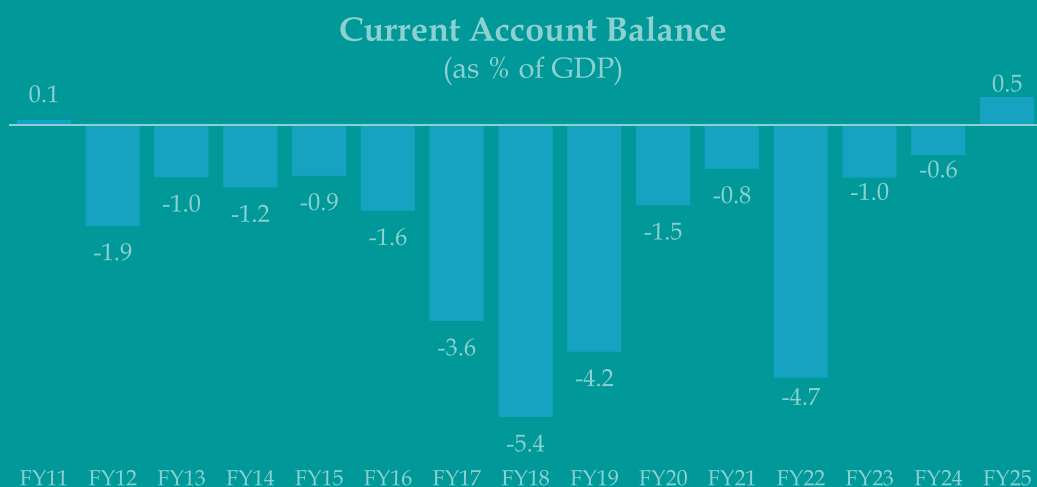


## Balance of Payments

*Pakistan's balance of payments position continued to improve in FY25, with current account balance posting first surplus in fourteen years. The turnaround in current account balance is mainly attributed to a remarkable surge in workers' remittances and record ICT exports, which more than compensated for widening of trade deficit. The current account surplus supported stability in foreign exchange market and facilitated SBP in building external buffers. This, combined with higher loan disbursements from multilateral and bilateral creditors, led to further accretion in SBP's FX reserves of more than US\$ 5 billion during FY25, besides helping to comfortably meet external obligations.*



## 5 Balance of Payments

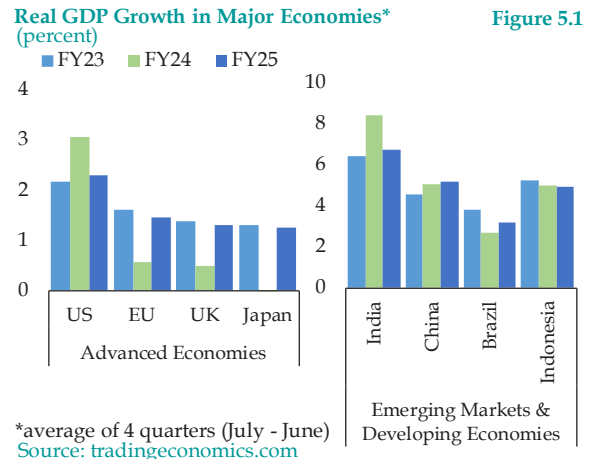
### 5.1 Global Economic Review

The global economy that stabilized in FY24 after series of adverse shocks, posted a moderate recovery in FY25. This supported a pickup in global trade, which helped improve supply chains and ease pressures on commodity prices. Accordingly, inflation remained close to the targets across most of the advanced economies (AEs) and emerging markets and developing economies (EMDEs).

However, economic recovery remained uneven, as AEs witnessed relatively robust growth, while the expansion in EMDEs was modest compared to FY24 (**Figure 5.1**). The global economy also faced additional headwinds towards the end of FY25, arising from heightened uncertainty linked to steep tariff hikes by the US and intensifying geopolitical tensions. The increased uncertainty raised concerns about sustaining recovery in global trade and growth, alongside increased possibility of disruptions in global supply chains that exacerbated cost-push inflationary pressures. As a result, the households became cautious about consumption decisions, firms deferred investments, and financial markets saw increased volatility.<sup>1</sup>

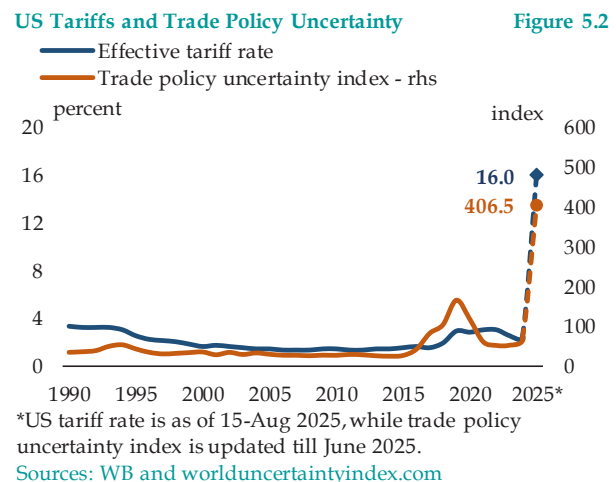
The incoming economic data showed that the unfavorable impact of the aforementioned developments started to materialize towards the end of FY25. Global trade policy uncertainty surged to historic high in the last quarter of FY25, following counter-tariffs by major U.S. trading partners and a delayed implementation of U.S. tariffs (**Figure 5.2**). This triggered a steep drop in new export orders, pointing to weakening goods trade.<sup>2</sup>

Tense global environment weighed on prices of almost all major commodities, except for precious metals. The prices of both the energy and non-



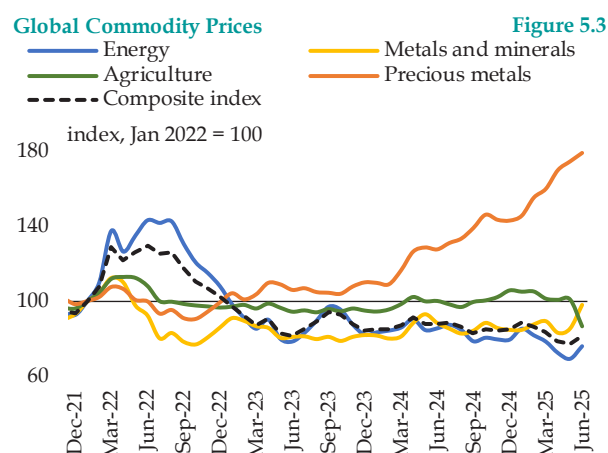
energy items trended downwards in the second half of FY25. However, the trend reversed in June 2025 as geopolitical conflicts disrupted global supply chains, leading to an increase in commodity prices, except for agriculture commodities. The prices of precious metals, given their nature as safe havens, continued to surge (**Figure 5.3**).

These developments added to the existing price pressures emanating from tight labour markets



<sup>1</sup> World Economic Outlook, April 2025

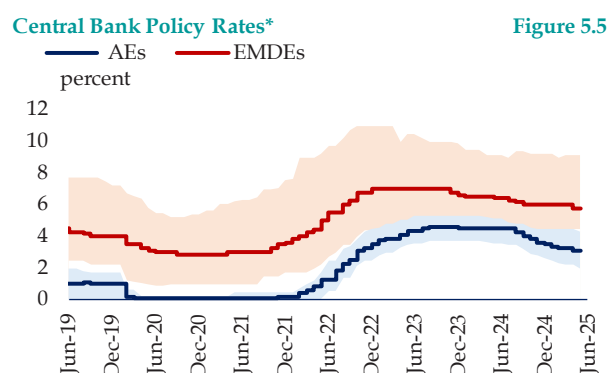
<sup>2</sup> As per S&P, the global purchasing managers index of new export orders gradually crossed 50 mark (expansionary zone) in March 2025, but dropped below 50 (contractionary zone) in the subsequent months.



Source: WB

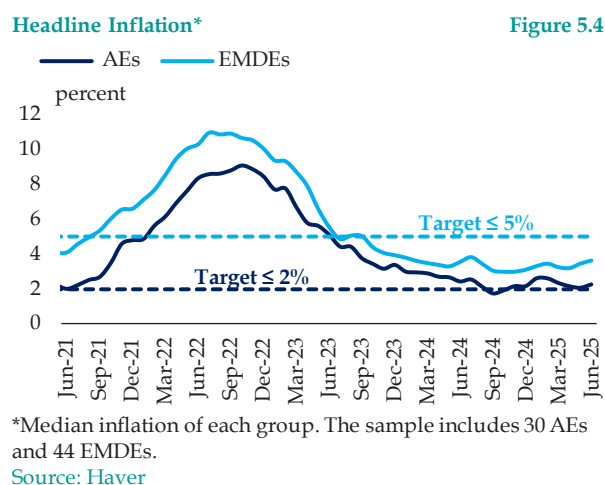
and services sector in the AEs, and higher food inflation and currency depreciation in case of EMDEs. This was reflected by inching up of inflation in both the AEs and EMDEs in the last quarter of FY25 (Figure 5.4).

Consequently, the pace of monetary policy easing slowed down. While inflation appeared to be dominated by cost-push factors because of supply chain disruptions amid regional conflicts, there were concerns that it may decline if demand slows due to precautionary savings and thus lower consumption. In this background, most of the advanced as well as emerging economies' central banks remained cautious about further monetary easing, waiting to see how the impact of these developments unfolds (Figure 5.5).



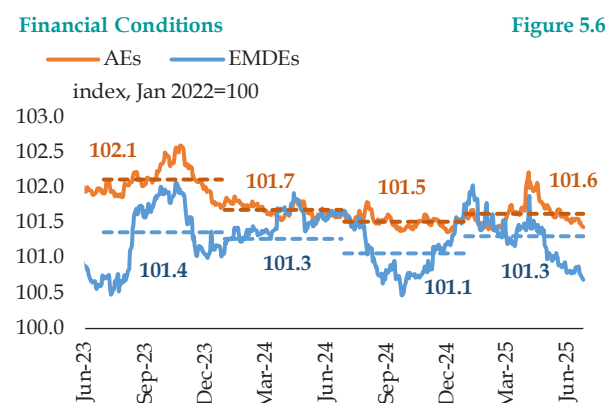
\* The lines display the median policy rates for 73 EMDEs and 14 AEs. The shaded areas show the range between the 25th and 75th percentile of the respective policy rates.

Sources: Haver and cbrates.com



The cautious monetary policy stance was reflected in financial markets. Given increased uncertainty and higher inflation expectations, global financial conditions tightened in the latter part of FY25 (Figure 5.6). The escalation and subsequent partial easing of trade tensions in the last quarter caused notable volatility in both the equity and government bond markets. These developments had substantial implications for EMDEs, where sovereign bond spreads rose and currencies depreciated against US\$ (Figure 5.7) further exacerbating existing vulnerabilities, such as an increased reliance on imports, low external buffers, a high debt burden, and limited fiscal space.

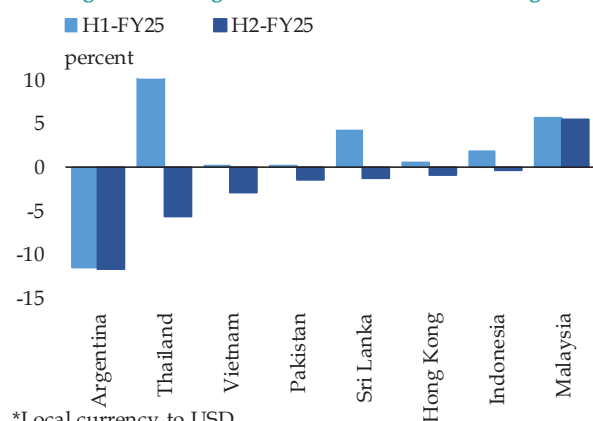
The tight financial conditions, marked by elevated interest rates and spreads, constrained credit



Note: Higher numbers are associated with tighter financial conditions. Dotted lines represent half year average.

