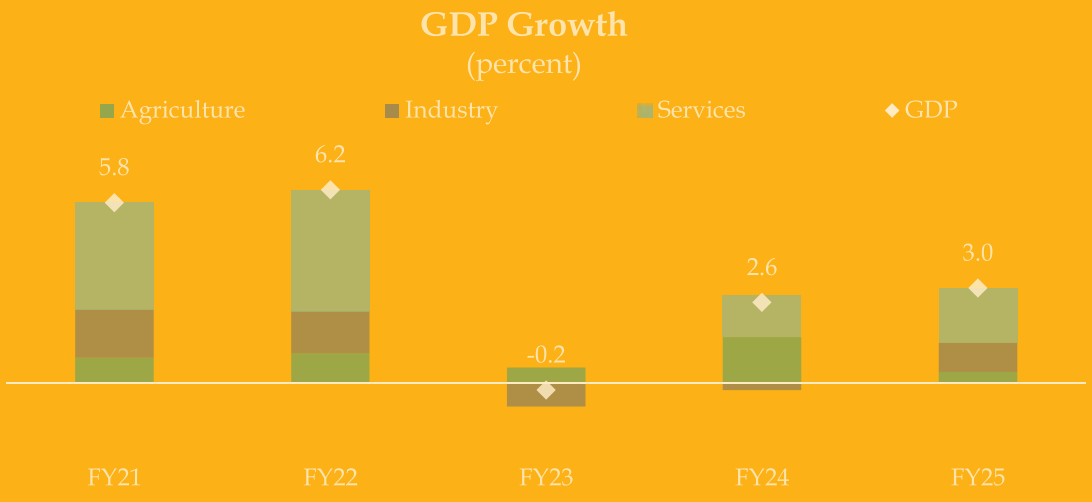
2

Economic Growth

Real GDP grew moderately in FY25, supported by higher growth in services sector and a recovery in industrial activities. The agriculture sector growth slowed considerably, mainly dragged by a broad-based decline in the output of important crops amid unfavourable weather conditions, uncertain policy environment, and lower use of inputs. Nonetheless, a significant increase in the output of other crops partly offset the decline in production of important crops. The growth in services sector was led by general government, other services, transport & storage, and ICT, while wholesale & retail trade remained subdued. The recovery in industry was largely on account of a rebound in value addition of electricity, gas & water supply and construction. Growth in manufacturing decelerated, largely due to a decline in LSM output and mining & quarrying. Real GDP measured from the expenditure side continued to be dominated by consumption, notwithstanding a slight decrease in its share in GDP during FY25. Investment, on the other hand, saw a slight uptick in line with an increase in savings. Meanwhile, the labour market indicators somewhat improved, with marginal gains in employment (in manufacturing sector) and a rise in business sentiments about employment creation, reflecting the momentum in economic activity.



2 Economic Growth

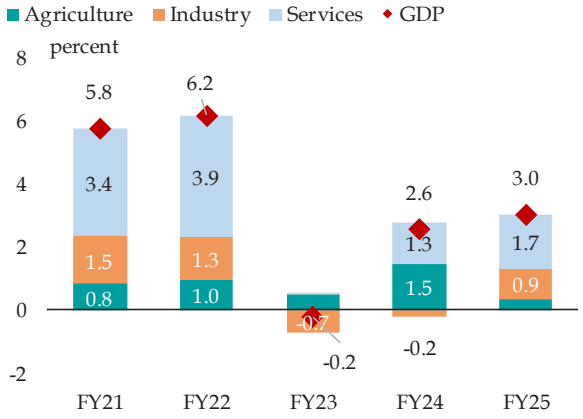
2.1 GDP Growth

Real GDP grew by 3.0 percent in FY25, higher than 2.6 percent in the previous year. The uptick in growth was largely driven by services sector, followed by a recovery in industry especially in Q4, while agriculture sector experienced a marked slowdown **(Figure 2.1**). Ease in financial conditions subsequent to the sharp fall in interest rates and improved external position, lower global commodity prices, and better business sentiments supported the increase in real GDP growth (**Table 2.1**).

The pace of recovery, however, was contained by the decline in the production of important crops amid climate change and a shift to market-based crop pricing mechanism. Meanwhile, continued cautious monetary policy stance and fiscal consolidation measures aimed at strengthening macroeconomic stability kept the domestic demand in check. Moreover, high input costs (energy and raw material prices) affected the output of some of the large industries, particularly low value added textiles, chemical and food processing.

The growth in services sector was broad-based, with major contribution from general government, other services, transport & storage, ICT services and recovery in finance and insurance. The wholesale and retail trade services, having the largest share in the services sector, showed a marginal growth highlighting weak performance of the commodity-producing sectors, especially important crops and LSM.

Contribution to Real GDP Growth **Figure 2.1**



Source: PBS

The recovery in industrial activities was mainly supported by a substantial increase in value addition by electricity, gas & water supply and construction sub-sectors. Specifically, manufacturing also contributed positively supported by small-scale manufacturing (SSM), while mining and quarrying recorded a contraction for the fourth consecutive year in FY25.

The growth in manufacturing, however, decelerated, mainly due to a decline in LSM. This was despite a greater number of LSM sub-sectors recording growth. Nonetheless, LSM posted increase in output in Q4-FY25, in line with the positive trends observed in several high-frequency indicators such as increase in imports and auto sales.

Consistent with the improved performance of services and industry, employment in these

GDP Growth **Table 2.1**

growth in percent, contribution in percentage points

	FY24R					FY25P					Contribution	
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	FY24	FY25
GDP	**2.6**	**2.0**	**2.5**	**3.3**	**2.6**	**1.8**	**1.9**	**2.8**	**5.7**	**3.0**	**2.6**	**3.0**
Agriculture	8.3	5.9	4.0	7.4	6.4	1.5	2.0	2.4	0.2	1.5	1.5	0.4
Industry	-4.1	-0.3	2.8	-3.1	-1.2	0.3	0.2	1.2	19.9	5.3	-0.2	0.9
Services	2.5	1.2	1.8	3.6	2.3	2.4	2.5	3.5	3.7	3.0	1.3	1.7

R: Revised, P: Provisional

Source: PBS

sectors slightly increased during FY25. These trends are also corroborated by better business sentiments about current and future job creation, and online job postings.

The deceleration in agriculture growth was primarily due to a sharp fall in the output of important crops, contributed by both lower area and yields. Adverse weather conditions, growers' reduced income owing to low crop prices in the previous year that led to lower use of inputs like fertilizers and pesticides, and uncertainty about minimum support price (MSP) impacted the area and yields of the important crops during FY25.[1] Nonetheless, sharp increase in output of other crops and growth in livestock (albeit slower compared to the previous year), supported by higher milk and poultry output, more than offset the decline in output of important crops.

The GDP measured from the expenditure side shows that it continued to remain consumption-led **(Table 2.2)**. However, the share of consumption slightly decreased compared to the previous year, which is attributable to a marginal fall in household consumption that was somewhat offset by an increase in government consumption. The decline in consumption resulted in a rise in national savings. This narrowed the saving-investment gap, despite an increase in investment to 14.3 percent of GDP in FY25 after falling to the lowest level in FY24.

Real GDP from Expenditure Side **Table 2.2**

percent of GDP

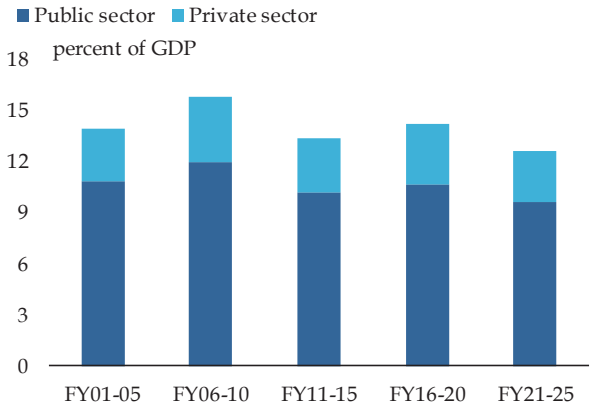
	FY21	FY22	FY23	FY24	FY25
Total consumption	94.4	96.4	93.5	93.6	92.9
Household*	83.5	85.9	83.2	84.8	83.4
Government	10.9	10.5	10.3	8.9	9.5
Investment	14.5	15.6	14.0	13.2	14.3
Net exports	-8.9	-12.0	-7.5	-6.8	-7.2
Exports	9.1	10.5	10.5	10.4	10.0
Imports	18.0	22.5	18.0	17.2	17.2
Memorandum item					
National savings	13.7	10.9	13.0	12.6	14.1
Saving-Investment gap	-0.8	-4.7	-1	-0.6	-0.2

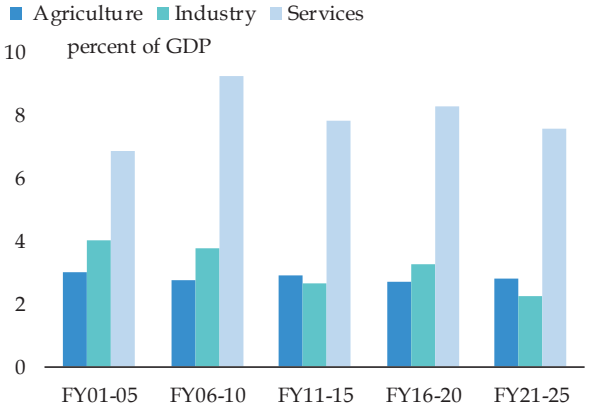
*including non-profit institutions serving households

Sources: PBS and Annual Plan 2025-26

Notwithstanding the increase in FY25, the long-term trend in both public and private investment remains on downward trajectory, especially in industry **(Figure 2.2).** This falling trend does not bode well for capacity expansion, capital deepening, and productivity in the economy. In this context, enhancing domestic savings and thus investment is critical for sustaining higher growth without creating pressures on external account.

Gross Fixed Capital Formation **Figure 2.2**





Source: PBS

[1] The government de-regulated the wheat market for FY25 crop. Source: MNFSR https://mnfsr.gov.pk/index. In addition, MSP/indicative prices for sugarcane and cotton were also not announced.

Agriculture, Forestry and Fishing **Table 2.3**

growth in percent, contribution in percentage points

	FY24R					FY25P					Contribution	
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	FY24	FY25
Agriculture	**8.3**	**5.9**	**4.0**	**7.4**	6.4	**1.5**	**2.0**	**2.4**	**0.2**	**1.5**	**6.4**	**1.5**
Crops	16.7	10.8	3.0	14.0	10.9	0.0	-2.7	1.7	-2.8	-1.0	3.7	-0.4
Important crops	30.5	15.1	1.5	25.7	17.1	-12.9	-13.0	-9.5	-17.6	-13.1	3.2	-2.7
Other crops	-1.5	-0.1	1.1	0.8	0.1	21.0	20.2	19.2	18.0	19.6	0.0	2.6
Cotton ginning	34.1	61.4	61.0	35.3	47.2	-1.5	-19.2	-26.7	-26.6	-19.0	0.5	-0.3
Livestock	4.6	2.7	4.9	5.0	4.4	2.4	5.8	2.6	1.4	2.9	2.7	1.8
Forestry	4.3	-1.2	-3.5	-2.9	-0.9	0.5	2.8	3.8	3.6	2.7	0.0	0.1
Fishing	0.7	0.8	0.7	0.9	0.8	-0.1	1.9	0.5	2.2	1.4	0.0	0.0

R: Revised; P: Provisional

Source: PBS

2.2 Agriculture

The value addition by agriculture sector grew moderately by 1.5 percent during FY25, significantly lower than 6.4 percent growth in the previous year **(Table 2.3)**. This sharp deceleration can be attributed to unfavourable weather conditions and lower use of inputs. Moreover, the government's decision to phase-out MSP created uncertainty about the prices of important crops (wheat, cotton and sugarcane).

