023, the highest rate in the region at the time (PBS, 2024). Although it decreased to 24.5% by early 2024, the economic damage had already taken root in the form of higher operating costs and weakened consumer demand (SBP, 2024). By April 2025, inflation had decreased significantly to just 0.3% before rebounding modestly to 3.5% in May 2025, reflecting a shift from crisis inflation to disinflation and early signs of stabilization (PBS, 2025). However, the effects of past inflation still persist. Businesses — mainly SMEs — continue to struggle with pressures that threaten their long-term sustainability, including rising costs, squeezed margins, and cautious consumer spending.

The causes of this inflation are diverse: fuel prices increased significantly following cuts to government subsidies; global commodity prices have risen sharply; the PKR has depreciated by more than 50% over the past two years; and supply chain disruptions remain unresolved. All of these factors have directly resulted in higher input costs for businesses across various sectors. For instance, electricity tariffs for industrial users increased from around PKR 16/kWh in 2021 to PKR 35/kWh in 2024, doubling the energy burden on manufacturing operations (NEPRA, 2024). For energy-intensive sectors such as cement, textiles, and food processing, this has been a game changer — but not for the better.

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At the same time, the cost of imported raw materials - everything from chemicals to machinery - has soared due to the rupee's steep depreciation. A textile manufacturer importing cotton or dye, or a pharma- ceutical company relying on imported ingredients, now pays twice as much in rupee terms as two years ago. Even local inputs have not been unaffected. Wage costs have risen significantly, as the federal minimum wage increased by 35% between 2022 and 2024, primarily to shield workers from inflation (SBP, 2024). While necessary for social stability, this puts a heavy burden on already cash-strapped businesses.

What does this mean for profit margins?

Most firms, especially small and medium-sized enterprises (SMEs), have found it impossible to pass the full increase in costs on to consumers. Double-digit inflation has diminished the purchasing power of the average household for over two years. Consumers buy less, trade down to lower-quality alternatives, or delay purchases altogether. This price sensitivity limits revenue growth, even as operating expenses keep climbing.

Meanwhile, the net profit margins across multiple sectors have declined dramatically. According to annual reports from KSE-100 listed companies, average net profit margins decreased from 9.8% in 2021 to 6.1% in 2023, with some sectors like textiles and automotive dipping below 5% (PSE, 2024). For SMEs, the situation is worse. According to a Pakistan Business Council survey from late 2023, over 62% of SMEs were either achieving break-even or operating at a loss, citing inflation as the most significant operational threat (PBC, 2023).

This erosion of margins leads to a dangerous cycle: Firms cut investment, freeze hiring, reduce product innovation, and, in some cases, exit the market. Several regional textile exporters in Faisalabad and Karachi shut down in 2023, citing unbearable overheads. Businesses in the retail and logistics sectors reported downsizing or limiting operations to weekends only.

Thus, inflation has become more than just an economic indicator; it is now a daily operational threat that distorts cost structures, weakens market demand, and stifles long-term growth planning. In a typical business environment, profit margins serve as a buffer that enables companies to grow, reinvest, and innovate. However, in Pakistan today, those margins are under significant pressure.

Sectoral Breakdown: (Who is losing the most?)

While inflation impacts every business, its effects are not uniform. In Pakistan, certain sectors are under intense strain, especially those with high input dependency, significant energy requirements, or price-sensitive consumers.

One of the hardest-hit industries is textile manufacturing, which constitutes more than 60% of Pakistan's total exports. Profit margins have been severely eroded due to fluctuations in global demand and spiking local energy prices. Production costs increased by 40% between 2022 and 2024 due to gas shortages and rising industrial tariffs (All Pakistan Textile Mills Association, 2023). Additionally, delays in export refunds and rebates have caused cash flow challenges, resulting in liquidity bottlenecks. The combined impact caused widespread disruption: In August 2024, Sitara Textile Mills, one of Faisalabad's largest and most reputable mills, temporarily halted operations, joining over 100 other factories that closed due to unsustainable energy and interest costs—leading to thousands of job losses. This event highlights how inflation and policy missteps have severely affected even prominent players in the textile sector.

The construction and cement industries have faced similar challenges. Cement companies reported a 25% decrease in domestic sales in 2023 as government-funded projects and private housing construction slowed due to unaffordable material prices. With increased cement prices, demand declined sharply, putting pressure on manufacturers and downstream businesses such as hardware and steel suppliers.