Source: Bloomberg

Exchange Rate Changes\*



\*Local currency to USD

Source: Haver

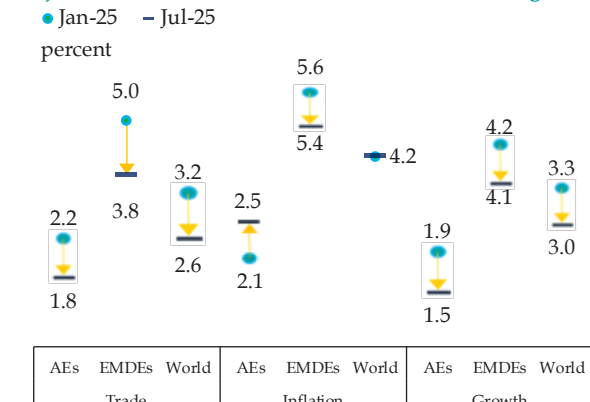
supply and heightened risk aversion among lenders. Hence, the pace of economic growth in the last quarter of FY25 moderated in most of the AEs and EMDEs.<sup>3</sup> If sustained, these dynamics may amplify economic slack and increase the risk of a broader downturn, warranting careful calibration of monetary and financial policies to avoid unintended tightening effects.

Acknowledging these risks, the multilateral agencies have revised down the projections of global growth and trade, while kept the inflation projections unchanged compared to those prior to the emergence of tariff and geopolitical tensions.<sup>4</sup> Moreover, the magnitude appears to be more pronounced in trade growth of EMDEs (Figure 5.8) given their higher exposure and lower resilience to external shocks. Nonetheless, it is pertinent to mention that the current economic landscape has been highly complex and continues to evolve.

## 5.2 Pakistan's Balance of Payments

Pakistan's balance of payments position improved further in FY25, with current account balance (CAB) posting the highest surplus in 22 years. The resulting improved market liquidity allowed the SBP to make net purchases of US\$ 7.7 billion during FY25. This, along with the successful first

Projections of Macroeconomic Variables for 2025

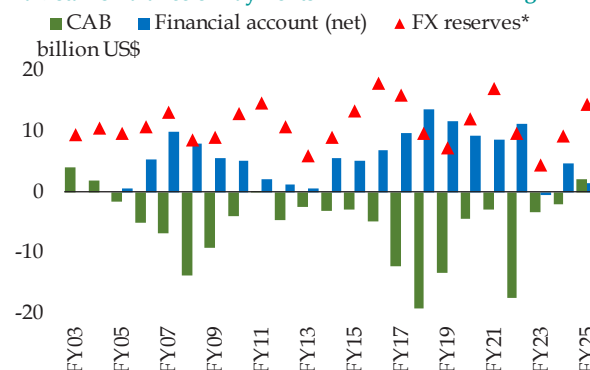


Source: IMF

review under the IMF's EFF program and higher-than-last year official disbursements from multilateral and bilateral creditors, strengthened FX reserves, notwithstanding large debt repayments (Figure 5.9 and Table 5.1). These favorable developments supported stability in foreign exchange market and reduced kerb market premium.

The improvement in CAB, despite increase in trade deficit, was largely driven by surge in workers' remittances. Moreover, the services account and primary income balances improved during FY25. The former mainly owed to a steady increase in ICT exports, while the latter was due to the fall in global interest rates.

Pakistan's Balance of Payments



\*SBP reserves excluding CRR/SCRR, net ACU, foreign currency cash holding

Source: SBP

<sup>3</sup> Among major AEs, GDP growth in EU, UK and Japan moderated to 1.4, 1.2, and 1.2 percent in Q4-FY25 from 1.5, 1.3 and 1.8 percent in the preceding quarter, respectively. Similarly, in EMDEs like China, it decelerated to 5.2 percent from 5.4 percent.

<sup>4</sup> World Economic Outlook Update, July 2025 and Global Economic Prospects, June 2025

## The State of Pakistan's Economy, Annual Report 2024-25

Pakistan's Balance of Payments\*

Table 5.1

million US\$

|                                                 | FY23           | FY24           | FY25           | Abs. change over FY24 |
|-------------------------------------------------|----------------|----------------|----------------|-----------------------|
| <b>Current account balance</b>                  | <b>-3,275</b>  | <b>-2,072</b>  | <b>2,113</b>   | <b>4,185</b>          |
| <b>Balance on trade in goods</b>                | <b>-24,819</b> | <b>-22,177</b> | <b>-26,786</b> | <b>-4,609</b>         |
| Exports of goods (FOB)                          | 27,876         | 30,980         | 32,302         | 1,322                 |
| Imports of goods (FOB)                          | 52,695         | 53,157         | 59,088         | 5,931                 |
| <b>Balance on trade in services</b>             | <b>-1,042</b>  | <b>-3,110</b>  | <b>-2,622</b>  | <b>488</b>            |
| Exports of services                             | 7,596          | 7,691          | 8,383          | 692                   |
| ICT Exports                                     | 2,596          | 3,223          | 3,810          | 587                   |
| Imports of services                             | 8,638          | 10,801         | 11,005         | 204                   |
| <b>Balance on primary income</b>                | <b>-5,765</b>  | <b>-8,986</b>  | <b>-8,902</b>  | <b>84</b>             |
| o/w Interest payments                           | 4,612          | 5,546          | 5,313          | -233                  |
| Profit & dividends                              | 331            | 2,215          | 2,220          | 4                     |
| <b>Balance on secondary income</b>              | <b>28,351</b>  | <b>32,201</b>  | <b>40,423</b>  | <b>8,222</b>          |
| o/w Workers' remittances                        | 27,333         | 30,251         | 38,300         | 8,049                 |
| <b>Capital account balance</b>                  | <b>375</b>     | <b>195</b>     | <b>170</b>     | <b>-25</b>            |
| <b>Financial account*</b>                       | <b>468</b>     | <b>-5,370</b>  | <b>-1,501</b>  | <b>3,869</b>          |
| <b>Direct investment (net)*^</b>                | <b>-670</b>    | <b>-2,126</b>  | <b>-2,398</b>  | <b>-272</b>           |
| <b>Portfolio investment (net)*^</b>             | <b>1,012</b>   | <b>376</b>     | <b>637</b>     | <b>261</b>            |
| <b>Other Investment</b>                         | <b>135</b>     | <b>-3,610</b>  | <b>265</b>     | <b>3,875</b>          |
| Buildup in FX assets abroad                     | -964           | -381           | 72             | 453                   |
| FX Loans and liabilities                        | -1,099         | 3,229          | -193           | -3,422                |
| Central bank                                    | 0              | 999            | 0              | -999                  |
| Banks                                           | 1,241          | 715            | -1,460         | -2,175                |
| <b>General government</b>                       | <b>-2,085</b>  | <b>1,565</b>   | <b>2,320</b>   | <b>755</b>            |
| Disbursements                                   | 9,891          | 6,044          | 9,518          | 3,474                 |
| Amortization                                    | 11,660         | 6,727          | 7,643          | 916                   |
| Other liabilities (net)                         | -316           | 2,248          | 445            | -1,803                |
| <b>Other Sector</b>                             | <b>-255</b>    | <b>-50</b>     | <b>-1,053</b>  | <b>-1,003</b>         |
| Disbursements                                   | 398            | 2,419          | 675            | -1,744                |
| Amortization                                    | 1,663          | 1,905          | 1,691          | -214                  |
| Other liabilities (net)                         | 1,010          | -564           | -37            | 527                   |
| <b>Net errors and omissions</b>                 | <b>-850</b>    | <b>-631</b>    | <b>-40</b>     | <b>591</b>            |
| <b>Overall balance</b>                          | <b>4,218</b>   | <b>-2,862</b>  | <b>-3,744</b>  | <b>-882</b>           |
| <b>SBP's liquid FX reserves</b>                 | <b>4,445</b>   | <b>9,390</b>   | <b>14,506</b>  | <b>5,116</b>          |
| <b>PKR/US\$ app(+)/dep(-) in % (end-period)</b> | <b>-28.4</b>   | <b>2.7</b>     | <b>-1.9</b>    | <b>-</b>              |

\*as per IMF's Balance of Payments and International Investment Position Manual sixth edition (BPM 6), negative sign means net FX inflow into Pakistan and vice versa. ^FDI (net) = net FDI inflows - net FDI outflows

Source: SBP

The increase in trade deficit was driven by a broad-based rise in imports, which outpaced the moderate growth in exports. Export growth was supported by recovery in global demand, as reflected by an increase in export volumes. Meanwhile, the growth in imports, particularly of raw materials, was largely volume-driven amid easing global commodity prices and improving domestic economic activity (Chapter 2).

The financial account recorded a net inflow of US\$ 1.5 billion, significantly lower compared to the previous year. Moreover, the inflows were led by higher official loan disbursements. Although foreign direct investment (FDI) edged up, foreign portfolio investment (FPI) witnessed net outflows. Despite robust equity returns in FY25, foreign investors maintained a net selling position due to Pakistan's downgrade to frontier market status and investors' profit-taking behavior.<sup>5</sup>

<sup>5</sup> FTSE reclassified Pakistan from Secondary Emerging to Frontier market status effective from September 23, 2024.

The surplus in CAB and net inflows in financial account, together with disbursements from IMF, led to US\$ 5.1 billion increase in SBP's FX reserves to US\$ 14.5 billion at end-June 2025. These were sufficient to finance 2.4 months' of imports, up from 1.6 months at end-June 2024.<sup>6</sup> Moreover, the exchange rate remained broadly stable after some volatility in the beginning of the FY25, and kerb premium almost dissipated.

Nonetheless, the improvement in external account largely owed to workers' remittances and official inflows instead of export performance and private inflows. In this background, the government's recent efforts to rationalize import tariffs to foster export-led growth is a step in the right direction. Yet, tariff reforms alone cannot drive the transformation – these must be accompanied by complementary reforms to enhance economic competitiveness and provide enabling environment (Box 5.1).

### 5.3 Current Account Balance

The CAB recorded a surplus of US\$ 2.1 billion in FY25, in contrast to a deficit of similar amount in

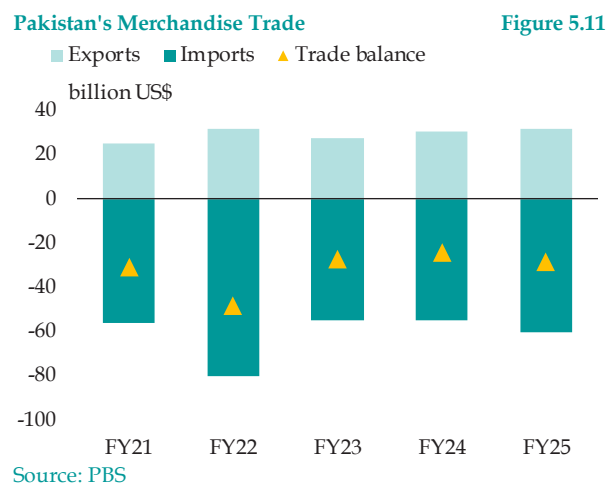
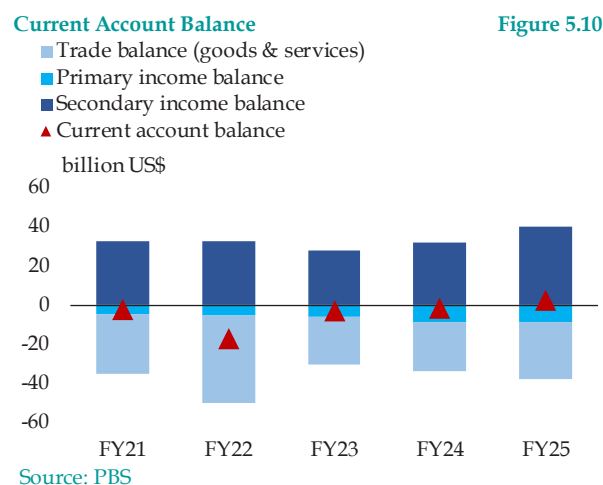
FY24. This significant improvement in the CAB is attributed to the strong growth in workers' remittances, which more than offset the deficits in trade and primary income accounts (Figure 5.10). The increase in remittances was driven by various initiatives implemented by the government and the SBP, which also resulted in lower kerb premium.<sup>7</sup>

#### Trade (in goods) Balance<sup>8</sup>

The deficit in merchandise trade widened to US\$ 28.3 billion in FY25, compared to US\$ 24.1 billion in FY24. The deficit was mainly driven by sharp rise in imports relative to the moderate growth in exports (Figure 5.11). The surge in imports reflects continuing moderate recovery in economic activity and stronger export-linked demand.