The policy shift from a regulated to market-oriented approach, especially for wheat, led to increased volatility in the market prices of important crops, which influenced farmers' decisions about sowing. This, together with lower crop prices in FY24, resulted in reduced area under cultivation of all the important crops, except for rice and sugarcane, as farmers shifted to other competing crops. The output of other crops grew sharply by 19.6 percent in FY25 compared to a meagre 0.1 percent growth in the previous year.

The fall in crop prices in FY24 and higher input costs in FY25 squeezed farmers' income, which led to lower use of inputs. This, along with unfavourable climate conditions and shortage of certified seeds, affected yields of almost all the important crops. Therefore, the output of all important crops declined, with production of cotton and maize falling rather sharply. Cotton ginning also declined in line with lower domestic cotton production.

The production of other crops increased, mainly on account of higher output of green fodder, fruits, vegetables, oilseeds, and tobacco. This is due to increased area under cultivation, as farmers shifted towards more profitable options like sesame seeds, rapeseed/mustard, and vegetables. This, combined with an increase in the value addition by the livestock, more than offset the decline in the production of important crops and cotton ginning. Forestry and fishing, other two agriculture subsectors, also recorded expansion during FY25.

Meanwhile, the government continued to support farmers by ensuring availability of inputs and implementing targeted initiatives such as kissan card, livestock card, green tractor scheme, and wheat subsidy program 2025.[2] Moreover, a 20.0 percent increase in import of agricultural machinery during FY25 indicates rising mechanization (**Chapter 5**). The mechanization was further reinforced by PM's youth business and agricultural loan scheme.[3]

Inputs

Seed

Seed shortages remained widespread across important crops in FY25 as well, with paddy/rice

[2] The program aims to provide Rs 5,000 per acre to eligible small wheat farmers (owners and tenants). Source: Government of Punjab (https://wsp2025.punjab.gov.pk/)

[3] In first phase, 9,500 small farmers received a subsidy of Rupees 1.0 million/tractor through balloting; the second phase aims to provide subsidy for 20,000 more tractors. Source: Government of Punjab (https://agripunjab.gov.pk/green-tractor-scheme)

being an exception **(Table 2.4)**. While certified seed availability for wheat saw a marginal improvement, it remained insufficient, meeting only half of the requirement. For cotton, the situation further deteriorated in FY25 with coverage dropping to nearly one-third of the total requirement. These chronic gaps between availability and requirement of seed underscore the pressing need for well-targeted reforms. There is also a need to establish a mechanism to check prices and quality of new varieties with time-bound registration process,[4] to augment certified seed production and ensure gains in agricultural productivity.

Availability of Certified Seeds **Table 2.4**

	FY24		FY25	
	Availability (MT)	% of Req.	Availability (MT)	% of Req.
Wheat	529,097	48	569,761	50
Cotton	25,425	51	17,684	32
Paddy	57,072	125	68,615	114
Maize	32,157	97	29,503	90

Sources: Pakistan Economic Survey 2024-25 and FCA Working Papers

Climatic Conditions

Climatic variability persisted in FY25, with elevated surface temperature and uneven rainfall patterns. These conditions delayed sowing of *Kharif* crops and adversely affected yields, particularly of cotton, rice, and wheat.[5]

Water

Irrigation water withdrawals were also lower in FY25 compared to the previous year **(Figure 2.3).** During *Kharif* FY25, IRSA released water supplies as per the planned shares, however, lower utilization by the provinces during Aug – Sep 2024 was due to heavy rainfall in August.[6]

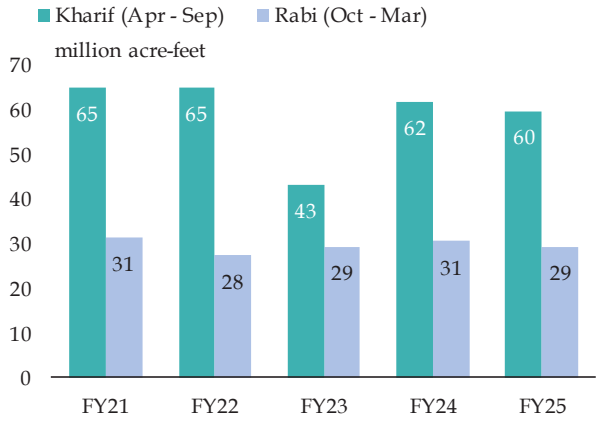
The rainfall also remained erratic during *Kharif* FY25, as the season commenced with record rainfall (since 1961) in April 2024, followed by below normal rainfall till July 2024. August witnessed significantly above average rainfall, followed by below normal rainfall in September 2024.[7] The dry spell continued throughout the *Rabi Season* FY25, with the exception of November, where slightly above normal rainfall was recorded **(Figure 2.4a)**.

Furthermore, canal water shortages were estimated to be 18 percent against the anticipated 16 percent.[8] This created a drought like situation, especially in the rain-fed areas, negatively affecting the yield. In historical perspective, Pakistan's agriculture sector is dependent on the Indus Basin Irrigation System (IBIS), one of the world's largest network of canals. In this regard, **Box 2.1** analyses the mounting pressures on IBIS from water scarcity, inefficient canal operations, climate change, and geopolitical uncertainty.

Temperature

Temperature remained above average for most of the months during FY25 **(Figure 2.4b)**. In fact, 2024 was the warmest year on record in the world, with 2025 likely to follow closely.[9] The continued warming may further disrupt sowing cycles,

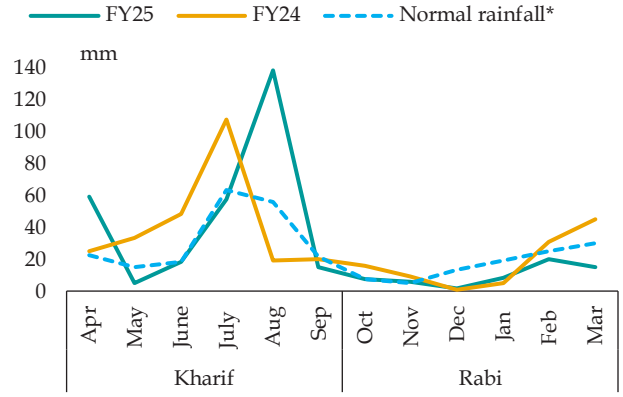
Irrigation Water Releases **Figure 2.3**



Source: IRSA

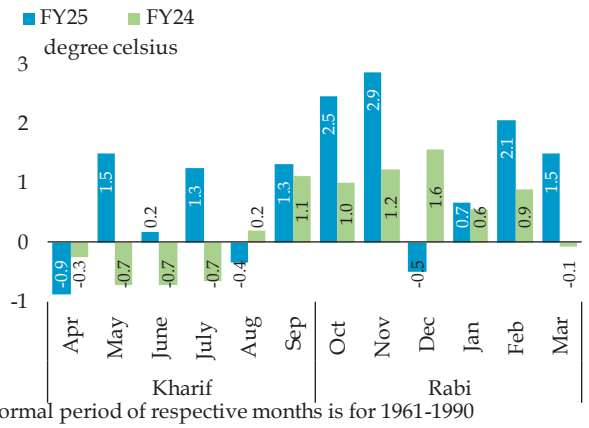
[4] SBP (2022). Jafri, S. K., Imran, M., & Asif, M. H., Investigating Pakistan's Seed Industry Dynamics, SBP Staff Note No. 02/22
[5] Sources: MoF and USDA.
[6] Source: Press Release, October 2024. IRSA.
[7] Source: PMD
[8] Source: Press Release, March 2025. IRSA
[9] Source: World Meteorological Organization

Rainfall Patterns Figure 2.4a



*long-term average of respective months is for 1961-2010

Temperature - Deviation from Normal Figure 2.4b



*normal period of respective months is for 1961-1990

Source: PMD

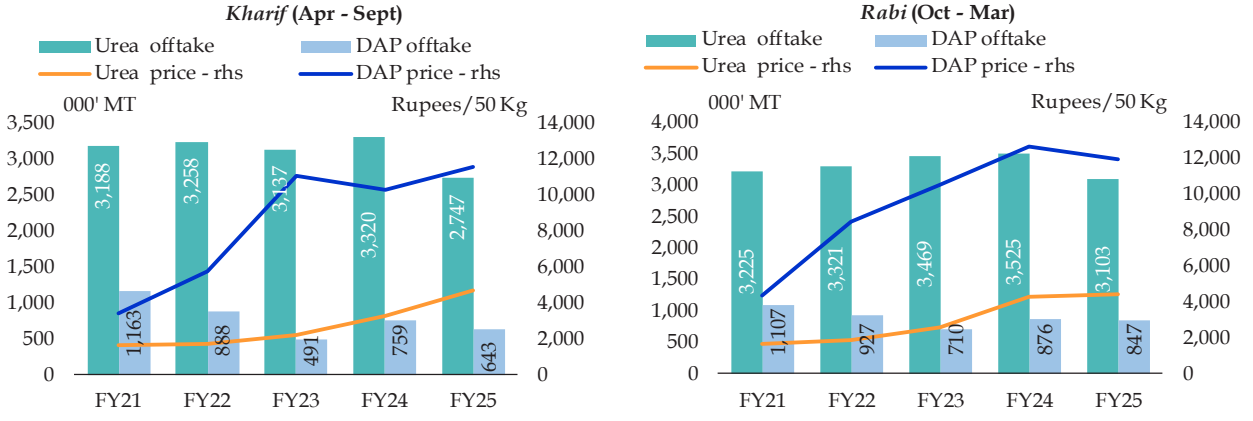
reduce productivity, and exacerbate the soil moisture deficits, particularly in already water-stressed areas. Therefore, development of climate-resilient crop varieties and improving irrigation efficiency is crucial to mitigate these risks.

Fertilizer

The overall fertilizer offtake declined during FY25, compared to the previous year **(Figure 2.5)**. Urea offtake fell by 17.3 and 12.0 percent during *Kharif* and *Rabi* FY25, respectively. DAP offtake also fell during *Kharif* and *Rabi* FY25. This decline largely emanated from reduced area under cultivation of important crops and higher urea prices, coupled with the fall in crop prices during FY24. Furthermore, late sowing of the *kharif* crops due to climate change also contributed to lower fertilizer use.[10]

The increase in urea prices was due to hike in gas tariffs in February 2024, narrowing the gap between the prices of imported and domestically produced urea.[11] In addition, urea cartels have distorted the market by fixing prices over the years.[12] On the other hand, domestic DAP prices declined slightly, despite rising international

Fertilizer Offtake and Prices Figure 2.5



Sources: NFDC and PBS

[10] Source: MoF, Economic Update and Outlook, September 2024.
[11] Price of imported and domestic urea was Rs 7,532 and Rs 3,600 per 50kg, respectively. Source: Pakistan Economic Survey 2024-25.
[12] Six urea companies have fixed prices despite varying input costs, undermining market competition and adversely impacting farmers through artificially influencing fertilizer prices. Source: CCP Press Release, June 2025. https://cc.gov.pk/home/viewpressreleases/635

Agriculture Credit Disbursements **Table 2.5**

billion Rupees

	FY23	FY24	FY25[P]
Farm Sector (Production)			
All crops	438.8	483.0	538.6
Horticulture	36.6	45.4	40.1
Corporate farming	110.6	155.5	255.6
Others	331.1	392.8	473.1
Subtotal	**917.1**	**1,076.7**	**1,307.5**
Farm Sector (Development)			
Tractor	10.9	48.3	17.8
Farm machinery	2.5	6.6	6.1
Tube well	1.7	9.5	4.6
Sprinkle and trickle irrigation	-	0.3	0.1
Others	34.7	69.2	107.9
Subtotal	**49.7**	**133.9**	**136.4**
Non-Farm Sector (Working Capital)			
Livestock/dairy	394.7	486.7	602.6
Poultry	261.0	313.8	332.3
Others	70.4	131.1	116.7
Subtotal	**726.0**	**931.6**	**1,051.6**
Non-Farm Sector (Fixed Investment)			
Livestock/dairy	58.8	42.3	51.6
Poultry	15.4	21.3	20.1
Others	8.9	9.9	10.1
Subtotal	**83.1**	**73.5**	**81.8**
Grand Total	**1,776.0**	**2,215.7**	**2,577.3**

Source: SBP

prices.[13] This divergence in prices likely illustrates subdued local demand, which has exerted a downward pressure on domestic prices.