Currently, FMCG companies face dual challenges: inflation and declining consumer spending. Brands like Unilever and Engro Foods showed reduced sales volumes in 2023 despite implementing price hikes (Business Recorder, 2023). Consumers are reacting by shifting to local brands or lower-tier products, buying smaller packs, or avoiding non-essential goods altogether. Even pharmacies have reported a 15–20% decrease in branded medicine sales as patients opt for generics (PBC, 2023).

The most vulnerable are SMEs, which constitute 40% of GDP and 80% of non-agricultural employment in Pakistan. These businesses often lack pricing power, access to credit, and buffer capital. A 2023 survey by the Small and Medium Enterprises Development Authority (SMEDA) found that 58% of SMEs had deferred expansion or hiring plans, while 22% considered shutting down entirely if inflationary conditions persisted (SMEDA, 2023).

The uneven impact means inflation is squeezing margins and restructuring the business landscape—accelerating consolidation and threatening overall business sustainability.

How Are Businesses Adapting? (The Struggle for Sustainability)

Despite the economic storm, many businesses are not giving up—they're adapting. But these adaptations, while creative, are often desperate. They reflect both the flexibility and the fragility of Pakistan's private sector under inflationary pressure.

The typical response involves cost-cutting and improving efficiency. Companies are mechanizing tasks, renegotiating supplier contracts, and reducing energy consumption. For example, textile industries have started night-hour production to benefit from off-peak electricity rates. Retailers are adopting solar power to lower electricity bills, though the upfront investment remains a challenge.

Some companies are diversifying supply chains by sourcing locally instead of relying on imports. However, local suppliers often lack the required volume or quality, introducing new risks. Others are expanding into digital sales channels to reduce overhead costs. E-commerce in Pakistan grew by over 28% in 2023, with many businesses using platforms like Instagram, WhatsApp, and Daraz as makeshift storefronts.

Still, there are limitations. High interest rates (22% policy rate) make financing unaffordable—especially for SMEs. Banks are increasingly risk-averse, resulting in a 14% year-on-year decline in private-sector credit growth in 2023 (SBP, 2024). Many businesses cannot scale their solutions without access to working capital, even when demand exists.

The main concern is that these adaptive strategies are short-term survival tactics, not sustainable long-term plans. Delaying investments, lowering product quality, and freezing hiring may help businesses endure the current climate, but they also hinder innovation and productivity. Business sustainability requires stability—and Pakistan's volatile inflation is stripping firms of that foundation.

Even the most creative strategies may fall short if inflation remains unchecked. Without coordinated policy support, broad digital transformation, and meaningful financing reform, Pakistan risks a shrinking formal sector and an expanding informal economy—making sustainable growth increasingly difficult.

Policy Gaps and Missed Opportunities

Businesses turn to governments for direction, relief, and consistency during economic strain. In Pakistan, however, policy uncertainty has contributed to the problem rather than providing a solution. The lack of a clear and supportive policy framework has made survival even more challenging for many businesses navigating high inflation and declining profit margins.

In 2023, the State Bank of Pakistan increased its policy rate to 22% in an effort to control inflation, which significantly raised borrowing costs. While this move helped stabilize inflation expectations to some extent, it also placed considerable pressure on small and medium-sized businesses that rely on working capital loans. According to the SBP, private sector credit growth contracted by 14% in 2023 as banks tightened lending standards and firms avoided expensive debt.

At the same time, fiscal policy failed to provide consistent relief. The government frequently changed sales tax rates, import duties, and energy subsidies, making it difficult for businesses to plan effectively. Importantly, there is no single national strategy that connects inflation management with business continuity. Policies in areas such as monetary, fiscal, and trade are developed in isolation, often resulting in contradictions. For instance, while the government advocates a "Make in Pakistan" agenda, high import duties on essential machinery and components discourage the growth of local manufacturing.

This lack of policy coordination leaves businesses vulnerable. Many believe they are fighting inflation

alone—without targeted subsidies, stable regulations, or access to affordable capital. If these policy gaps persist, there is a risk that a short-term inflation shock could evolve into prolonged economic stagnation.

Conclusion

Inflation significantly undermines business sustainability in Pakistan, pushing costs out of control and squeezing profit margins across key sectors. As consumer demand declines and operational expenses rise, businesses are forced to adopt short-term strategies like shrinkflation, product downsizing, and efficiency cuts to survive. Although these responses demonstrate adaptability, they are no substitute for comprehensive and long-term structural support. A sustainable future depends on stable economic policies, accessible financing, and a business environment that fosters innovation, resilience, and inclusive growth. Without this foundation, survival will remain uncertain and growth unattainable.

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