#### Exports

Exports grew by 4.5 percent during FY25, compared to 10.7 percent in the previous year (Table 5.2). The deceleration in export growth was primarily due to a decline in food exports, particularly of rice and sesame seeds. Re-entry of



<sup>6</sup> Based on the imports of goods and services projected by IMF.

<sup>7</sup> SBP and GoP introduced a number of policy measures including; reforms in the exchange companies sector ([www.sbp.org.pk/epd/2024/FECL9.htm](http://www.sbp.org.pk/epd/2024/FECL9.htm)); reimbursement of telegraphic transfer (T.T) charges scheme against home remittances ([www.sbp.org.pk/epd/2024/FECL10.htm](http://www.sbp.org.pk/epd/2024/FECL10.htm)); and promotion of home remittances ([www.sbp.org.pk/epd/2023/FECL15.htm](http://www.sbp.org.pk/epd/2023/FECL15.htm)) to encourage the flow of remittances through formal channels.

<sup>8</sup> This section is based on customs data reported by the Pakistan Bureau of Statistics (PBS). The PBS trade data would not tally with the payments record data, which is reported in Sections 6.2 and 6.3. For details on difference between these two data series, see Annexure of this report on Data Explanatory Notes.

Merchandise Exports (Major Items)

Table 5.2

million US\$

|                           | Values        |               | Change       |             | Volume Effect | Price Effect |
|---------------------------|---------------|---------------|--------------|-------------|---------------|--------------|
|                           | FY24          | FY25          | Absolute     | Percent     |               |              |
| <b>Exports</b>            | <b>30,677</b> | <b>32,046</b> | <b>1,369</b> | <b>4.5</b>  | -             | -            |
| <b>Textile</b>            | <b>16,656</b> | <b>17,890</b> | <b>1,234</b> | <b>7.4</b>  | -             | -            |
| Apparel*                  | 7,971         | 9,141         | 1,170        | 14.7        | 471           | 699          |
| Home textile*             | 3,858         | 4,196         | 338          | 8.8         | 246           | 92           |
| Cotton yarn               | 956           | 681           | -275         | -28.7       | -264          | -11          |
| Raw cotton                | 56            | 1             | -55          | -           | -55           | -            |
| <b>Non-textile</b>        | <b>14,021</b> | <b>14,156</b> | <b>135</b>   | <b>0.96</b> | -             | -            |
| <b>Food</b>               | <b>7,370</b>  | <b>7,117</b>  | <b>-253</b>  | <b>-3.4</b> | -             | -            |
| Rice                      | 3,933         | 3,353         | -580         | -14.7       | -137          | -443         |
| Basmati                   | 877           | 831           | -46          | -5.3        | 39            | -85          |
| Non-basmati               | 3,055         | 2,522         | -533         | -17.4       | -142          | -391         |
| Oil seeds                 | 410           | 373           | -37          | -9.0        | 120           | -157         |
| <b>Petroleum</b>          | <b>398</b>    | <b>573</b>    | <b>175</b>   | <b>44.2</b> | -             | -            |
| Petroleum products        | 321           | 464           | 143          | 44.5        | 157           | -14          |
| <b>Other manufactures</b> | <b>4,032</b>  | <b>4,228</b>  | <b>196</b>   | <b>4.9</b>  | -             | -            |
| Cement                    | 267           | 330           | 63           | 23.8        | 76            | -13          |
| Pharma                    | 341           | 458           | 117          | 34.2        | 103           | 14           |
| Plastic material          | 400           | 469           | 69           | 17.2        | 38            | 31           |
| Engineering goods         | 351           | 409           | 58           | 16.6        | -             | -            |

\*The apparel category includes hosiery (knitwear) and readymade garments, while the home textile category includes towel and bed wear.  
Source: PBS

India in rice export and lower domestic production explain the decline in the former, while restoration of supply lines from Ethiopia and Sudan to China – the major importer of sesame seeds – explains the decline in the latter. The impact of lower food exports was offset by increase in export of textiles, followed by petroleum products and other manufactures (Figure 5.12).

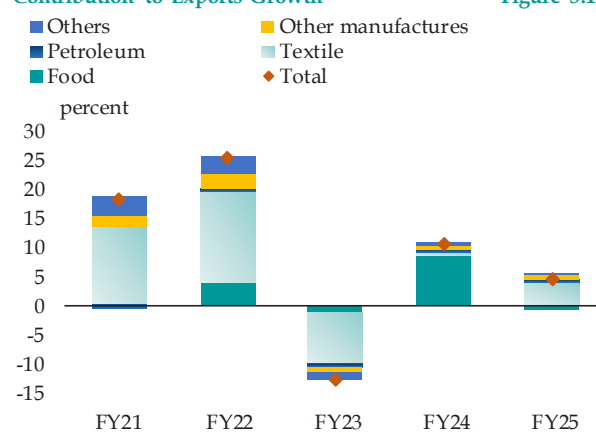
### Textile exports

Textile exports grew by 7.4 percent in FY25, improving markedly from a marginal increase of 0.9 percent the previous year.<sup>9</sup> The growth was led by value-added segments; apparel and home textiles. Two major developments underpinned this growth: (i) recovery in global demand leading to higher volumes; and, (ii) a shift from low-price,

high-bulk home textiles towards high-price, low-weight apparels.<sup>10</sup> The latter also favorably impacted exporters' profitability margins. The volume effect was especially pronounced in

Contribution to Exports Growth

Figure 5.12



Source: PBS

<sup>9</sup> Textile exports grew at an average annual rate of 8.4 percent during FY21-FY25, including the exceptional performance seen during the Covid-19 period.

<sup>10</sup> Garments and knitwear are considered high-price, low-weight exports and home textiles as high-weight, low-price exports. While not a formally standardized classification, this distinction is in line with industry practices and largely holds internationally, aside from premium home textiles such as designer cushion covers or curtains which fetch far higher unit values. In Pakistan, FY25 HS-8 data supports this pattern, price of bed wear and towel (Chapter 63) averaged Rs 1000/kg compared to Rs 38,000/kg of knitwear (Chapter 61) at and Rs 30,000/kg of readymade garments (Chapter 62).

Exports of Home Textiles Table 5.3

| Exports to US    | Volume change (%) | Unit Value (US\$/M2*) |      |
|------------------|-------------------|-----------------------|------|
|                  | FY25 over FY24    | FY24                  | FY25 |
| Thailand         | 36.2              | 0.72                  | 0.68 |
| Vietnam          | 21.0              | 1.0                   | 1.0  |
| India            | 8.9               | 0.90                  | 0.81 |
| Philippines      | 1.8               | 0.78                  | 0.89 |
| China            | 0.5               | 0.58                  | 0.54 |
| Pakistan         | -2.4              | 0.69                  | 0.71 |
| Bangladesh       | -6.4              | 0.71                  | 0.68 |
| Exports to EU-27 | Volume change (%) | Unit Value (Euro/KG)  |      |
|                  | FY25 over FY24    | FY24                  | FY25 |
| Thailand         | 24.0              | 5.0                   | 4.9  |
| Vietnam          | 8.87              | 4.7                   | 4.9  |
| India            | 14.7              | 5.3                   | 5.3  |
| Philippines      | 32.7              | 5.0                   | 4.7  |
| China            | 13.5              | 3.3                   | 3.3  |
| Pakistan         | 10.8              | 5.5                   | 5.5  |
| Bangladesh       | 5.8               | 4.8                   | 5.1  |

\*M2 stands for square meter equivalent, which a notional unit used by Otexa.

Sources: Otexa, Eurostat and SBP staff calculations

export of home textiles to EU, driving much of the increase. Amid US tariff uncertainties, Asian Exporters, including Pakistan, redirected export of high-volume home textiles to EU.<sup>11</sup> Resilient consumer demand for affordable home decor and fast-fashion, coupled with lower average prices, further boosted EU's import volumes.<sup>12</sup>

In contrast, export of home textiles to U.S. – which accounts for nearly 30 percent of Pakistan's home textiles market - declined in volume terms. This is because regional competitors (India and Thailand) have captured a larger market share in U.S. by offering competitive prices. Moreover, large

Unit Prices of Home Textiles and Apparel – FY25 Table 5.4

|          | Apparel | Home Textile (US\$/M2*) |
|----------|---------|-------------------------|
| Pakistan | 2.9     | 0.71                    |
| EU-27    | Apparel | Home Textile (Euro/KG)  |
| Pakistan | 12.5    | 5.50                    |

\*M2 stands for square meter equivalent, which a notional unit used by Otexa.

Sources: Otexa, Eurostat and SBP staff calculations

retailers such as Walmart, IKEA, and Target have adopted the 'China+1 (or +2 or +3)' <sup>13</sup> strategy to reduce their reliance on China by spreading orders across several other countries. This has increased price competition and steered orders towards lower-unit price suppliers like Thailand and Bangladesh. As per some studies, this strategy has also greatly benefited regional textile competitors – Vietnam, India and Cambodia.<sup>14</sup> For retailers, this transition is not only a response to shifting global sourcing preferences, fast turnaround and design customization, but also a profitability-driven realignment (Table 5.3).

It is worth highlighting that apparel exports generate significantly higher value per unit weight compared to bulkier home textiles, offering exporters an incentive to shift production (Table 5.4).<sup>15</sup> In this context, Pakistani exporters, over the last few years, have invested in garment stitching units, design studios and compliance certifications to meet requirements of EU and US fashion brands.<sup>16</sup>

In parallel, large textile firms have recently initiated *retrofitting* their existing infrastructure to meet global sustainability standards and reduce

<sup>11</sup> EU imports of low-cost, high-volume home textile products from Pakistan are dominated by non-printed, non-knitted toilet, kitchen, and bed linen, while high-value printed and knitted segments account for a relatively small share of Pakistan's home textile exports to EU. Source: Data for HS-63: Home Textiles (Including Towels, Bedsheets & so on); Islamabad: Pakistan Business Council

<sup>12</sup> Textiles Intelligence (2025). Trends in EU textile and clothing imports, 2025; CBI website: <https://www.cbi.eu/market-information/home-decoration-home-textiles/what-demand>

<sup>13</sup> China+1 (or +2 or +3) strategy means keeping a significant base in China to leverage its established scale, efficiency and supply-chain depth; while simultaneously diversifying production to additional hubs such as Vietnam, India, or Cambodia. This approach reduces over-reliance on China, and mitigates risks from trade tensions, supply chain disruptions and rising costs.