Agriculture Credit

Agriculture credit disbursement gained further traction in FY25, achieving the target outlined in commercial banks' expansion plans **(Table 2.5).**[14] The expansion in agriculture credit disbursement was broad-based. The credit to farm sector (production) witnessed a significant increase on the back of a substantial rise in credit to corporate farming. However, in case of important crops, the adverse impact of other factors, as discussed above, pulled down their production despite higher credit offtake. In non-farm sector, credit to livestock also registered a significant increase. Similarly, credit for farm development increased despite decrease in tractor loans, which is also reflected by decline in domestic tractor production.[15]

The increase in agriculture credit shows the impact of several initiatives by SBP and the government. To enhance access for small farmers, the government introduced targeted initiatives, such as kissan card and livestock scheme, providing interest-free loans for the purchase of inputs.[16] Moreover, in a bid to enhance digitalization and improve the efficiency of loan process, SBP approved the use of the digital survey report – leveraging satellite imaging and geo-fencing technology - as a substitute to traditional Khasra Girdawri for verifying agricultural activity.[17]

Outputs

Wheat

Wheat production declined significantly in FY25, mainly due to reduced area under cultivation **(Table 2.6)**. In view of the discontinuation of MSP and the absence of government procurement, farmers shifted to other competing crops such as rapeseed/mustard and vegetables.[18] This was despite government's efforts to incentivize wheat sowing through subsidies on inputs, distribution of high-yielding seeds, and provision of interest free loans via the kissan card. Moreover, high temperatures and an extended dry spell during sowing season also affected yields. Going forward, the deregulation of wheat market is likely to have positive spillovers in terms of

[13] Global DAP prices increased by 2.5 percent during *Rabi* FY25 compared to last year. Source: WB
[14] Against the past practice of setting indicative targets, SBP facilitated commercial banks in formulating expansion plans. Accordingly, disbursement of Rs 2,572 billion was planned in FY25.
[15] A 10 percent sales tax was levied in the budget FY25, which was further increased to 14 percent in October 2024. Source: S.R.O. 1643 (1) 2024, Revenue Division, Ministry of Finance and Revenue.
[16] Source: Government of Punjab.
[17] Source: SBP circular (ACFID Circular Letter No. 02 of 2024), November 14, 2024.
[18] Source: GIEWS Country Brief, The Islamic Republic of Pakistan, March 2025, FAO. Source: Press Release 034, March 2025, MNFSR. https://mnfsr.gov.pk/Detail/M2Y0ZmRlYzMtMDFlNC00ODU4LWI1MjktOGQ5NjNjYzJhYzI5

Important Crops **Table 2.6**

production in MT; area in 000 hectares; yield in kg/ha; change in percent

	Production			Area			Yield			Change during FY25		
	FY23	FY24	FY25	FY23	FY24	FY25	FY23	FY24	FY25	Prod.	Area	Yield
Wheat	28.2	31.8	28.4	9,033	9,734	9,074	3,117.6	3,268.3	3,128.6	-10.8	-6.8	-4.3
Cotton*	4.9	10.2	7.1	2,144	2,424	2,043	389.5	717.3	589.8	-30.7	-15.7	-17.8
Rice	7.3	9.9	9.7	2,976	3,637	3,899	2,460.3	2,710.8	2,493.7	-1.4	7.2	-8.0
Maize	11.0	9.7	9.0	1,719	1,641	1,588	6,390.3	5,935.4	5,690.8	-7.2	-3.2	-4.1
Sugarcane	88.0	87.6	84.2	1,319	1,180	1,193	66,702.8	74,269.5	70,607.7	-3.9	1.1	-4.9

*production in million bales

Source: PBS

aligning domestic prices with international prices and allowing farmers to make choices based on profitability of the competing crops.

Rice

Rice production posted a slight decline, despite an increase in area under cultivation **(Table 2.6).** Better export prospects, besides lower profitability of cotton, prompted farmers to shift to rice cultivation.[19] However, climate variabilities and lower use of inputs affected yields, offsetting the gains from increased acreage.

Cotton

The sharp decline in cotton production in FY25 was driven by both lower area and fall in yield. Market dynamics, including prices falling below the announced MSP in FY24 and uncertainty regarding the announcement of MSP in FY25, prompted growers to shift towards other competing crops, such as rice and sesame seeds.[20]

Cotton yield was also adversely impacted by lower availability of certified seeds and climate-induced stress, such as heatwaves early in the season and untimely rains, which disrupted growth and caused late harvest in some areas. Further, severe pest infestation in South Punjab, the major cotton belt, aggravated the situation.

Maize

Maize production declined for the second consecutive year in FY25 **(Table 2.6)**. This was primarily due to lower area under cultivation as falling output prices in the previous years, amid fall in demand, discouraged farmers to cultivate maize**.** Used as a key input in poultry feed,[21] demand for maize is closely linked with availability of imported GE soybeans, another primary component of the feed.[22] Therefore, government's decision to authorize resumption of GE soybeans in December 2024 is likely to have a positive impact on maize cultivation in the coming season.[23]

Sugarcane

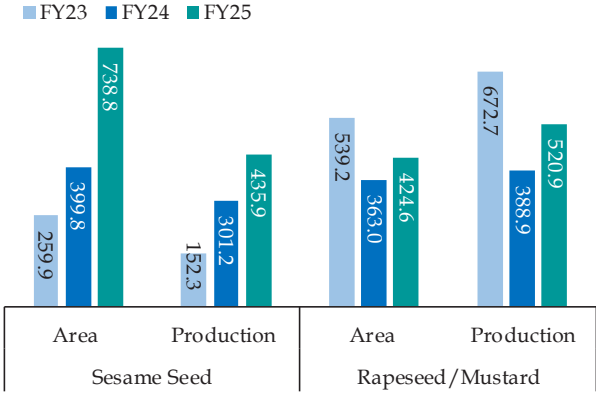
Like rice, production of sugarcane also declined despite a slight increase in area under cultivation **(Table 2.6).** This expansion in area was driven by relatively high profitability compared to cotton in the preceding year.[24] However, the positive impact of increased area was more than offset by lower yields, largely attributed to high temperatures in May and below-normal rainfall throughout the growing season.[25]

Other Crops

The output of other crops grew by 19.6 percent in FY25, compared to a slight increase of 0.1 percent

[19] USDA, Grain and Feed Annual Report, April 2025.
[20] Ibid and USDA Cotton and Products Update, August 2025.
[21] Around 65 percent of maize is used in poultry feed in Pakistan. Source: USDA
[22] GE soya bean and maize are used together as inputs to produce poultry feed
[23] USDA, Oilseed and Products Update, December 2023
[24] USDA, Sugar Annual Report, April 2025.
[25] USDA, Sugar Semi-annual Report, April 2024.

Production of Sesame Seed and Mustard **Figure 2.6**



Note: Area in 000' hactares and Production in 000' tons
Source: PBS

in FY24. Especially, production of green fodder, vegetables, fruits, tobacco, sesame seed and rapeseed/ mustard increased significantly in response to changing dynamics of important crops **(Figure 2.6)**.

Production of sesame seed has gained traction in recent years due to rising export opportunities, especially to China (**Chapter 5**). Furthermore, lower market prices of cotton also prompted some farmers to increase area under cultivation of sesame seeds due to potential for higher return.[26] The absence of MSP for wheat, together with falling market prices, led the growers to shift towards oilseeds.[27]

Production of other crops such as potato, onion, and tomato showed an upward trend in FY25. In contrast, pulses portrayed a mixed performance as

Other Crops **Table 2.7**

area in 000'hactares; production in 000' MT; change in percent

	FY24		FY25		Change	
	Area	Prod.	Area	Prod.	Area	Prod.
Canola	44.9	63.9	68.6	103.9	52.8	62.6
Sunflower	62.6	98.5	60.5	96.2	-3.4	-2.3
Potato	338.7	8,434.4	386.7	10,010.2	14.2	18.7
Onion	142.7	2,304.20	166.2	2,747.10	16.5	19.2
Tomato	67.1	797.3	65.2	837.9	-2.8	5.1
Mung	201	153.3	185.4	131.2	-7.8	-14.4
Mash	7.0	5.6	7.5	5.9	7.1	5.4

Source: PBS

mung production declined, while mash posted an increase **(Table 2.7).**

Livestock

The livestock growth decelerated in FY25, mainly due to higher intermediate consumption, especially green fodder. However, higher milk production and steady gains in poultry supported the outturn **(Table 2.8)**. Improved animal health, better feeding practices, and expansion in commercial dairy operations led to a rise in milk output.[28] This also aligns with the rising urban demand for dairy sector and growing population needs.[29] Meat production also registered an increase in FY25 **(Table 2.9)**, with the major impetus from poultry meat. In addition, Pakistan continued to engage in meat exports.

2.3 Industry

Industrial output recovered in FY25, after showing contraction in the previous two years. The recovery, however, remained uneven, as it was mainly spurred by a substantial increase in value addition by electricity, gas and water

Poultry Products **Table 2.8**

numbers in million

	FY23	FY24	FY25
Layers (Farming)	73.3	78.4	83.9
Broilers (Farming)	1,703.4	1873.7	2061.1
Poultry (Desi)	94.0	95.5	97.0
Ducks, Drakes and Ducklings	0.3	0.3	0.3
Breeding Stock (Farming)	15.8	16.6	17.4
Eggs (Farming)	19,170.0	20480.0	21880.0
Eggs (Desi)	4,634.0	4717.0	4802.0
Eggs (Ducks)	15.2	14.3	13.9

Source: PBS

Milk and Meat Production **Table 2.9**

thousand tons

	FY23	FY24	FY25
Milk	67,873	70,071	72,343
Meat	5,504	5,809	5,967
Beef	2,544	2,630	2,548
Mutton	799	817	835
Poultry	2,160	2,362	2,583

Source: Pakistan Economic Survey 2024-25

[26] USDA, Grain and Feed Annual, November 2024.
[27] USDA, Oilseeds and Products Update, December 2024.
[28] Pakistan Economic Survey 2024-25, MoF.
[29] ibid

Industrial Activities **Table 2.10**

growth in percent, contribution in percentage points

	FY24R					FY25P					Contribution	
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	FY24	FY25
Industry	**-4.1**	**-0.3**	**2.8**	**-3.1**	**-1.2**	**0.3**	**0.2**	**1.2**	**19.9**	**5.3**	**-1.2**	**5.3**
Mining and quarrying	7.9	-1.4	-5.3	-13.5	-3.3	-5.3	-2.7	-2.9	1.9	-2.4	-0.3	-0.2
Manufacturing	1.8	1.6	3.2	5.6	3.0	2.2	0.8	0.9	4.0	2.0	2.0	1.3
Large scale	-0.7	-0.8	1.3	4.2	0.9	-0.9	-2.6	-2.0	3.0	-0.7	0.4	-0.3
Small scale	8.8	8.8	9.0	9.5	9.0	10.2	10.0	8.8	6.8	8.9	1.1	1.2
Slaughtering	6.4	6.4	6.6	7.0	6.6	7.4	7.2	6.3	4.9	6.4	0.5	0.5
Electricity, gas and water supply	-34.4	-5.0	19.0	-31.6	-19.1	-2.0	-5.0	-4.0	121.4	28.5	-2.7	3.3
Construction	4.7	-4.7	-5.4	2.5	-1.0	-3.1	3.1	10.7	17.6	6.6	-0.1	0.8

R: Revised, P: Provisional

Source: PBS

supply, and construction (**Table 2.10**). On the other hand, growth in the manufacturing sector decelerated, and the value addition of mining and quarrying declined.

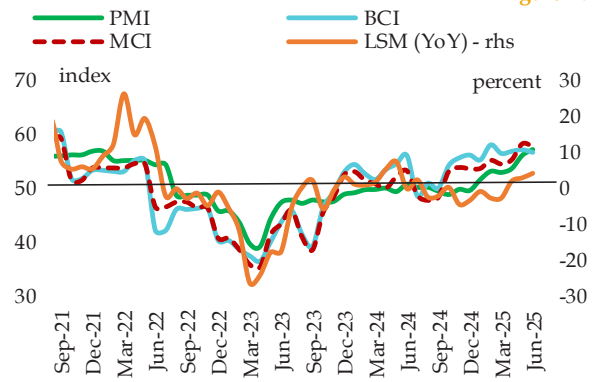
The revival in industry, nevertheless, reflects the unfolding impact of improved economic environment and business sentiments supported by lower interest rate, stable exchange rate, favourable external position, and positive business sentiments **(Figure 2.7)**. The impact was particularly reflected in surge in Q4-FY25, however, overall LSM output remained subdued owing to lacklustre domestic demand and high input costs.

Mining and Quarrying

The value addition by mining and quarrying contracted for the fourth consecutive year in FY25. This can be attributed to decline in production of principal minerals, including crude oil, natural gas, and coal. The decline in fossil fuels, in addition to depleting ground reserves especially of natural gas,[30] is mainly linked to subdued demand by main users amid sustained availability of contractual LNG supplies.[31, 32] This curtailed production of crude oil and gas further affected the performance of mining and quarrying.[33]

The underperformance of mining and quarrying, despite vast mineral reserves, necessitates expanding exploration and extraction efforts for both metallic and non-metallic minerals as fossil fuel reserves are depleting. Large mineral reserves

LSM Growth and Business Sentiments **Figure 2.7**



* PMI: Purchasing managers index; BCI: Business confidence index; MCI: Manufacturing confidence index

Sources: SBP and PBS

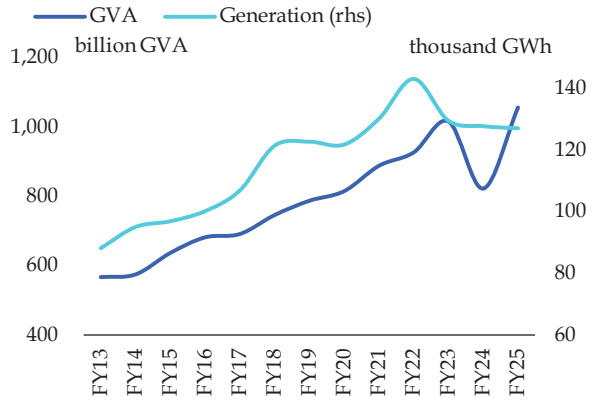
[30] Gas production is part of the 'Mining and Quarrying' segment of the industry, while its supply, including RLNG, falls under the 'Electricity, Gas and Water Supply, segment.

[31] Major users of oil, include transport, industry, power, overseas, government, households and agriculture, while users of natural gas, include household, fertilizer manufacturers, electricity generation, industry, transport and commercial users. The demand for natural gas declined in all sectors, except power generation.

[32] The decline in coal production is explained by decrease in demand from power sector and cement industry in FY25, which was partially offset by increased use in brick kilns. Provisional data of National Accounts show decline in coal production to 13.9 MMT in FY25, down from 14.6 MMT in FY24. The use of coal in power and cement sectors has declined from 11.9 MMT, and 4.3 MMT to 11.3 MMT and 2.6 MMT respectively, while that in brick kilns, the use increased from 1.1 MMT to 2.3 MMT (*Source: Pakistan Economic Survey, 2024-25, and Hydrocarbon Development Institute of Pakistan).*

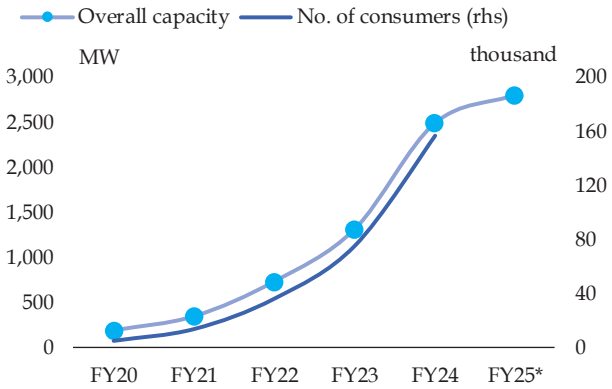
[33] The production was impacted by forced curtailment by SNGPL and UPL (*Source: Oil and Gas Development Company Limited, Interim Report and Financial Information Nine Months ended 31 March 2025, pp 03).*

Value Addition in Electricity, Gas & Water Supply and Electricity Generation **Figure 2.8a**



Sources: NEPRA and PBS

Net-metering Capacity **Figure 2.8b**



*data for FY25 is for Jul-Mar, Source Pakistan Economic Survey 2024-25. The number of consumers for the year is not available.

in the country offer significant investment and growth opportunities. However, harnessing the minerals potential depends on a coherent policy framework and enabling business environment. In this context, **Box 2.2** provides a brief overview of the key challenges and make recommendations for attracting investment in mining.

Electricity, Gas and Water Supply

The sharp growth in value addition of electricity, gas and water supply was driven by increased government subsidies to the power sector, in addition to a low base effect.[34] This growth is despite electricity generation remaining largely unchanged in FY25, reflecting the impact of rising solar capacity **(Figure 2.8a and 2.8b)**.[35] Moreover, reduced domestic gas production, though partially offset by imported RLNG supply, affected gas supply chain.

Construction Sector

The recovery in construction activity came on the back of increased government's development spending (**Chapter 4**). However, private construction activity remained muted due to increase in construction cost and taxes on property transactions.

Manufacturing

The deceleration in manufacturing growth was mainly due to decline in LSM output and marginally slower growth of SSM and slaughtering. After showing a marginal recovery in FY24, LSM recorded a contraction in FY25, notwithstanding positive momentum towards the end of the year. Given a large share in overall manufacturing, LSM dragged down the manufacturing growth by 0.5 percentage points during FY25.[36]

Large Scale Manufacturing

The decline in LSM in FY25 is attributable to contained domestic demand and high input costs. Moreover, substantial decline in the production of a few sub-sectors, having relatively low weight in LSM, also dragged the LSM growth. For instance, furniture alone pulled down the LSM growth by 1.6 percentage point, almost offsetting the combined growth contribution of wearing apparel and automobiles.[37]

[34] Government subsidies to the power sector is a critical component in the GVA calculations in Pakistan's National Accounts. However, changes in subsidies, which primarily facilitate consumer prices and capacity payments, may not necessarily reflect in electricity generation.

[35] The total capacity recorded at 46605 MW for Jul-March FY25, including 2813 MW from net-metering, which is around 6 percent of the total installed capacity (*Source: Pakistan Economic Survey 2024-25, Chapter 14, Energy)*

[36] LSM accounts for 8.0 percent of the total gross value addition (GVA), 44.1 percent of the industrial GVA, and 67.5 of manufacturing sector.

[37] Excluding furniture, the LSM shows an increase of 0.9 percent in FY25.

LSM Sub-sectors Showing Growth and Contraction **Table 2.11**

percent

	Sub-sectors showing growth			Sub-sectors showing contraction			LSM Growth
	No.	Weight in LSM	Weighted Contribution	No.	Weight in LSM	Weighted Contribution	
FY18	16	75.6	8.0	6	24.4	-1.0	7.0
FY19	12	57.9	6.6	10	42.1	-3.2	3.4
FY20	4	24.3	1.8	18	75.7	-12.8	1.9
FY21	15	87.1	14.7	7	12.9	-3.1	8.8
FY22	18	87.1	11.9	4	4.3	-0.2	3.3
FY23	4	10.4	3.4	18	89.6	-13.7	-10.3
FY24	10	48.1	3.9	12	51.9	-3.1	0.8
FY25	12	62.3	3.0	10	37.7	-3.8	-0.7

Source: PBS

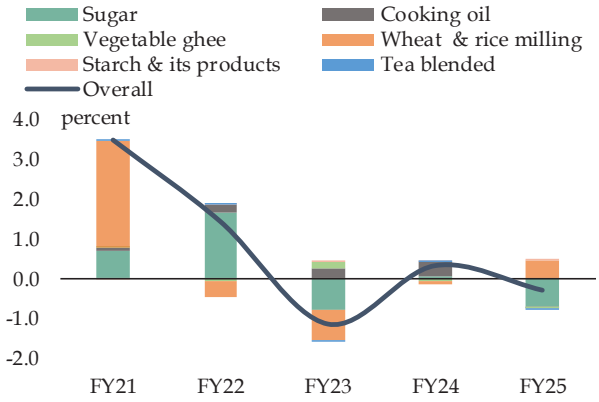
On the whole, a greater number of LSM groups posted an increase in output during FY25 compared to the previous year **(Table 2.11)**. The groups with positive contribution included textile, wearing apparel, coke and petroleum products, pharmaceuticals, beverages, automobiles, and tobacco. On the other hand, the groups that contributed negatively included food chemicals, non-metallic mineral, iron & steel products, electrical equipment and furniture (**Table 2.12)**.

Food

The decline in output of food sub-sector in FY25 was led by a notable fall in sugar production, followed by cooking oil, vegetable ghee and tea **(Figure 2.9)**.[38] Delay in sugarcane crushing amid uncertainty regarding the announcement of minimum indicative price together with low sucrose recovery and carryover stock, led to a 14.3 percent decline in sugar production during FY25.[39] Moreover, a possible lower consumption among the major users, including households and food processing, also contributed to lower sugar production.[40]

A notable increase in wheat and rice milling, the largest component within the food sub-sector, partially offset the impact of the decline in sugar production. A possible shift in consumer preference towards non-traditional bread-making and increased use in poultry feed along with higher rice export volumes may have influenced the growth in both wheat and rice milling in FY25.[41] Meanwhile, production of beverages rebounded after a sharp decline in the previous year, largely driven by soft drinks where new domestic producers appear to have captured the market from multinational brands amid boycott campaigns.

Food Production: Contribution to LSM Growth **Figure 2.9**



Source: PBS

[38] Sugar, wheat & rice milling together have 66.3 percent weight in food group.

[39] Delays in sugarcane crushing compelled farmers, especially those not having their own transport to divert their produce to other low value added uses such as jiggery (Gur) production and planting seeds (*Source: USDA, Sugar Annual Report, April, 2025*). Moreover, research suggest that time lag between harvest and milling is among one of the factors causing low sucrose recovery (Source: Misra. V, et al. (2022). Post-harvest biology and recent advances of storage technologies in sugarcane, journal, Biotechnology Reports, volume 33, doi = {https://doi.org/10.1016/j.btre.2022.e00705}

[40] Source: USDA, Sugar Annual Report, April, 2025

[41] Source: USDA, Grain and Feed Report, No. PK2025-0003, April, 2025.