<sup>14</sup> East West Basics website; Asia Sourcing Strategy 2025: China, Vietnam & Beyond

<sup>15</sup> In view of these trends, the relevant trade associations have also advocated for a dedicated 'Apparel Policy', separate from other textile export segments. Source: <https://texprocil.org/ibtnewsclipping/1711605950-IBTEX28032024.pdf>

<sup>16</sup> Corporate reports of composite textile companies have highlighted a strategic realignment towards higher value-added segments and capacity expansions by higher-end garment producers. Some rating agencies have also noted that, on a strategic front, companies in the Apparel segment intend to further enhance its production capacity.

cost inefficiencies, key to remain competitive in export markets and increase market share. While some leading brands may have taken the lead, scaling up such initiatives across the industry is crucial to achieve export competitiveness, unlock significant cost savings and channel these gains in further productivity-enhancing investments for sustainable long-term growth (Box 5.2).<sup>17</sup>

### Exports of low value-added textiles fell sharply<sup>18</sup>

The sharp decline in domestic cotton production not only reduced the exportable surplus, but also pushed domestic cotton prices above import parity, rendering raw cotton export economically unviable. Yarn export also dropped significantly in FY25 as upstream textile segments, particularly spinning and weaving, struggled with high energy and operational costs.<sup>19</sup> The continuation of the differential General Sales Tax (GST) policy also favored yarn imports over domestic production.<sup>20</sup>

### Non-textile exports

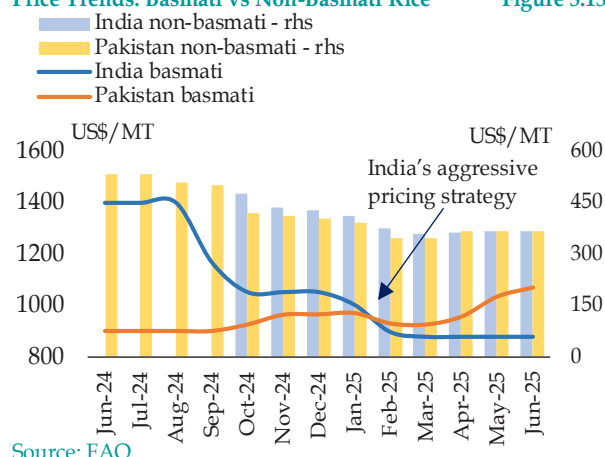
#### Food group exports declined primarily due to lower rice exports<sup>21</sup>

After recording strong gains in the previous year, rice exports declined by 14.7 percent in FY25, mainly due to the re-entry of India into the global rice market in September 2024.<sup>22</sup> Besides lower

quantum effect, prices also declined,<sup>23</sup> reflecting intensified global competition amid record-high global rice stocks supported by robust production.<sup>24</sup>

Within rice, export of non-basmati rice fell significantly from US\$ 3.1 billion in FY24 to US\$ 2.5 billion in FY25, largely due to reduced prices to match with India's, in order to maintain export market (Figure 5.13). However, export volume remained largely stable for the *irri* rice, supported by strong demand from the Philippines, where food inflation concerns and El Niño-related domestic supply shocks drove strategic procurement.<sup>25</sup> However, exports to Malaysia and Kenya declined. India regained market share in Kenya owing to lower tariffs, while Pakistan faced a 35 percent duty in Kenya.<sup>26</sup> Similarly, Pakistan

Price Trends: Basmati vs Non-Basmati Rice Figure 5.13



<sup>17</sup> One of the high-end textile companies, Nishat Mills, in its corporate financial reports, has reported that energy-retrofit interventions such as installing captive co-generation power plants have improved energy efficiency. Corporate financial reports of other textile firms increasingly highlight plans for investment in energy efficiency, reflecting its growing importance as a driver of cost savings and improved capacity utilization.

<sup>18</sup> Domestic cotton production in FY25 faced significant challenges due to pest infestations, heatwaves and erratic rainfalls, leading to late harvesting and poor quality. The production decreased from 10.2 to 7.1 million tons in FY25. Moreover, Cotton A index shows a declining trend in cotton prices which has encouraged the import of raw cotton.

<sup>19</sup> Textile Commissioner's Organization latest available report mentions the closing of 109 spinning units. Source: TCO website <https://www.tco.com.pk/documents/5f144babb2.pdf>

<sup>20</sup> Imported yarn, particularly polycotton and polyester, were exempted from sales tax while domestic production faced GST.

<sup>21</sup> Rice made up around 47.0 percent of total food exports and 23.7 percent of total non-textile exports in FY25.

<sup>22</sup> India banned export of non-basmati rice in July 2023 to ensure domestic food security and control rising food inflation.

<sup>23</sup> As per SBP staff calculation based on PBS data, the unit values across all rice categories decreased by FY25 compared to FY24.

<sup>24</sup> Global rice production in 2024/25 is projected at a record high of 527.6 million tons (milled basis), up 10.3 million tons from a year earlier. Bangladesh, Brazil, Cambodia, China, the EU, India, Indonesia, Pakistan, and Thailand account for most of the projected increase in rice production. Source: USDA (2024). Rice Market Outlook. United States Department of Agriculture, Washington D.C.

<sup>25</sup> VIS (2024). Rice Sector Report, VIS Credit Rating Company Limited, Karachi.

<sup>26</sup> S&P Global; <https://www.spglobal.com/commodity-insights/en/news-research/latest-news/agriculture/072525-pakistani-exporters-hopeful-of-tariff-reduction-on-rice-exports-to-kenya>

faced higher tariffs in Malaysia compared to India and Thailand.<sup>27</sup> Moreover, export to Indonesia declined as favorable weather supported higher rice production amid the Indonesian government's self-sufficiency policies.<sup>28</sup>

Meanwhile, the decline in husked brown rice shipments to the EU and UK – Pakistan's key markets for this category – could be traced to stricter Sanitary and Phytosanitary regulations, and recurring compliance issues, including detentions over excessive mycotoxins and pesticides residual levels.

In contrast, export of basmati rice remained relatively resilient, particularly in markets like UAE and Kazakhstan. While overall basmati export value declined by 5.3 percent due to lower prices, the quantum increased by 4.5 percent. This improved performance shows how Pakistan is moving from being just a backup rice supplier to becoming a steady trade partner in premium markets. Effective trade advocacy and successful Business to Government (B2G) collaborative efforts have deepened market penetration in relatively newer, high-margin countries like Saudi Arabia and Oman.

Notably, Pakistan's basmati rice has now been formally recognized by New Zealand under Geographical Indication (GI) frameworks – marking a critical policy and diplomatic milestone.<sup>29</sup> GI-certified products can fetch up to 2.3 times higher prices due to perceived authenticity, traceability, and quality controls. This enhanced market positioning and reputational signaling has helped Pakistani

basmati rice to sustain prices above India's likely contributed to the price rise in the last quarter of FY25.

Among other food items, export of oilseeds (particularly sesame seeds) also declined in FY25, mainly due to price effect. The re-entry of Sudanese and Ethiopian suppliers in the market added to global glut in the oilseed supply, which dragged down prices of sesame seeds.<sup>30</sup> Nevertheless, demand remained strong from China, besides Kazakhstan emerging as a new export destination.

On the other hand, within food, export of tobacco and fish and seafood saw increase. Tobacco exports more than doubled, from US\$ 64 million in FY24 to US\$ 167 million in FY25, as domestic firms pivoted outward to counter local profitability challenges. Italy, Greece, UAE, and Indonesia emerged as top buyers, reflecting strong demand in diversified global markets.

Fish and seafood exports also rebounded by 13.4 percent to US\$ 465 million. The recent draft policy by FAO titled 'National Fisheries and Aquaculture Policy 2025-2035' provides a timely and structured framework to unlock the sector's export potential if implemented in letter and spirit (See Box 5.1, State of Pakistan's Economy Half-Year Report FY25).

### *Exports of POL products increased sharply*

Export of petroleum products, predominantly furnace oil (FO), increased by 44.5 percent in FY25 due to the structural shift in energy-mix in power

<sup>27</sup> <https://www.spglobal.com/commodity-insights/en/news-research/latest-news/agriculture/050125-indias-competitive-pricing-boosts-rice-exports-to-malaysia>, 2025; TDAP (2022) Pakistan-Malaysia Bilateral Trade Analysis

<sup>28</sup> Indonesian government restricted the Indonesian National Logistics Agency (BULOG), from importing any rice. Source: USDA (2025). Grain and Feed Annual, Jakarta: United States Department of Agriculture

<sup>29</sup> Similar rulings have been given earlier: In 2018, EU declined India's request for exclusive trademark rights over basmati, a ruling that considered with a notable rise in Pakistani basmati rice exports in subsequent years. Likewise, IP Australia dismissed India's application in 2022, preserving Pakistan's ability to market basmati under its own name. While Australia and New Zealand, together account for a small market share, the direct impact of these rulings is limited. However, their cumulative legal effect is significant: they have curtailed the risk of exclusionary trademarking, strengthened Pakistan's claim to market authenticity and enhanced its credibility in premium markets.

<sup>30</sup> Pakistan had benefitted last year from both higher demand from China amid supply disruptions from Sudan, Ethiopia, and Myanmar - alongside removal of a 9 percent import duty by China; USDA (2025). World Agricultural Production, United States Department of Agriculture Circular Series February 2025.

generation in recent years.<sup>31</sup> The continued phase-out of expensive furnace oil-based power generation – replaced by more cost-efficient alternatives such as coal, RLNG and renewables – has created large domestic surplus of furnace oil. This excessive supply is being strategically redirected to regional markets, particularly Afghanistan, effectively transforming a domestic liability into an export opportunity.

### *Exports of cement is maintaining the momentum*

Cement exports increased primarily due to volume effect, driven by strong demand for clinkers from Afghanistan. Export viability improved further amid decrease in international coal prices.<sup>32</sup> Facing a sharp decline of around 37 percent in domestic sales in FY25, the industry also began to diversify into new markets like Gabon and Yemen.

### *Exports of other manufactures picked up*

Pharmaceutical exports surged by 34.2 percent to US\$ 458 million, primarily driven by strong volume effect. The growth highlights the increased market access supported by the *Engage Africa Policy*, which facilitated entry into emerging destinations such as Congo, Ghana, Djibouti, and Sudan.<sup>33</sup> Exports to established markets – Afghanistan, Cameroon, Thailand, Philippines, Uzbekistan and Turkmenistan – also increased in FY25.

Policy reforms also played a positive role. The Active Pharmaceutical Ingredients (API)

Promotion Policy 2022 spurred capacity expansion.<sup>34</sup> Similarly, zero duty on import of critical APIs and the deregulation of non-essential drug prices fostered price competition, incentivizing production and outward orientation. Pakistan has recently established a new Pharmaceutical Export Promotion Council (PharmEx Pakistan) under Trade Development Authority of Pakistan (TDAP), to encourage public-private initiatives in this sector, in a bid to further expand its exports.<sup>35,36,37</sup>

Export of plastic materials increased by 17.2 percent to US\$ 469 million, largely driven by rising global demand for lightweight and sustainable packaging solutions amid continued expansion of e-commerce. However, the composition of Pakistan's plastic exports remained skewed towards low-value added products.<sup>38</sup>

Engineering goods' export also posted a robust 16.6 percent increase, reaching US\$ 409 million driven largely by higher shipments of electric equipment – including small-unit transformers and batteries – and other industrial equipment. These exports were mainly destined to Afghanistan, where the uptick is driven by post-conflict reconstruction efforts and improving energy infrastructure.