Large-Scale Manufacturing **Table 2.12**

growth in percent, contribution in percentage points

LSM Sectors	Weight	Growth		Contribution	
		FY24	FY25	FY24	FY25
LSM	78.4	0.8	-0.7	0.8	-0.7
of which					
Food	10.7	1.7	-1.8	0.3	-0.3
Beverages	3.8	-3.2	1.3	-0.1	0.1
Tobacco	2.1	-23.0	7.0	-0.4	0.1
Textile	18.2	-5.7	2.5	-1.0	0.4
Wearing apparel	6.1	8.2	5.7	1.2	0.9
Leather products	1.2	5.6	0.9	0.0	0.0
Wood products	0.2	11.8	1.3	0.0	0.0
Paper & board	1.6	-0.6	0.4	0.0	0.0
Coke & petroleum	6.7	9.8	5.3	0.6	0.4
Chemicals	6.5	5.1	-3.5	0.4	-0.3
Pharmaceuticals	5.2	15.7	2.7	0.8	0.2
Rubber	0.2	-1.5	-1.3	0.0	0.0
Non-metallic mineral	5.0	-5.3	-7.9	-0.4	-0.5
Iron & steel	3.4	-4.4	-8.7	-0.2	-0.4
Fabricated metal	0.4	-7.8	-13.9	0.0	-0.1
Computer, electronics, optical	0.0	-12.4	2.6	0.0	0.0
Electrical equipment	2.0	-9.4	-11.7	-0.3	-0.3
Machinery and equipment	0.4	45.5	-35.5	0.2	-0.2
Automobiles	3.1	-25.0	46.2	-0.6	0.8
Other transport equipment	0.7	-4.0	36.6	0.0	0.2
Furniture	0.5	15.0	-56.3	0.4	-1.6
Other manufacturing	0.3	7.6	-16.0	0.0	-0.1

Source: PBS

Textiles

Textiles posted a slight growth compared to the decline in the previous year. This growth was led by higher output of cotton yarn and cotton cloth, which more than offset the decline in output of jute and woollen products.[42] High value added (HVA) textiles, mainly wearing apparel, maintained the growth momentum, though at a slower pace compared to the previous year (**Table 2.13).** Growth in HVA textiles was supported by a surge in exports **(Chapter 5)**. However, some segments of textiles, especially low value added, faced headwinds from increase in energy cost especially gas prices, besides decline in cotton production and high input cost.[43]

Output of Textiles **Table 2.13**

growth in percent, contribution in percentage points

	Growth					Contribution	
	FY21	FY22	FY23	FY24	FY25	FY24	FY25
Overall	**18.3**	**2.8**	**-18.7**	**-5.7**	**2.5**	**-1.0**	**0.4**
Yarn	12.5	0.5	-22.1	-8.1	7.6	-0.6	0.5
Cloth	12.2	0.2	-12.4	-5.3	0.7	-0.4	0.0
Jute goods	7.3	-17.4	9.9	-35.1	-28.3	-0.1	-0.1
Others	82.3	2.6	-23.3	2.3	-6.6	0.2	-0.1
Garments	-23.3	49.4	25.7	8.2	5.7	1.2	0.9

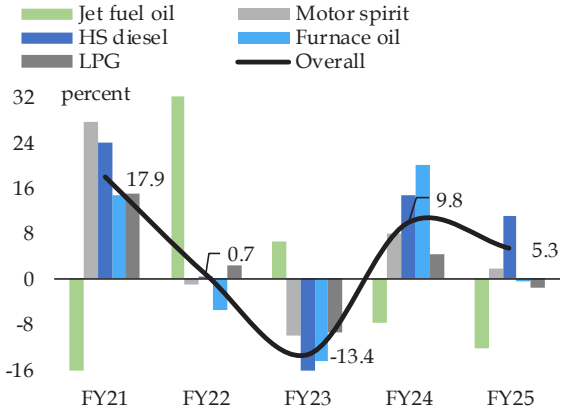
Source: PBS

[42] Cotton yarn and cloth together form 89 percent of the total weight of textile group in LSM.
[43] In the finance bill FY25, government imposed 18 percent sales tax on domestic textile inputs, while foreign inputs were exempted, which remained a negative element in addition to the decline in domestic cotton production.

Coke and Petroleum Products

Output of coke and petroleum products increased moderately in FY25, compared to a noticeable growth recorded in the previous year. Among various fuel categories, the production of high-speed diesel and motor spirit increased compared to previous year (**Figure 2.10**). This was mainly driven by rise in fuel consumption by transportation sector amid an uptick in overall economic activity.[44] However, fuel consumption in agriculture sector declined due to greater adoption of renewables especially for running of tubewells.

Growth in Output of POL Products — Figure: 2.10

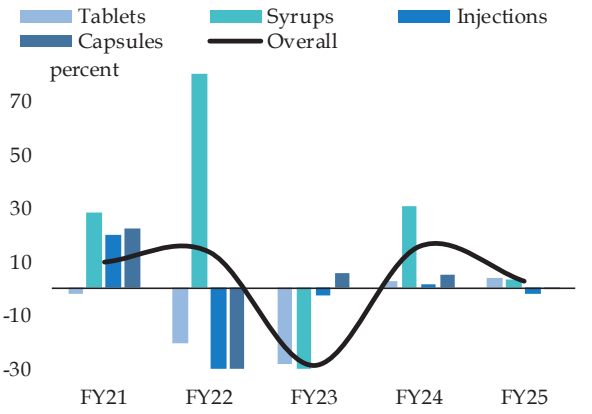


Source: PBS

Pharmaceuticals

Production of pharmaceuticals registered a slight increase during FY25, compared to its robust growth in the previous year. This growth was mainly driven by rise in production of tablets and syrups **(Figure 2.11)**. The increase in production can be attributed to improved availability of raw material, drug-price deregulation and substantial increase in exports to African countries and established markets such as Afghanistan, Cameroon, and Thailand **(Chapter 5)**.[45] Furthermore, the deregulation of non-essential drug prices has also resulted in increased investment and market expansion of alternative medicines, including nutraceuticals (food supplements) and therapeutic goods.[46]

Growth in Production of Pharmaceuticals — Figure 2.11

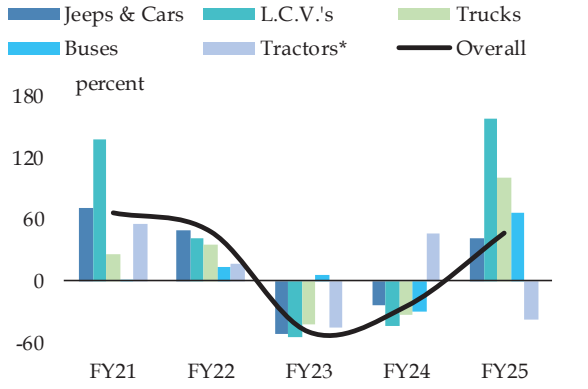


Source: PBS

Automobiles

Automobile production rebounded during FY25, after a pronounced decline in the previous year. The growth was also broad-based as the production of all categories showed increase **(Figure 2.12)**. A number of factors supported revival of automobile production during the year, including better macroeconomic conditions, falling inflation, lower interest rates, improved

Growth in Automobiles Production — Figure 2.12



*Tractors production is a part of machinery group in LSM

Source: PBS

[44] *Economic Survey of Pakistan – 2024-25*

[45] Increase in export of pharmaceuticals during FY25 can be attributed to government's decision to de-regulate the drug prices of non-essential items, which spurred investment, fostered innovation and enabled competitive pricing- *PACRA Pharmaceuticals report July, 2025*

[46] Source: SIFC (https://www.sifc.gov.pk/)

consumer sentiments, stability in the exchange rate, and increased availability of imported components.

The rising domestic demand for automobiles also attracted new players, largely from China, in hybrid/electric vehicle segment, the environment friendly substitutes to combustion engine. The electric vehicle ecosystem is gaining traction in Pakistan, supported by fiscal incentives, tax relief and reduced tariffs. [47] This is particularly reflected in increased production of two and three wheelers electric vehicles during FY25.

Furthermore, the manufacturing of two wheelers saw increase during FY25, compared to contraction since FY22. This increase shows recovery in demand for both low and middle-income consumers amid reduced financing cost and easy instalment plans offered by banks. On the other hand, the decline in production of tractors is largely explained by fall in farm income and increase in sales tax.

Construction-allied Industries

The decline in cement and steel production was largely because of lower demand. However, monthly data shows that cement and steel production increased in the last two months of FY25, aligned with higher development spending by provinces in Q4-FY25. Weak local demand for cement in FY25 was due to lacklustre private construction activity impacted by increase in taxes on property transactions, and higher cement prices following an increase in FED.[48] However, increase in export of cement somewhat offset the impact of decline in domestic dispatches **(Figure 2.13)**. Similarly, the decline in steel production was due to lower demand from construction, domestic appliances, electrical equipment and heavy machinery. Moreover, the availability of cheaper substitutes from China also affected local production of flat steel.[49]

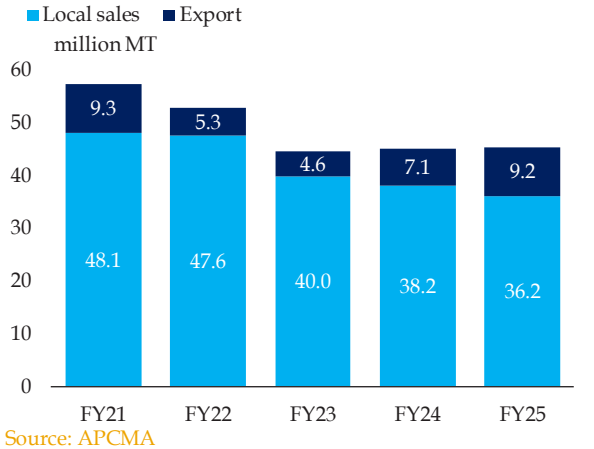
In the past, these industries have largely benefitted from government amnesty schemes, along with reduction in taxes and duties on construction inputs, and concessional loans.[50] However, such support measures have been withdrawn in recent years as a part of fiscal consolidation efforts.

Other Industries

The production of other LSM sub-sectors, especially chemicals and electronics, decreased during FY25. Within chemicals, output of other chemicals declined, while production of fertilizers increased only slightly in line with subdued agriculture growth.

The decline in production of chemicals like caustic soda, soaps, detergents, paints, etc. reflected sluggish demand from other industries such as plastic, packaging and construction.[51] Similarly,

Cement Dispatches **Figure 2.13**



Source: APCMA

[47] During Jul-Mar-FY25, 57 manufacturers were granted licenses under Auto Industry Development and Export Policy 2021-26. Also, 13 new manufacturing certificates were issued and the production of electric two-three wheelers reached 32,923 units- *Economic Survey of Pakistan 2024-25*

[48] Budget 2024-25 Source: MoF

[49] Source: National Tariff Commission's Extension of Definitive Anti-Dumping Duties on Dumped Imports of Galvalume Steel Coils/Sheets from China, A.D.C. No. 37/2015/NTC/GC/Circum/2024 June 27, 2025

[50] Source: Budget in Brief & Economic Survey of Pakistan FY21

[51] SBP, The State of Pakistan's Economy Half Year Report 2024-25

Services Sector **Table 2.14**

growth in percent; contribution in percentage points

	FY24[R]					FY25[P]					Contribution	
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	FY24	FY25
Services sector	**2.5**	**1.2**	**1.8**	**3.6**	**2.3**	**2.4**	**2.5**	**3.5**	**3.7**	**3.0**	**2.3**	**3.0**
Wholesale & retail trade	3.4	2.6	2.7	4.7	3.3	0.7	-1.2	0.4	2.1	0.5	1.0	0.1
Transport & storage	3.7	1.0	1.3	0.6	1.6	1.9	2.1	1.6	4.1	2.4	0.3	0.4
Accommodation and food services	4.0	4.0	4.1	4.3	4.1	4.6	4.5	4.0	3.1	4.1	0.1	0.1
Information and communication	8.1	0.2	-1.4	10.7	4.3	2.5	4.6	13.8	3.1	5.9	0.2	0.3
Finance & insurance activities	-14.5	-19.5	-9.3	-6.7	-12.7	-4.6	7.2	6.8	6.8	3.9	-0.4	0.1
Real estate activities	3.6	3.6	3.7	4.0	3.7	4.3	4.2	3.7	2.9	3.8	0.4	0.4
General government	-9.7	-10.2	-7.4	0.0	-7.0	4.4	9.0	13.4	12.9	9.9	-0.5	0.7
Education	9.8	10.0	10.3	10.2	10.1	4.5	4.3	4.0	3.7	4.1	0.5	0.2
Human health and social work activities	4.3	2.9	3.0	3.2	3.3	4.0	4.4	3.4	2.5	3.6	0.1	0.1
Other private services	3.8	3.8	3.3	3.6	3.6	3.7	3.7	3.5	3.0	3.5	0.5	0.5

R: revised, P: provisional

Source: PBS

home appliances, except fans and air conditioners, recorded decline in production mainly due to reduced demand, especially on account of lower rural income. Among other sub-sectors, furniture posted a steep contraction and remained the major drag on LSM growth.

2.4 Services

The services sector grew by 3.0 percent in FY25, driven by general government, other services, transport & storage and information & communication technology services. However, growth in *wholesale & retail trade*, the largest services sub-sector, remained subdued in line with decline in output of important crops and LSM **(Table 2.14)**.

General government services showed a notable rebound during FY25, expanding by 9.9 percent against a contraction of 7.0 percent in FY24. This mainly owes to increase in government spending on public administration and social protection.[52] In addition, fall in inflation and the respective deflators led to increase in real spending in FY25 compared to the previous year.

Finance and insurance services also recovered in FY25, against the contraction witnessed in the preceding year (**Table 2.15**). This recovery was mainly driven by improved bank intermediation, supported by sharp decline in inflation and reduced interest rates.

Information and communication services maintained its upward trajectory in FY25 as well. This was the result of a strong growth in computer programming and consultancy services, with major impetus coming from steady increase in ICT exports that rose by 18.6 percent in FY25 (**Chapter**

Growth in Finance and Insurance Services **Table 2.15**

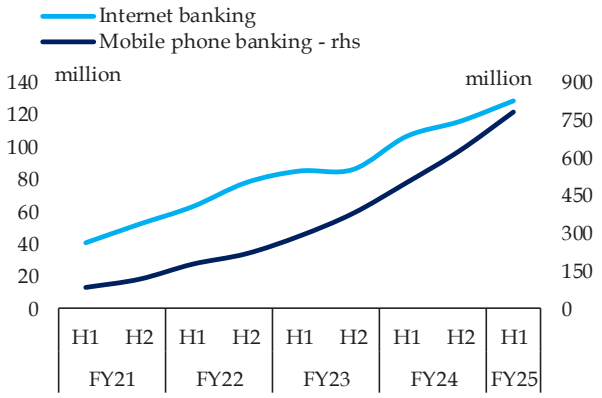
percent

	FY24	FY25
Scheduled banks	-10.8	5.4
Non-scheduled banks	-0.7	-13.0
Insurance, reinsurance, and pension	-56.4	-4.2
Other financial services	-25.9	-1.4
Auxiliary activities	17.0	16.0
Other monetary intermediation	-10.6	5.1

Source: PBS

[52] Budget in Brief FY25-26 Source: MoF

Volume of Internet and Mobile Banking Transactions **Figure 2.14**



Source: SBP

5).[53] Furthermore, the continued increase in internet and mobile banking transactions points to rising digitalization across the economy **(Figure 2.14)**. By end-June 2025, the telecom subscription in Pakistan reached 200 million[54], including 150 million broadband users.

The pace of increase in value addition by *transport & storage* services also accelerated in FY25, mainly on account of improved performance of water, air, and road transport (**Table 2.16**). Maritime transport benefited from increase in import and export volumes and the rollout of the Pakistan Single Window and faceless-assessment systems by Pakistan Customs.[55] This initiative facilitated rapid cargo clearances and smoother operations at ports, consequently encouraging greater port traffic and trade volumes.[56] Similarly, air transport saw notable growth due to increased operational coverage, especially the restarting of European routes, and expanded interline partnerships by PIA.[57] Moreover, road transport—holding the largest share within this segment— also registered a moderate growth.

Growth in Transport and Storage Services **Table 2.16**

percent

	FY24	FY25
Railways	10.8	-0.3
Water transport	0.6	9.4
Air transport	12.6	9.3
Road transport	1.2	2.1
Postal services	-18.6	-6.2
Pipeline transport	-9.0	-14.9
Storage	3.3	0.5

Source: PBS

Other services such as *real estate activities* and *other private services* maintained the growth momentum. The *wholesale & retail trade* services grew by only 0.5 percent, largely reflecting the subdued performance of agriculture and LSM, while increase in import volumes contributed positively.[58]

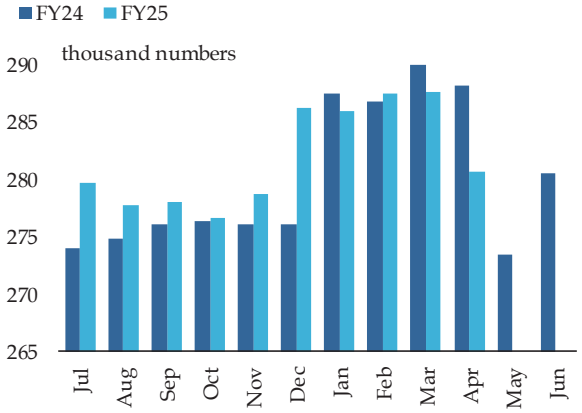
Accommodation and food services grew by 4.1 percent in FY25. Although the sub-sector has relatively lower share—2.6 percent of services sector value additions and 1.5 percent of GDP, it offers large potential to attract investment and generate employment in the country through stronger tourism push (**Box 2.3)**.

2.5 Labour Market

Labour-market indicators point to a marginal increase in industrial employment **(Figure 2.15)**. The provincial data shows employment in Punjab increased by 0.5 percent during Jul-Apr FY25 against a decline in the same period of the previous year. Increase in hiring was concentrated

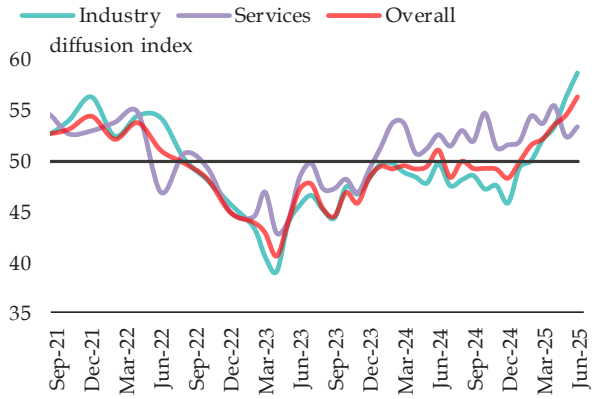
[53] In ICT exports, software consultancy services and other computer services grew by 27.2 percent and 34.4 percent, respectively, in FY25 (Source: SBP).
[54] Source: Press Release June 2025, PTA. https://www.pta.gov.pk/category/pta-celebrates-landmark-achievement:-pakistan-surpasses-200-million-telecom-subscribers-1561058794-2025-06-20.
[55] Source: Press Release, January 2025, FBR. https://www.fbr.gov.pk/pr/pakistan-customs-achieves-significant-success/174194
[56] Total cargo handling rose by 4.5% in FY25. Vessel traffic increased approximately 11%, with the port handling a total of 1,943 vessels, comprising 1,093 container ships, 218 bulk carriers, and 452 liquid bulk tankers. Source: Karachi Port Trust
[57] PIA entered into Special Prorate Agreements with international carriers including Air France-KLM, Air New Zealand, Avelo Air, Allegiant Air, and Alaska Air, enabling extended network access across Europe, North America, New Zealand, and Asia. Source: Pakistan Economic Survey 2024-25. Further, anecdotal evidence suggests that after the EU's safety ban was lifted in January 2025.
[58] Total imports rose to US$ 58.4 billion with imports quantum rising 23.1 percent in FY25. Source: PBS

Monthly Employment Trends - Punjab Figure 2.15



Source: BoS, Punjab

Business Confidence: Employment Indices Figure 2.16



Source: SBP

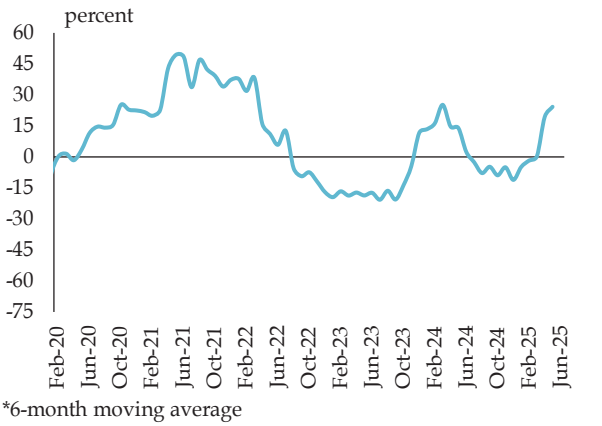
in food, drinks & tobacco group supported by a substantial employment in beverages industry. Likewise, engineering products posted a moderate recovery in employment, mainly supported by increased production of air conditioners and fans. Furthermore, the textile sector, consistent with improved production and exports, showed less deterioration in job creation.

The overall business sentiments regarding job creation also turned positive in FY25, with a notable improvement observed during the second half of the fiscal year (**Figure 2.16**). Employment sentiments in the services sector remained consistently optimistic (above 50) throughout the year. Meanwhile, industrial sector sentiments recovered significantly in recent months, surpassing the optimistic mark (i.e. 50) from February 2025 onwards.

Similarly, the job postings (online and newspapers) also showed improvement during FY25 (**Figure 2.17a and 2.17b**), especially in fourth quarter, aligning with increase in LSM and employment sentiments (**see Box 4 in Monetary Policy Report, August 2025**). The online job postings data, also available for industry and services, shows that the improvement largely emanated from services sector. Overall, these indicators signal a gradual increase in labour-demand.

Although the growth in wages (based on CPI data) moderated in FY25, it was substantially

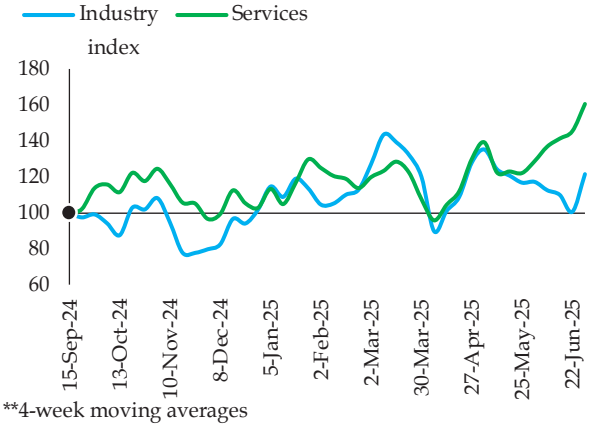
Newspapers Job Postings Growth* Figure 2.17a



*6-month moving average

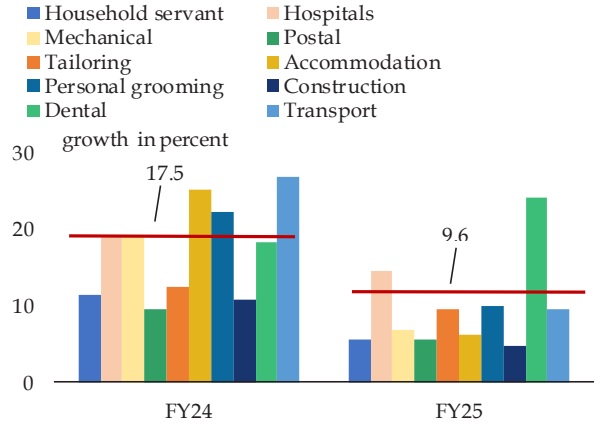
Sources: SBP

Online Job Postings** Figure 2.17b



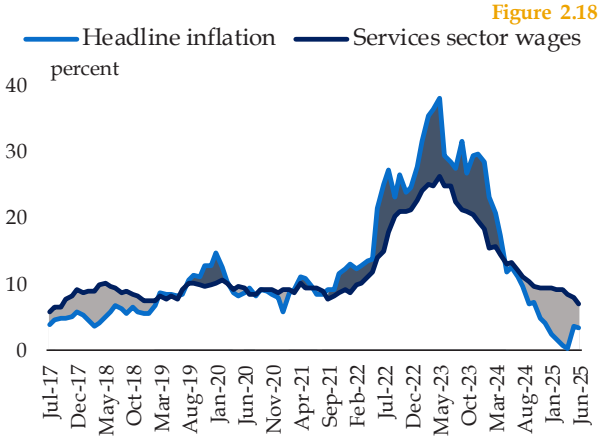
**4-week moving averages

Services Sector Wages



Source: PBS

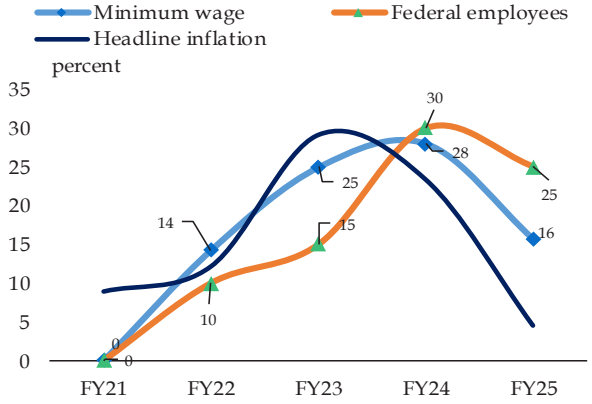
Figure 2.18



higher compared to the headline inflation (**Figure 2.18**). The growth in remuneration of doctors and nurses —particularly dental care—accelerated during this period. By contrast, the wage growth decelerated in accommodation, transport, and personal grooming segments, while mechanical services and the construction sector also registered slower wage growth.