Export of leather manufacturers grew by 4.9 percent to US\$ 573 million, led by price-driven gains from export of leather gloves; particularly 'fancy' and 'industrial' gloves, which remained value-accretive in FY25. The increase in unit values reflects strong prices in international

<sup>31</sup> Signing of agreements on Upgrading Brownfield Refineries has been postponed to September 2025 as the refineries' demand to eliminate the GST exemption on petroleum products has still not been resolved in Finance Bill Budget.

<sup>32</sup> According to World Bank, global prices of coal on average declined by around 8 percent in FY25.

<sup>33</sup> These countries provide a good export opportunity, as their regulatory requirements are comparatively less stringent.

<sup>34</sup> This policy seeks to reduce dependence on imports from India and China by incentivizing local production of APIs, fostering growth of the domestic pharma industry.

<sup>35</sup> Source: BOI; <https://invest.gov.pk/node/1619>

<sup>36</sup> The existing units are increasing their capacity while eight new API units are in the process of establishment. Source: Khan, M.A. and Rauf, A. (2024). Promoting local production and active pharmaceutical ingredient (API) industry in LMICs: impact on medicines access and policy, *Journal of Pharmaceutical Policy and Practice* 2024, Vol. 17, No. 1, 2323683

<sup>37</sup> Associated Press of Pakistan; <https://www.app.com.pk/business/commerce-minister-vows-full-support-for-pharma-sector-announces-establishment-of-export-council/>

<sup>38</sup> These include plastics such as general purpose polystyrene, expandable polystyrene, and polypropylene. These are bulk; low-cost thermoplastics valued more for their affordability and wide applicability than for specialized material properties.

## Merchandise Imports (Major Items)

Table 5.5

million US\$

|                         | Values        |               | Change       |             | Volume Effect | Price Effect |
|-------------------------|---------------|---------------|--------------|-------------|---------------|--------------|
|                         | FY24          | FY25          | Absolute     | Percent     |               |              |
| <b>Imports</b>          | <b>54,781</b> | <b>60,344</b> | <b>5,563</b> | <b>10.2</b> | -             | -            |
| <b>Food</b>             | <b>7,904</b>  | <b>8,160</b>  | <b>256</b>   | <b>3.2</b>  | -             | -            |
| Wheat                   | 1,032         | 0             | -1,032       |             | -             | -            |
| Tea                     | 657           | 634           | -23          | -3.4        | -31           | 8            |
| Soybean oil             | 130           | 344           | 214          | 165.4       | 217           | -3           |
| Palm oil                | 2,779         | 3,393         | 615          | 22.1        | 201           | 414          |
| Pulses                  | 775           | 1,016         | 241          | 31.1        | 191           | 50           |
| Spices                  | 196           | 228           | 32           | 16.1        | 49            | -17          |
| <b>Energy</b>           | <b>16,910</b> | <b>15,936</b> | <b>-974</b>  | <b>-5.8</b> | -             | -            |
| POL                     | 6,644         | 5,960         | -684         | -10.3       | 289           | -972         |
| Crude                   | 5,531         | 5,447         | -85          | -1.5        | 685           | -770         |
| LNG                     | 3,945         | 3,475         | -470         | -11.9       | -1,890        | 1,420        |
| LPG                     | 789           | 1,055         | 266          | 33.6        | 79            | 187          |
| <b>Machinery</b>        | <b>8,501</b>  | <b>9,798</b>  | <b>1,297</b> | <b>15.3</b> | -             | -            |
| Electrical              | 3,275         | 3,842         | 567          | 17.3        | -             | -            |
| Textile                 | 149           | 305           | 156          | 104.5       | -             | -            |
| Power generating        | 418           | 631           | 213          | 50.8        | -             | -            |
| <b>Transport</b>        | <b>1,840</b>  | <b>2,450</b>  | <b>610</b>   | <b>33.2</b> | -             | -            |
| CBU                     | 344           | 393           | 49           | 14.2        | -             | -            |
| CKD/SKD                 | 1,004         | 1,593         | 589          | 58.8        | -             | -            |
| <b>Textile</b>          | <b>2,714</b>  | <b>5,036</b>  | <b>2,322</b> | <b>85.5</b> | -             | -            |
| Raw cotton              | 448           | 1,642         | 1,194        | 266.6       | 1,470         | -276         |
| Other textile items     | 733           | 1,551         | 818          | 111.6       | -             | -            |
| <b>Agro chemical</b>    | <b>8,508</b>  | <b>9,029</b>  | <b>521</b>   | <b>6.1</b>  | -             | -            |
| Fertilizer manufactured | 685           | 670           | -15          | -2.2        | -153          | 138          |
| Plastic material        | 2,271         | 2,480         | 210          | 9.2         | 198           | 12           |
| <b>Miscellaneous</b>    | <b>894</b>    | <b>987</b>    | <b>93</b>    | <b>10.4</b> | -             | -            |

Source: PBS

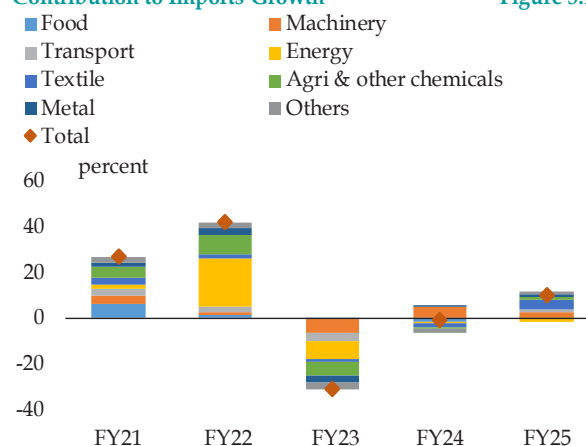
markets,<sup>39</sup> along with strategic compliance with international quality and traceability standards as endorsed by the Pakistan Leather Export Strategy (2023–27). With stable and high quality supply of raw material, Pakistan's exports to its high-end markets; Germany, Spain, U.S., U.K., and Canada also expanded.<sup>40</sup>

## Imports

Imports grew by 10.2 percent in FY25 compared to a contraction of 1.0 percent in FY24 (Table 5.5). This rebound was broad-based, with all groups, except for energy, registering mostly volume-led increase in imports (Figure 5.14). The decline in energy imports largely reflect lower prices, while

## Contribution to Imports Growth

Figure 5.14



Source: PBS

<sup>39</sup> PACRA (2025). Leather – Sector Study

<sup>40</sup> These markets cumulatively account for more than 50 percent of Pakistan's total leather exports.

LNG's import volume also declined. Despite the moderation in global commodity prices, higher import volumes of non-energy items, particularly industrial raw materials, machinery and metals, reflect the revival in industrial activity and stronger export-linked demand.

### *Energy imports decreased*

In FY25, Pakistan's energy import bill registered a reduction of 5.8 percent. The decline was largely driven by lower global oil prices, which offset the uptick in volumes of crude, LPG, and petroleum products.<sup>41</sup> Moreover, the import volume of LNG also declined sharply in FY25 due to reduced demand from power sector and industry. Within energy imports, a notable increase was observed in LPG (Liquefied Petroleum Gas), which grew by 33.6 percent to US\$ 1.1 billion, as consumers shifted to alternate fuel amid declining domestic natural gas production.

It is worth highlighting that the petroleum import quantum has largely remained unchanged in recent years, notwithstanding decline in LNG import volumes in FY25. The Integrated Energy Planning (IEP) framework (2021-2030) forecasts Pakistan's energy demand to nearly double by 2030, further compounding the reliance on imports.<sup>42</sup> The increasing reliance on energy imports is reinforced by Pakistan's significantly higher energy intensity of GDP compared to other regional countries, reflecting underlying inefficiencies in energy use.<sup>43</sup>

This may increase sensitivity of the external account to movement in international energy prices. Therefore, Pakistan must strategically recalibrate its energy import bill through structural reforms by gradually enhancing domestic capacities in sectors with key forward

linkages, particularly petrochemical raw materials (**Box 5.3**).

### *Food imports increased*

Higher import of food group was led by a surge in import of soybean, palm oil, pulses, and dry fruits. Notably, the import of soybean increased significantly - following the lifting of ban on GM soybean imports - driven by rising feed demand from the expanding poultry industry.

Palm oil imports also increased in FY25, driven by both higher volumes and prices. The price rise was fueled by production constraints in Indonesia and Malaysia, while strong demand from pharmaceuticals, soap, cooking oil and other processed food (confectionary) industries led to higher volumes (**Chapter 2**).

Pulses imports surged to US\$ 1 billion in FY25, reflecting sustained demand amidst persistent local production shortfalls. Import of spices also increased by 16.1 percent to US\$ 228 million, reflecting changing consumer appetite for global flavors and higher domestic demand for spices.<sup>44</sup>

### *Raw cotton imports increased sharply, reflecting lower domestic cotton production*

Import of raw cotton spiked due to slump in domestic cotton production and a rebound in export of value-added textiles. The widening gap between domestic availability and export commitments compelled firms to rely on imported cotton. This was further compounded by distortions from the GST on domestic cotton sales, which increased domestic prices of yarn, resulting in higher yarn imports as well. Moreover, shutdown of spinning and weaving mills in recent years due to higher electricity prices have eroded

<sup>41</sup> According to World Bank, global crude oil (Brent) decreased from US\$ 85/bbl in FY24 to US\$ 75/bbl in FY25.

<sup>42</sup> IEP Report (2021), Pakistan's Energy Demand Forecast 2021-2030, Integrated Energy Planning for Sustainable Development, Ministry of Planning Development & Special Initiatives

<sup>43</sup> Pakistan's energy intensity – the amount of energy needed to produce US\$1 of GDP – was 4.2 megajoules (MJ) per US\$, compared to 1.9 MJ/US\$ in Bangladesh, and just 1.7 MJ/US\$ in Sri Lanka. (Source: World Bank. Pakistan Energy Efficiency: Industrial Energy Efficiency and Decarbonisation (EE&D), Washington, D.C.: World Bank Group.

<sup>44</sup> Statista website; <https://www.statista.com/outlook/cmo/food/sauces-spices/pakistan>

local processing capacity, which promoted a shift towards higher yarn imports.

### *Machinery imports continue to increase albeit at a slower pace*

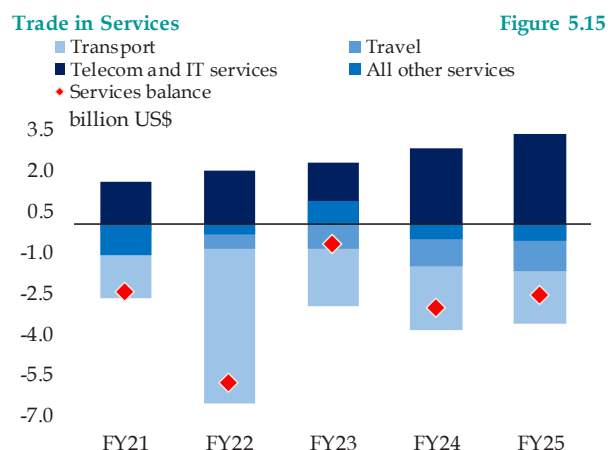
Import of all machinery, except for telecom, increased in FY25. The sustained increase in machinery import indicates investment in textiles, agriculture mechanization;<sup>45</sup> and green energy, particularly battery chargers and static convertors. The decline in import of telecom machinery is mainly explained by lower import of cell phones amid increasing local assembly.

### *Imports of transport group picked up*

Increase in import of transport sector was primarily driven by SKD/CKD kits amid a broad-based recovery in automotive production and local assembly of electric vehicles. Auto financing also supported this rebound contributing to higher sales across nearly all categories of vehicles.