The sustained growth in nominal wages and salaries, coupled with a significant deceleration in inflation, improved real wage growth during FY25 (**Figure 2.19**). Despite improvement in households' real purchasing power, muted economic growth and limited employment opportunities present a challenge for poverty reduction in the country.[59]

Budgeted Income Increase and Inflation **Figure 2.19**



Sources: MoF and PBS

Box 2.1: Managing Irrigation Water amid Climate Stress and Regional Uncertainty

Pakistan's irrigation system is deeply intertwined with the Indus Basin Irrigation System (IBIS), one of the world's largest interconnected network of canals. Around 90 percent of food production in Pakistan depends on the canal water withdrawn from Indus river and its tributaries (Janjua et al., 2021), making it both a lifeline and point of vulnerability. However, IBIS is facing mounting pressures from water scarcity, inefficient canal operations, climate change, and geopolitical uncertainty, raising concerns about long-term agricultural sustainability and food security.

Inefficiencies within IBIS: Much of the infrastructure of the IBIS built in the colonial era is old and in dire need of modernization and rehabilitation. Deteriorating infrastructure, such as silted canals, eroded canal walls, and poor maintenance has led to high seepage losses, worsening the waterlogging and salinity (World Bank, 2019). The system operates with a delivery efficiency of only 36 percent, meaning that a significant portion of surface water is lost between canal head and the crop root zone (Qureshi, 2020). Furthermore, the distribution system (warabandi)[60] acts as a constraint on allocative efficiency as it supplies water at system capacity whenever it can, which often does not match crop water requirements and water delivery (World Bank, 2019). In addition, underpricing of canal water

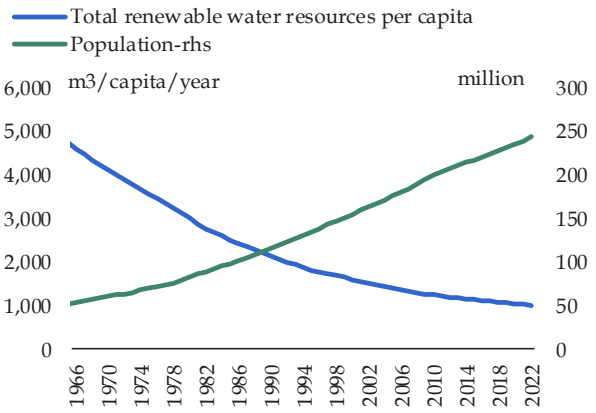
[59] Pakistan Economic Survey FY25

[60] A rotatory canal water distribution system that provides water to farmers based on a predetermined schedule specifying year, day, and period of canal water delivery according to the land size. Source: Sajid et al., 2024.

encourages cultivation of water intensive crops such as sugarcane and rice, offering little to no incentive for adopting water efficient strategies (Maqbool, 2022).

Water availability: Total renewable water resources per capita has declined sharply from 4,469.8 cubic meters in 1967 to 1,012.7 cubic meters in 2022, well below the water stress threshold of 1,700 cubic meters[61] - a situation further exacerbated by rapid population growth **(Figure 2.1.1).** Furthermore, country's water stress level stood at 110 percent in 2022, indicating unsustainable use, with the agriculture sector being the primary contributor, followed by municipal and industrial sectors.[62] The combined effect of dwindling per capita water availability and excessive withdrawals mean that IBIS face immense pressure to supply adequate water despite shrinking resources, also leading to over extraction and ground water depletion.

Water Resources per Capita and Population **Figure 2.1.1**



Sources: FAO and WB

Climate change: IBIS is largely dependent on water from glaciers, which suggests that its vulnerability to climate change and depleting glacier mass is very high (Van et al., 2025). Climate change has disrupted the water availability and in turn traditional irrigation cycles. Rising temperatures have increased evapotranspiration rates[63], reducing water retention in the soil, while erratic rainfall patterns have altered sowing and harvesting schedules. These effects are more pronounced in arid and semi-arid zones, where canal water is the only viable irrigation source. At the same time, extreme rainfall and glacial melts are becoming more common, however, Pakistan lacks infrastructure to store or utilize this water effectively. Pakistan's water storage capacity is limited to just 30 days, compared to 1,000 days in Egypt, 900 in the US, and 220 in India (Lad and Jaybhaye, 2025). Consequently, this water is eventually being lost in the sea. An estimate suggests that more than two-thirds of the annual flow of western rivers transpires into the sea during June-August, whereas, water needs remain high year-round (FAO, 2021)

Geo-political uncertainties: Recent geo-political tensions have added another layer of uncertainty to the already fragile irrigation situation of Pakistan. In 2025, India unilaterally suspended participation in Indus Water Treaty, an agreement brokered by World Bank in 1960. The treaty allocates three western rivers (Indus, Chenab, and Jehlum) to Pakistan, while permitting India limited non-consumptive use for hydropower and irrigation.[64]. This can result in disruptions in sowing cycles and heightened irrigation uncertainty in the short-run, and a threat to water and food security in the long-run, necessitating urgent reforms in water management and infrastructure.

Addressing these challenges requires an integrated policy response. Modernization, rehabilitation, and maintenance of irrigation systems are essential to enhance water delivery and management (FAO, 2021). Leveraging technology is also a key, and farmers should be encouraged to adopt efficient irrigation methods such as drip and sprinkler system (Lad and Jaybhaye, 2025). However, low water pricing provides little incentive to adopt these technologies and sustainable methods. Pricing reforms are pivotal to easing pressure on the IBIS. Irrigation accounts for about 93 percent of national water use, yet abiana recovers only around half of operation and maintenance costs, weakening incentives and funding for canal upkeep (Asif Khan, 2007). Therefore, water tariffs should be set to recover full costs, with part of the subsidies redirected towards climate-smart agriculture and water management, while abiana is progressively raised to at least cover operation and maintenance and linked more closely to actual use alongside improvements in collection and service quality (FAO, 2021; PIPS, 2024).

[61] Source: Falkenmark Water Stress Indicator
[62] Contribution of agriculture, municipal, industrial sectors was 103.4, 5.8, and 0.84 percent, respectively. Source: FAO (2021), AQUAST (https://data.apps.fao.org/aquastat)
[63] Evaporation rate is the rate at which water is lost from a surface – soil and other surfaces including plants – due to evaporation and transpiration. Climate change has accelerated the evaporation rate resulting in speedy water loss.
[64] Source: The Indus Water Treaty 1960 (https://www.internationalwaterlaw.org/documents/regionaldocs/IndusWatersTreaty1960.pdf)

Rainwater harvesting and recharging underground water are other critically underutilized strategies. These, if scaled up, could supplement irrigation supplies, and reduce pressure on canals during dry spells. Because Pakistan's main challenge is within-year variability, and not large year-to-year swings, the priority should be seasonal buffering, which is capturing monsoon peaks and releasing later that need a network of small/medium sized dams rather than relying solely on mega-dams (World Bank, 2017). At the same time, with live storage of only about 12.5 MAF (around 13 percent of annual Indus flows) and national capacity of roughly 30 days,[65] Pakistan also needs selected large, multipurpose dams to build carryover storage beyond one year for drought security, hydropower, and flood control. Finally, addressing challenges posed by transboundary issues through engaging diplomatically on water rights is imperative, while simultaneously investing in water conserving technologies to reduce reliance on river water.

** Contribution of Romaisa Batool is acknowledged in writing this box*

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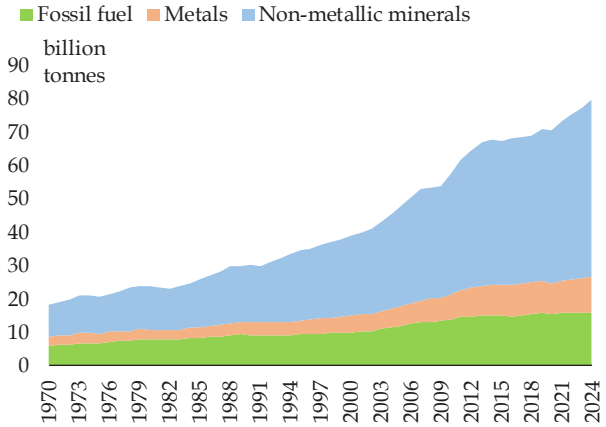
Box: 2.2 Leveraging Mineral Resources for Investment and Growth in Pakistan

The global demand for mineral resources has surged over the last fifty years, rising to 80 billion tonnes in 2024 compared to 18 billion in 1970, with a visible transition from fossil fuels to metallic and non- metallic minerals **(Figure 2.2.1a & 2.2.1b)**. The global demand for natural resources is projected to increase by 60 percent by 2060.[66] Moreover, clean energy alone would further push demand for minerals – such as graphite, lithium, and cobalt – by around 5 times by 2050.[67] United Nations Conference on Trade and Development (UNCTAD) has estimated investment in the range of $360 to $450 billion during 2022-30 to meet this demand, with an anticipated shortfall of $180 billion to $270 billion. Copper and nickel account for the major portion of this shortfall, making up 36 percent and 16 percent, respectively.

Pakistan is home to one of the world's largest coal, copper and salt reserves, in addition to extensive deposits of other metallic, non-metallic and industrial minerals **(Table 2.2.1)**.[68] This wealth of natural resources positions the country as a strong contender to benefit from the growing global demand and investment interests, which can potentially drive the country's economic growth. At present, the mining and quarrying in Pakistan is characterized by low value

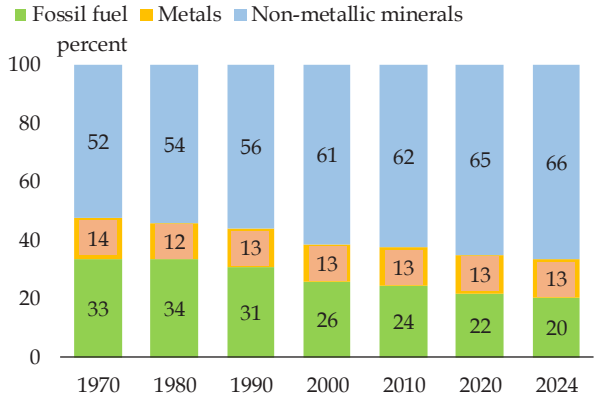
[65] Source: World Bank
[66] Fossil fuels include coal, petroleum, natural gas, oil shale and tar sands, while metals include iron, aluminium, copper and other non-ferrous metals. Non-metallic minerals include sand, gravel and clay for construction and industrial purposes (*Source and classification by United Nations Environment Programme (UNEP) (2024). Global Resources Outlook 2024.*
[67] World Bank (2020).
[68] Sources: SIFC website, TDAP (2021). Analysis of Minerals and Metals Sector of Pakistan: The Case of Gypsum, Trade Development Authority of Pakistan. December – 2021.

Global Mineral Extraction **Figure 2.2.1a**



Source: Global Material Flow Database (UNEP)

Shares of Main Minerals in Global Mineral Extraction **Figure 2.2.1b**



addition reflected in significantly small contribution to industry and overall GDP, in addition to low ratio of mineral rents to GDP and declining real mineral wealth per capita (**Figure 2.2.2a & 2.2.2b**).[69]

A number of factors explain this underperformance, including lack of investment, outdated infrastructure and exploration and extraction technology, weak enforcement of environmental and social aspects, and fragile political and business environment (*Shah, 2018* and *Hamid and Fredrick, 2019*). A safer environment across the mineral supply chain is critical to attract foreign as well as local investment. A recent survey, notwithstanding some improvement in the security situation, also highlighted gaps in important parts of the country (*OICCI, 2025*). However, a noteworthy barrier to the sector's economic contribution is a fragmented policy framework consisting of the federal government's National Mineral Policy (NMP) 2013, and provincial policies and rules, designed and formulated under the provision of Article 172 of the constitutional of Pakistan.[70]

Pakistan's Mineral Reserves **Table 2.2.1**

reserves in million tons

Metallic	Reserves	Non-metallic	Reserves	Industrial	Reserves
Iron	1,427	Marble	3,200	Barite	30
Copper	6,100	Onyx	12	Rock Salt	800
Gold/silver	1,656	Coal	186,000	Phosphate	22
Molybdenum	137			Silica Sand	557
Lead Zinc	2,372			Gypsum	6,000
Chromite	252				

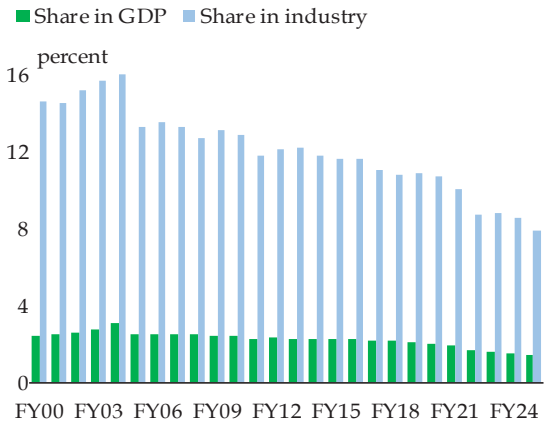
Source: SIFC Pakistan

This policy framework is characterized by institutional and governance incoherence, making it a major obstacle to promote a growth-oriented mineral industry (*Khan, N. U. et al 2024*). The institutional ecosystem is built around overlapping organizations, which lack effective functional coordination causing procedural difficulties. Similarly, the NMP 2013 has a strong pro-FDI stance, whereas the sub-national policies are less FDI focused, besides absence of specialized mineral facilitation authorities as proposed in the NMP 2013, making it challenging to adopt a unified investment friendly environment. Similarly, varying commitments on environmental and social aspects, alongside a fragmented licensing regime, undermine the competitiveness and viability of mineral resources. Lack of clarity on the mandate and enforcement mechanism pertaining to Environment Impact Assessment also indicates a gap within national commitments leading to a policy misalignment in conjunction with international best practices, codes and

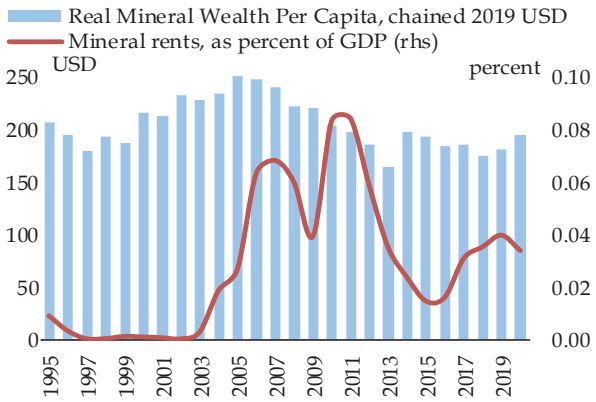
[69] Mineral rents, expressed as a percent of GDP, are the difference between the value of production for a stock of minerals at world prices and their total costs of production. In other words, it measures the financial return on the extraction of minerals. The mineral wealth or mineral natural capital referred to the valuation of fossil fuel energy (oil, gas, and coal) and minerals (bauxite, copper, gold, iron ore, lead, nickel, phosphate, silver, tin, zinc, cobalt, molybdenum, and lithium). Mineral capital estimated by World Bank using Törnqvist index, where the physical volumes of individual assets weighted by their value shares using 2019 US dollars, referred to as real asset values in "chained 2019 dollars" (*Source: World Bank*).

[70] After the 18th amendment, Article 172 of the constitution of Pakistan, mineral resources, its exploration and development - except oil, gas and nuclear minerals - fall under the provincial jurisdiction. While resources in the former FATA, Islamabad Capital Territory, and International Offshore Water Territory (IOWT) fall under the federal jurisdiction (*source: National Mineral Policy 2013*).

Mining and Quarrying in Pakistan **Figure 2.2.2a**



Pakistan's Mineral Wealth Per Capita and Production Efficiency **Figure 2.2.2b**



Sources: PBS and WB

standards. In some cases, policies need to be revisited for a comprehensive and informed policy design in light of recent constitutional changes as the policies were formulated prior to passing of a relevant Act.

These gaps signify a disconnect between national and sub-national policies, as well as within the policies and rules of a particular jurisdiction. In this regard, the proposed National Mineral Harmonization Framework 2025 delayed on account of legislative adoption – is a step in the right direction as a potential one-stop policy solution to overcome these disparities. Moreover, due to the cross-cutting nature of mineral resources, a well-integrated mineral policy needs to ensure a unified mechanism for embracing mineral-specific international principals and best practices. This can be made possible by ensuring an enhanced presence on relevant international forums that are providing assistance to the member countries in the areas including, tailored technical support, capacity building, legal, policy, and regulatory framework design.[71] A cohesive mineral policy framework may also outline steps to ensure business friendly and secure environment through the mineral supply chain. Further, formation of a permanent group of experts consisting of national and sub-national stakeholders, business community, and mining experts from international organizations and world's renowned mining companies can play a pivotal role in designing a synchronized policy framework to develop a thriving mineral industry in light of national priorities and international guidelines.

** Contribution of Muhammad Asghar Khan is acknowledged in writing this box*

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[71] UNDP has developed a set of principles to guide responsible mining embodied in a resource book called 'Managing Mining for Sustainable Development. This is based on socio-economic and environmental consideration. The OECD 'Due Diligence Guidance for Responsible Mineral Supply Chains' is also an important source on sustainable management of mining sector. The International Council on Mining and Metals (ICMM) – representing leading international mining companies like Barrick Gold - provides a comprehensive list of principals for companies involved in exploration of mineral resources to ensure sustainable mining activities. Similarly, other important tools and guidelines include, the International Energy Agency's 'Critical Mineral Policy Tracker' tool for governments to explore new critical minerals policies in three key areas (i) ensuring supply reliability and resiliency, (ii) promoting exploration, production and innovation, and (iii) encouraging sustainable and responsible practices.

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Box 2.3: Unlocking Pakistan's Tourism Potential

Travel & tourism now generates about 10 percent of global GDP and support 357 million jobs worldwide, roughly one in every ten jobs.[72] Despite immense potential, Pakistan captures only a fraction of this opportunity: the sector's total (direct and indirect) contribution stood at 5.9 percent of GDP in 2022 and provided 4.2 million jobs.[73] Pakistan ranks 101 out of 119 countries on the World Economic Forum (WEF) Travel & Tourism Development Index 2024. This subpar ranking shows that Pakistan has significant potential but urgent reforms are needed.

Pakistan's tourism sector features diverse attractions from the peaks of Gilgit-Baltistan and beaches of Balochistan to historical sites of the Gandhara and Indus Valley civilizations. However, challenges such as inadequate infrastructure, inconsistent standards, limited marketing, and regulatory hurdles resulted in underutilization or unexplored potential besides adverse security perception *(Murad Ahmed, 2022)*. Addressing these issues through strategic policies and investment can significantly enhance tourism's contribution to economic growth and job creation.

Globally, tourism demonstrates strong economic linkages, significantly benefiting multiple sectors. Every dollar of tourism value-added generates approximately $2.9 in total economic income, representing one of the highest multipliers across industries *(World Bank Panama Case Study, 2024)*. Moreover, each direct tourism job creates four additional jobs in sectors such as agriculture, construction, retail, manufacturing, and financial services *(World Bank Panama Case Study, 2024)*. Infrastructure investments driven by tourism, particularly in transportation like airports, roads, and railways, further amplify economic activity *(WTTC, 2024)*.

Alongside notable challenges, tourism offers substantial social and environmental benefits. It employs large number of women and youth, with women comprising approximately 54 percent of the global tourism workforce *(UNWTO, 2019)*. Environmentally, responsible tourism can effectively fund conservation initiatives, exemplified by successful ecotourism models in Costa Rica and wildlife conservancies in Namibia, which have leveraged tourism revenues for biodiversity protection and community development *(Mossy Earth, 2024)*. However, tourism also contributes around 8 percent of global carbon emissions and substantial waste generation, highlighting the critical need for sustainable practices to mitigate environmental impacts *(Carbon Footprint of Tourism, 2025)*.

The Pakistani government recognizes tourism's potential to drive economic growth and has stepped up efforts to boost the sector. Key initiatives include the Special Investment Facilitation Council (SIFC), which aims to simplify investment procedures, encourage public-private partnerships through Green Tourism Pakistan, and expand visa

[72] Source: Tourism and Competitiveness (updated 2024) World Bank. https://www.worldbank.org/en/topic/competitiveness/brief/tourism-and-competitiveness
[73] Promoting Responsible Tourism in Pakistan's North (feature story, 2023). Source: World Bank

access by offering more e-visas and visas-on-arrival. Together with these steps, Pakistan needs to invest in better roads, modern airports, and improved digital infrastructure to make tourist destinations easier and more appealing for international visitors.

However, despite these advancements, persistent policy gaps and challenges remain. One critical area that needs attention is the fragmented governance structure. While the establishment of bodies like the National Tourism Coordination Board has improved coherence, further integration is needed between federal and provincial authorities to harmonize standards, reduce bureaucratic hurdles, and ensure coordinated infrastructure development. A unified tourism policy, clearly delineating roles and responsibilities, would significantly enhance governance effectiveness and accountability.

Security concerns continue to discourage tourism in Pakistan. Occasional incidents, restrictive travel advisories, and negative media coverage create "risk premium" on travel to Pakistan. To address this, Pakistan must act visibly. Tourist police, safe travel corridors, and trained guides can build confidence. Clear communication of safety measures, faster responses to incidents can reduce fear and strong branding and transparent messaging abroad are vital to change perception.

Finally, climate risks and low service quality remain serious obstacles for Pakistan's tourism sector.[74] The 2022 and 2025 floods, coupled with the frequent occurrence of landslides, have underscored the vulnerability of roads, mountain infrastructure, and small enterprises and hence the need to implement climate-resilient planning and efficient disaster risk management in all new developments. At the same time, hospitality skills remain below regional standards, and training programs are often not aligned with international standards. In this regard, establishing vocational training institutes can professionalize hospitality business and ensure visitors are provided with uniform and high-quality services.

Since tourism creates many jobs and benefits various parts of the economy, even small improvements could greatly increase earnings, provide more job opportunities for women and youth, and boost rural areas. To fully achieve these benefits, Pakistan must simplify governance, build climate-resilient infrastructure, and improve hospitality skills through clear, coordinated, and sustainable actions.

** Contribution of Saad Ali is acknowledged in writing this box*

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