## Trade in Services

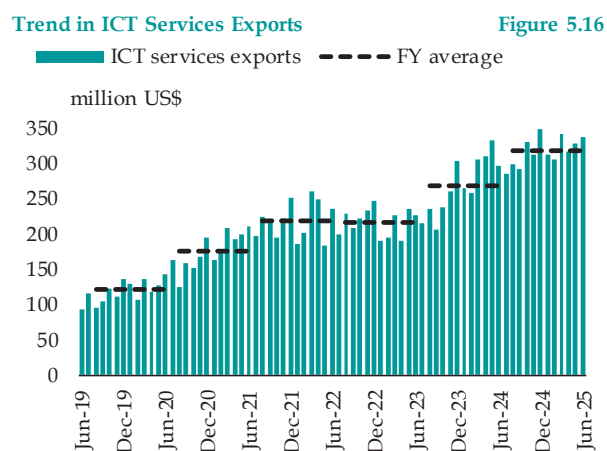
The services trade deficit narrowed to US\$ 2.6 billion in FY25 compared to US \$3.1 billion in the previous year (Figure 5.15). This improvement was largely due to a substantial growth in services exports, especially the export of information and communication technology (ICT) services. Moreover, lower transport services deficit also helped in reducing services deficit (Table 5.6). ICT services export maintained upward trajectory throughout FY25 (Figure 5.16), rising by 18.3 percent to US \$3.8 billion. The primary contributors include software consultancy and freelancing of computer and information services.<sup>46</sup> The rise in ICT exports can be



Source: SBP

attributed to the policy measures and initiatives introduced by the government and the SBP.<sup>47</sup> The government provided incentives in the form of income tax exemption on IT exports until June 2025, allowed 100 percent foreign ownership of IT companies, and offered 100 percent repatriation of profits, complemented by a three-year tax exemption for IT startups.<sup>48</sup>

In addition, the government established IT parks and e-Rozgaar centers under the Pakistan Software Export Board (PSEB) to support the IT



Source: SBP

<sup>45</sup> Under the Prime Minister's Youth Business and Agriculture Loan Scheme, financing is being provided on easy terms to mechanize the agriculture sector. All duties and taxes on combine harvesters have been exempted to encourage their use. Rice Planters and Dryers are also exempted from duties and taxes, which has prompted an increase in its imports. Source: Economic Survey of Pakistan FY25.

<sup>46</sup> Pakistan's online workers' share in the global market increased to 15.3 percent in 2024 from 13 percent in 2023, Online Labour Index, <http://onlinelabourobservatory.org/oli-supply/>

<sup>47</sup> URAAN Pakistan project under National Economic Transformation Plan (2024-2029)

<sup>48</sup> Invest.gov.pk/node1548 and Sections 133 and 143 of the Second Schedule of Income Tax Ordinance 2001.

## Trade in Services

Table 5.6

million US\$, growth in percent

|                                                       | FY24            | FY25            | Change       |              |
|-------------------------------------------------------|-----------------|-----------------|--------------|--------------|
|                                                       |                 |                 | Absolute     | Percent      |
| <b>Balance on trade in services</b>                   | <b>-3,111.6</b> | <b>-2,623.0</b> | <b>489.0</b> | <b>-15.7</b> |
| <b>Exports: of which</b>                              | <b>7,687.3</b>  | <b>8,383.7</b>  | <b>697.0</b> | <b>9.1</b>   |
| Transport                                             | 767.0           | 969.0           | 202.0        | 26.3         |
| <i>Sea freight</i>                                    | 109.7           | 146.0           | 36.3         | 33.1         |
| <i>Air passengers</i>                                 | 445.2           | 410.0           | -35.2        | -7.9         |
| Travel                                                | 758.0           | 720.0           | -38.0        | -5.0         |
| <i>Education related expenditure</i>                  | 21.3            | 18.9            | -2.4         | -11.3        |
| <i>Other (personal)</i>                               | 708.7           | 677.5           | -31.2        | -4.4         |
| ICT Services*: of which                               | 3,223.2         | 3,811.7         | 588.4        | 18.3         |
| <i>Telecommunications services</i>                    | 563.0           | 553.4           | -9.6         | -1.7         |
| <i>Computer services, of which</i>                    | 2650.9          | 3237.4          | 586.5        | 22.1         |
| <i>Software consultancy services</i>                  | 870.6           | 1,107.6         | 237.0        | 27.2         |
| <i>Freelance of computer and information services</i> | 408.9           | 779.2           | 370.3        | 90.6         |
| <b>Imports: of which</b>                              | <b>10,798.9</b> | <b>11,006.7</b> | <b>207.8</b> | <b>1.9</b>   |
| Transport                                             | 4,676.1         | 4,635.7         | -40.4        | -0.9         |
| <i>Sea freight</i>                                    | 2,850.3         | 2,422.4         | -427.9       | -15.0        |
| <i>Air passengers</i>                                 | 1,295.1         | 1,445.3         | 150.2        | 11.6         |
| Travel                                                | 2,266.9         | 2,405.7         | 138.8        | 6.1          |
| <i>Education related expenditure</i>                  | 519.6           | 622.6           | 103.0        | 19.8         |
| <i>Other (personal)</i>                               | 1,720.9         | 1,757.3         | 36.4         | 2.1          |

Note: The data are as per BPM6 (EBOPS-2010) classification aligned with MSITS-2010 classification.

\*Telecommunications, Computer, and information services

Source: SBP

industry and freelancers. The Ministry of IT and Telecom's DigiSkills project, launched in 2018, has provided online training in freelancing, e-commerce, creative writing, web development, and digital marketing to over 300,000 students. Together, these initiatives have expanded pool of skilled IT and digital workers, strengthening Pakistan's capacity to export ICT and related services.

Furthermore, increased access to internet services in the country has helped bring the underutilized workforce to the digital platforms, particularly engaging tech-savvy, educated youth, including a growing number of women, into the online labour market.<sup>49</sup> In tandem, Pakistan's cybersecurity ranking advanced to Tier-1 in the 2024 Global Cybersecurity Index achieving a role-model score

comparable to advanced economies such as the US, UK and Japan. This has boosted investors' as well as online employers' trust and confidence.<sup>50</sup>

Pakistani IT companies are also actively engaging GCC clients. Gulf countries are scaling-up digital infrastructure, particularly in sectors such as finance, healthcare, and education, which have created additional demand for Pakistani software and consultancy services.<sup>51</sup>

SBP also supported this expansion by increasing the retention limit for IT exporters from 35 percent to 50 percent, providing enhanced financial flexibility for reinvestment.<sup>52</sup> In addition, integration of global payment gateways like Payoneer with domestic financial institutions has made it easier for freelancers to process their

<sup>49</sup> Pakistan Telecommunication Authority Annual Report 2024

<sup>50</sup> <https://www.pta.gov.pk/category/pakistan-ranks-among-top-countries-in-global-cybersecurity-index-2024-marking-significant-progress-1485299784-2024-09-23>

<sup>51</sup> This is backed by Saudi Vision 2030 (<https://www.vision2030.gov.sa/en/overview>), which underscores Kingdom's growing demand for technological solutions and services. Similar development plans exist for UAE, Qatar, Egypt and Kuwait.

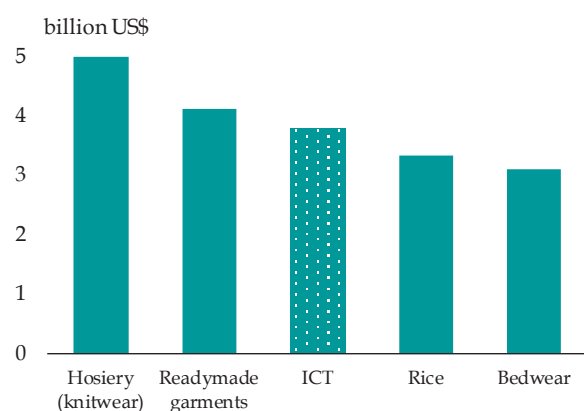
<sup>52</sup> EPD circular letter no 17 of 2023

payments through formal channels. These developments are nurturing IT entrepreneurship culture in the country, reflected in the registration of 5,481 new IT companies with the Securities and Exchange Commission of Pakistan (SECP) in FY25, which has further strengthened the sector's export capacity.<sup>53</sup>

It is worth mentioning that the export value of ICT services in FY25 has exceeded that of traditional sectors such as rice and bedwear, and is close to that of readymade garments, which has historically dominated Pakistan's exports (**Figure 5.17a**). This presents a unique opportunity to recalibrate export strategy towards knowledge-intensive services. It is imperative to address the bottlenecks such as intermittent internet disruptions, relatively expensive broadband and lower integration with global payments gateways to sustain export-led growth in the digital domain (**Figure 5.17b**).

In addition to the increase in ICT exports, the deficit in transport services, the largest component of the services account, narrowed to US\$ 3.7 billion in FY25, compared to US\$ 3.9 billion in the previous year. The improvement mainly reflects downward trend in global shipping charges.<sup>54</sup>

**Top 5 Exports of Pakistan in FY25**



Sources: SBP and PBS

**Figure 5.17a**

However, the travel services recorded a larger deficit in FY25 compared to FY24, due to increase in import of travel services related to education and tourism. On the other hand, export of travel services, especially religious and tourism, also dropped due to the regional tensions.

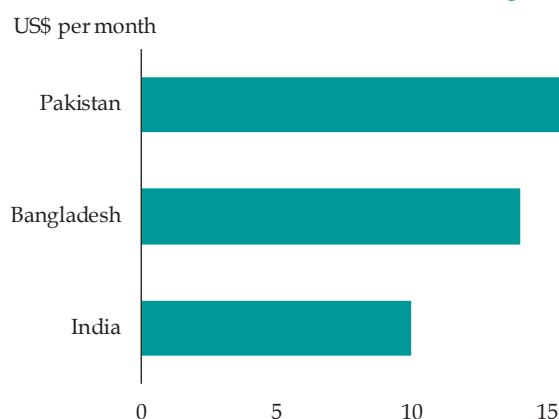
## Primary Income Account

The primary income deficit was recorded slightly lower at US\$ 8.9 billion in FY25, compared to US\$ 9.0 billion the previous year. The slight improvement was mainly on account of lower interest payment on external debt owing to easing global financial conditions<sup>55</sup>, while repatriation of profits and dividends maintained the last year's level (**Figure 5.18**). The repatriation of profits and dividends remained steady, despite a significant decrease in profitability of financial business, particularly of foreign banks. Major payments originated from four key sectors – power, food, oil and gas exploration and tobacco & cigarettes.<sup>56</sup>

## Secondary Income Account

The surplus in secondary income account increased in FY25, which not only financed the trade and primary income deficits, but also

**Broadband Cost**



Source: [www.worldpopulationreview.com](http://www.worldpopulationreview.com)

**Figure 5.17b**

<sup>53</sup> Securities and Exchange Commission of Pakistan (SECP) press releases.

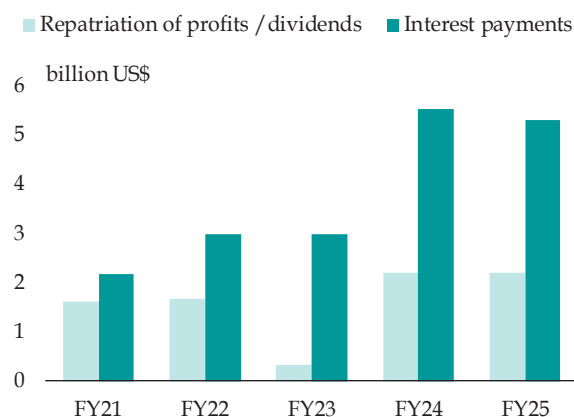
<sup>54</sup> 40-foot container index decreased from 5800 in July 2024 to 3248 in June 2025. Baltic dry index decreased by 38 percent in June 2025 compared to the July 2024 level, however, on average the index increased by 41 percent during FY25: Source Bloomberg

<sup>55</sup> The 90-day Secured Overnight Financing Rate (SOFR) decreased by 50 bps to 4.8 percent in FY25:

<https://fred.stlouisfed.org/series/SOFR90DAYAVG>

<sup>56</sup> Profitability of foreign banks decreased by around Rs 2 billion mainly due to lower interest rates by 7.5 percent on average during FY25 compared FY24.

Primary Income Account - Major Payments Figure 5.18

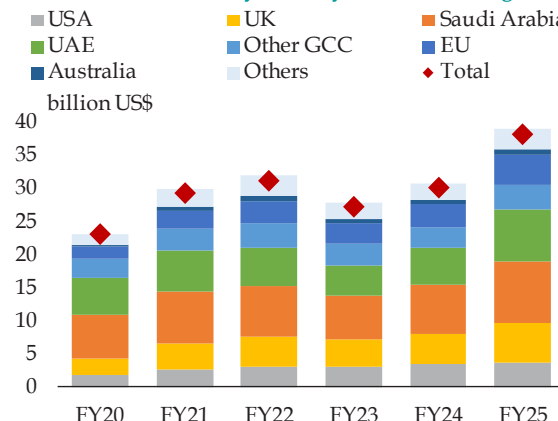


Source: SBP

facilitated SBP to build FX reserves. Almost entire improvement in secondary income surplus emanated from workers' remittances, which surged by 26.6 percent to US\$ 38.3 billion in FY25 from US\$ 30.3 billion in FY24 (Figure 5.19).

This substantial growth in workers' remittances, even higher compared to peer countries (Figure 5.20), is attributable to both global as well as domestic factors. Globally, robust economic recovery in key host countries, particularly in the Gulf region<sup>57</sup> driven by new infrastructure projects, has led to sustained increase in labour demand, as indicated by the number of emigrants going abroad (Figure 5.21).

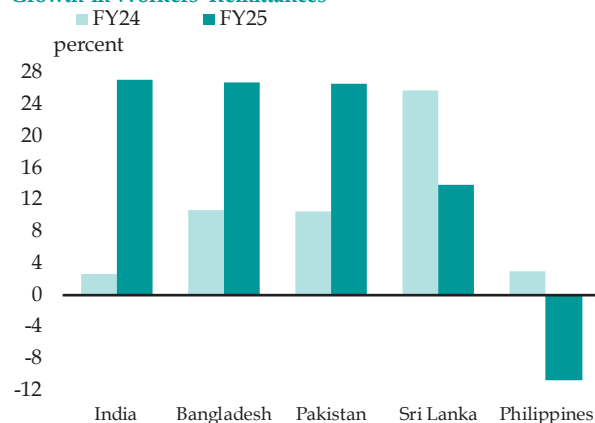
Workers' Remittances - by Country Figure 5.19



Source: SBP

On domestic front, the government and the SBP incentives under Pakistan Remittance Initiative (PRI) helped reduce the transaction costs, which together with stable exchange rate, encouraged remittance inflows through formal channels. These incentives included the reimbursement of TT charges rate for eligible home remittance transactions, which was increased to SAR 20 for transactions of US\$ 100 or higher.<sup>58</sup> Similarly, the rate of cash incentive offered to the financial institutions for incremental home remittances up to five percent, between five and ten percent, and over ten percent was also increased to Rs 1, Rs 2 and Rs 3 per US\$, respectively, for each slab.<sup>59</sup>

Growth in Workers' Remittances Figure 5.20



Sources: SBP and Haver

Number of Workers Going Abroad Figure 5.21



Source: BE&amp;OE

<sup>57</sup> Saudi and UAE economies grew by 3.7 and 3.9 percent in 2025, respectively. Source: IMF/Haver

<sup>58</sup> EPD Circular Letter No. 09 of 2024

<sup>59</sup> Previously, this was Rs 0.5, Rs 0.75 and Rs 1 per US\$, respectively, for each slab.

Moreover, the impact of the measures introduced by SBP during FY24 was also fully realized during FY25. The closure of some of the B-category exchange companies helped in alleviating additional pressure on kerb market premium.<sup>60</sup> Further, most of the large and medium-sized banks – actively engaged in foreign exchange business – have established their subsidiary exchange companies to capture the market. Even some banks introduced incentives linked to remittance accounts/flows to expand their customer base.<sup>61</sup>

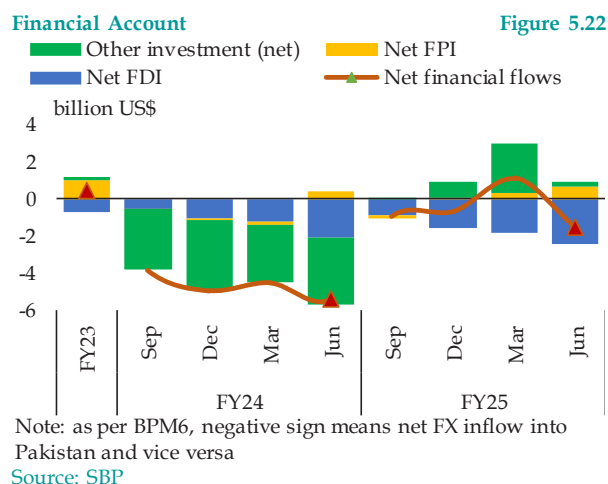
## 5.4 Financial Account

The financial account saw a net inflow of around US\$ 1.5 billion, substantially lower than US\$ 5.4 billion recorded in FY24. Moreover, most of the loan disbursements, though higher than the previous year, were realized towards the end of FY25. Total foreign private investment also remained close to the last year's level. Therefore, the financial account remained under stress during major part of the year due to scheduled debt repayments (Figure 5.22).

### Foreign Direct Investment in Pakistan

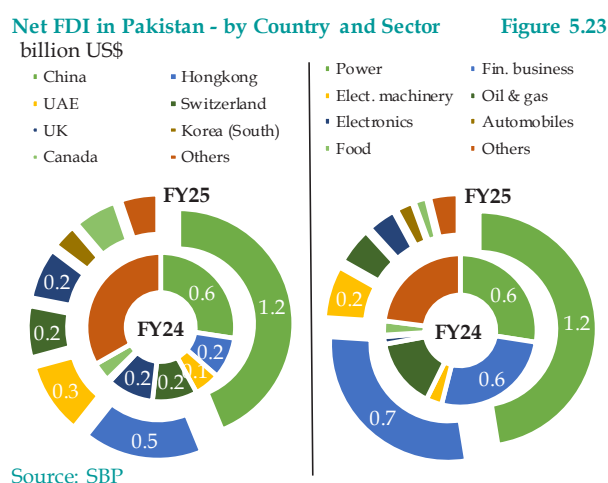
Net foreign direct investment (FDI) in Pakistan surpassed the last year's level by about US\$ 100 million to US\$ 2.5 billion in FY25. Out of which, only US\$ 50 million was realized through a total of 69 merger and acquisition (M&A) transactions in food, logistics, aerospace, media, and e-commerce.<sup>62</sup> This highlights the lack of diversified Greenfield investment in Pakistan, which is considered vital for exports, productivity and integration into global value chains.

Disaggregated data reveals that around 70 percent of the FDI was sourced from China and Hong Kong, mostly in the power sector (hydel and coal) and financial business (including banks,



microfinance, and investment banks) (Figure 5.23). The financial businesses also attracted investment from a number of other countries, including Gulf nations, Malaysia, Netherlands, Switzerland, and the UK.

Investment in auto sector was fragmented but targeted, suggesting investors' interest in particular niches rather than the industry as a whole. For instance, Japan invested to enhance the localization of parts and components for the vehicles produced by its subsidiary in Pakistan; UAE invested to overhaul the IT infrastructure of its subsidiary of agricultural equipment



<sup>60</sup> SBP press release on authorization of exchange companies dated February 13, 2024.

<sup>61</sup> For instance, one of the large-sized banks has offered free life and health insurance, and discounts on lab and medicines associated to its remittance account. Another medium-sized bank has introduced an advanced remittance service to expedite the processing of remittance at competitive exchange rates.

<sup>62</sup> <https://cc.gov.pk/home/viewpressreleases/647>

manufacturers, which is aiming to upgrade country's farming machinery.

Telecom and IT industry also witnessed a net inflow, as the country was able to attract investment from Gulf countries in an attempt to modernize the economy and expand its digital footprints.<sup>63</sup> Last, but not the least, a small inflow was also seen from UK in one of its wholly owned pharma company in order to enhance the product quality and meet the international quality standards.

### Foreign Portfolio Investment

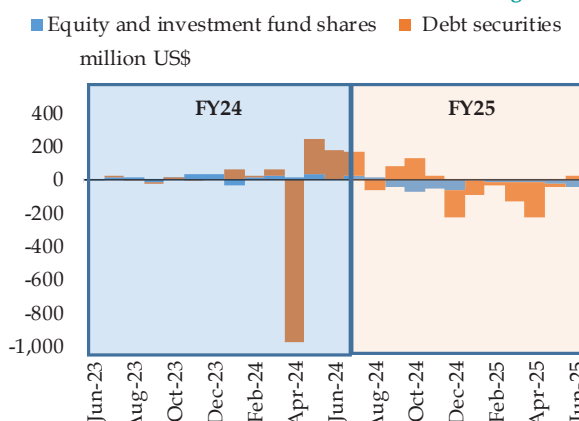
Net foreign portfolio investment (FPI), recorded a higher outflow of US\$ 637 million in FY25 compared to the outflow of US\$ 376 million in FY24. Both the equity and debt markets witnessed net outflows (**Figure 5.24**). The former was largely due to profit taking by foreign investors as the equity market soared to new heights, while the latter is primarily explained by sharp reduction in interest rates during FY25.

Pakistan's benchmark KSE-100 index posted a gain of around 60 percent during FY25. A number of factors have contributed to this stellar growth such as overall macroeconomic stability, successful completion of IMF review in May 2025, rating upgrade by international agencies,<sup>64</sup> diversion of flows from fixed income to equity market amid aggressive monetary easing and change in the SBP's policy on minimum deposit rate, and Pakistan's increased weightage in MSCI FM index.<sup>65,66</sup>

Despite overall positive dynamics, the foreign investors maintained a net selling position, primarily driven by the FTSE's downgrade of Pakistan from Secondary Emerging to Frontier

Net FPI in Pakistan

Figure 5.24



Source: SBP

Market status in the first quarter of FY25. This reclassification, along with regional and global tensions in the last quarter of FY25, may have changed investment preferences of global institutional investors. Additionally, profit-taking behavior of the foreign investors contributed to the sell-off, as the equity market delivered robust returns in FY25.<sup>67</sup> The selling was broad-based as foreign investors divested more than US\$ 300 million across key sectors, including cement, fertilizer, oil & gas exploration, food, OMCs, power, and banking, as per the data reported by NCCPL.

A similar trend was also observed in the debt market where foreign investors withdrew around US\$ 300 million during FY25. A major chunk of this was seen in the last quarter of FY25 due to the rising regional and global tensions, which raised investors' risk perception. The decline in return on government securities amid reduction in the policy rate also contributed as it markedly reduced the interest rate differential.

However, Pakistani diaspora continued to show interest in Naya Pakistan Certificates (NPCs)

<sup>63</sup> In this regard, Ministry of Information Technology and Telecommunication in collaboration with the Digital Cooperation Organization organized a two-day Digital Foreign Direct Investment Forum 2025 in Islamabad.

<sup>64</sup> In April 2025, Fitch Ratings upgraded Pakistan's sovereign credit rating from CCC+ to B- with a Stable outlook. This was followed by S&P Global Ratings in July, which raised the rating from CCC+ to B-. Subsequently, in August 2025, Moody's upgraded Pakistan's rating from Caa2 to Caa1. Source: Fitch Ratings, Moody's, and S&P Global.

<sup>65</sup> As per BPRD Circular No. 05 of 2024, the Minimum Profit Rate requirement shall not be applicable on the deposits of financial institutions, public sector enterprises and public limited companies; <https://www.sbp.org.pk/bprd/2024/C5.htm>

<sup>66</sup> Total number of companies in FM index increased from 20 to 26 while in Small Cap index it improved from 56 to 67.

<sup>67</sup> As per Bloomberg, Pakistan's benchmark KSE-100 index was the 8<sup>th</sup> best performer in FY25 with a total US\$ return of 57 percent.

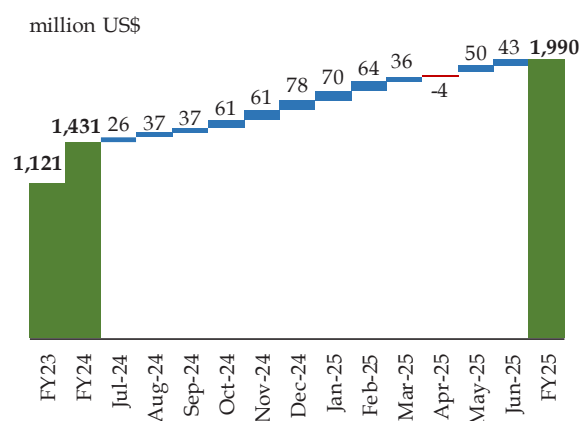
through Roshan Digital Account (RDA). The investment in NPCs surged to US\$ 1.9 billion, around US\$ 800 million higher than the last year. The steady rise in NPCs inflows is driven by relatively higher returns, tax incentives, easy repatriation, and Sharia-compliant options.

Largely driven by inflows in NPCs, gross inflows in RDAs crossed US\$ 10.5 billion by the end of FY25, with the current financial year recording the highest inflow of US\$ 2.3 billion. Out of this, repatriation and local utilization stood at US\$ 1.7 billion, thus increasing the Net Repatriable Liability (NRL) by US\$ 559 million to US\$ 2.0 billion (~19 percent of total RDA) (**Figure 5.25**). The NRL breakdown shows that a significant amount of US\$ 1.4 billion remain invested in both the conventional and Islamic Naya Pakistan Certificates (NPCs), and the remaining US\$ 0.6 billion in equity investments and account balances.<sup>68</sup>

### FX Loans and Liabilities

Pakistan received US\$ 12.1 billion in foreign economic assistance during FY25 – around US\$ 2.3 billion higher than the last year.<sup>69</sup> The disbursements also surpassed the budgetary estimates from almost all the major sources including multilateral, bilateral, commercial, and NPCs.

**Net Repatriable Liability under RDA** **Figure 5.25**



Source: SBP

Among multilateral sources, ADB disbursed US\$ 2.1 billion. Out of this, US\$ 500 million for 'Climate and Disaster Resilience Enhancement Program' to help Pakistan strengthen its resilience to natural disasters and climate change; and US\$ 300 million each under Domestic Resource Mobilization (DRM) program – to boost private investment, exports, and public finance, and Women Inclusive Finance program – to enhance women financial intermediation followed this.

The remaining amount was disbursed mainly to upgrade: (a) the transmission and evacuation of power projects, (b) irrigation, transportation and construction infrastructure, (c) cities of KPK and Punjab for welfare of people, (d) secondary education in Sindh, and (e) the social protection system to alleviate the poverty of poor women and their families.

The World Bank disbursed US\$ 1.4 billion, approximately US\$ 400 million lower than the last year, for flood reconstruction and barrages improvement in Sindh, higher education development in Pakistan, strengthening of key institutions to mitigate climate-related shocks, and solar energy and hydropower projects.

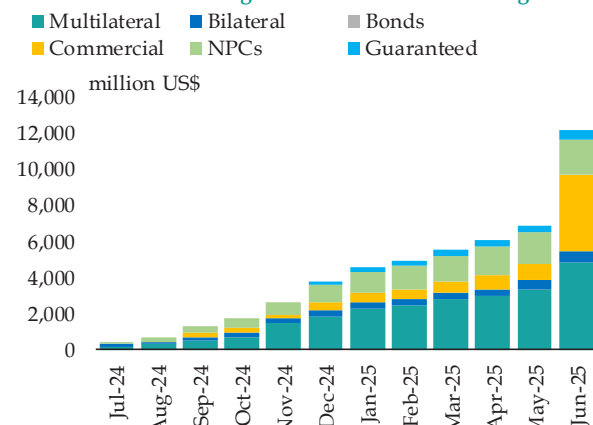
Islamic Development Bank (IsDB) along with Kingdom of Saudi Arabia provided short-term financing of more than US\$ 750 million for the import of oil and LNG, helping cushion the impact of increase in energy import bill. China emerged the largest bilateral lender with US\$ 583 million – a major chunk of which was meant for the nuclear power plant to diversify generation mix and reduce reliance on fossil fuels. The remaining amount was utilized for the launch of multi-mission satellite to provide internet access for remote areas.

After multilateral and bilateral disbursements, commercial loans were the second biggest contributor (~35 percent) to foreign economic assistance (**Figure 5.26**). A total of US\$ 4.3 billion

<sup>68</sup> This includes outstanding position in government securities like T-bills, Sukuk, real estate, mutual funds, etc. but excludes NPCs.

<sup>69</sup> This does not account for the receipt of US\$ 2.1 billion from the IMF. The country rolled over of time deposits totaling US\$ 9 billion from the KSA and China.

Disbursements of Foreign Economic Assistance Figure 5.26



Source: EAD

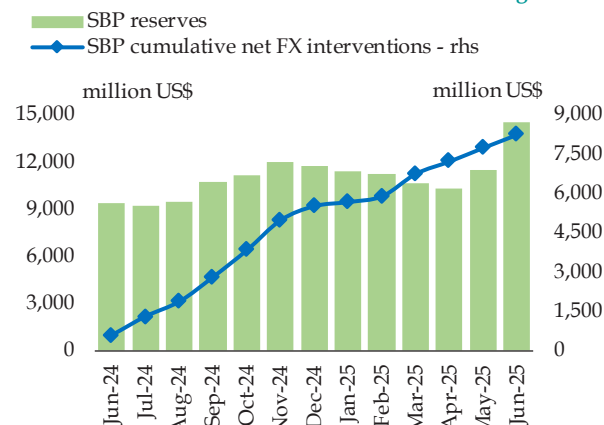
was borrowed from foreign commercial banks with the majority representing refinancing and additional funds underwritten by ADB guarantees.

Lastly, the country received US\$ 2.1 billion from IMF after securing the Extended Fund Facility (EFF) program in July 2024 and subsequently completing the first review in May 2025. The country also successfully secured the access to a new 28-month arrangement of US\$ 1.3 billion under the Resilience and Sustainability Facility (RSF) aimed at building Pakistan's economic resilience to climate related risks.

## 5.5 Exchange Rate and FX Reserves

The SBP's foreign exchange reserves rose to US\$ 14.5 billion by end-June 2025, up by US\$ 5.1 billion from US\$ 9.4 billion at end-June 2024.<sup>70</sup> This is attributed to a number of aforementioned factors, particularly the substantial improvement in the CAB and higher official disbursements. The current account surplus allowed the SBP to make significant net purchases of US\$ 7.7 billion from the foreign exchange market (Figure 5.27). The SBP's FX operations were primarily geared towards strengthening of external buffers and enhancing the country's capacity to meet external

SBP's FX Reserves and Interventions Figure 5.27



Source: SBP

obligations.<sup>71</sup> In addition, SBP also reduced its outstanding forward/swap position by further US\$ 950 million relative to end-June 2024, improving the quality of reserve build-up during FY25.

The improvement in CAB and strengthening of reserve position instilled stability in foreign exchange market. Although the uncertainty surrounding financial inflows, as highlighted earlier, caused some volatility in exchange rate during H2-FY25.<sup>72</sup> However, the successful completion of first review under the EFF and sustained improvement in CAB stabilized the exchange rate around PKR 283.8/US\$, registering a modest depreciation of 1.9 percent during FY25. The kerb premium also remained subdued during the year (Figure 5.28).

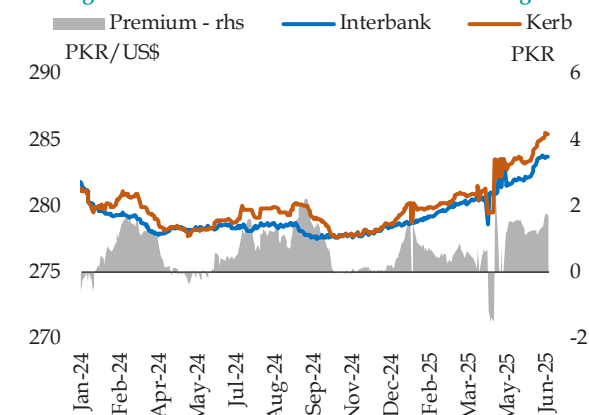
Pakistan's real effective exchange rate (REER) depreciated from 100.1 at end-June 2024 to 98.0 by end-June 2025. The depreciation in REER is largely driven by nominal effective exchange rate (NEER) as domestic inflation fell sharply relative to Pakistan's trading partners (Figure 5.29). The relative price index (RPI) rose by a marginal 0.8 percent in FY25 compared to 9.6 percent in FY24, which help maintain the external competitiveness.

<sup>70</sup> The net reserves held by commercial banks increased by around US\$ 150 million during FY25.

<sup>71</sup> Mathew Malloy (2013) argues that emerging markets intervene in the FX market to accumulate FX reserves given their higher exposure and lower ability to withstand global shocks.

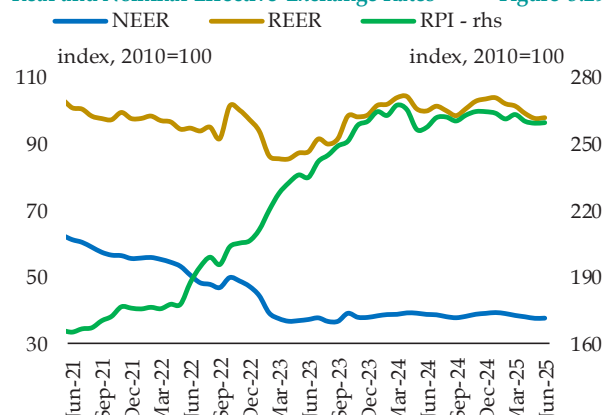
<sup>72</sup> The standard deviation of daily exchange rate (PKR/USD) increased to 1.5 in H2-FY25, from 0.4 in H1-FY25.

Exchange Rate: Interbank vs Kerb Market Figure 5.28



Sources: SBP

Real and Nominal Effective Exchange Rates Figure 5.29



Source: SBP

**Box 5.1: National Tariff Policy 2025 – 30: A Step Towards a Predictable and Competitive Trade Regime**

Pakistan's recently approved National Tariff Policy 2025-2030 marks a critical juncture in the evolution of the country's trade policy regime. As a successor to National Tariff Policy 2019-2024, the NTP 2025-30 seeks to reduce distortionary tariffs, eliminate para-tariffs, with a goal of export-led industrialization. While NTP 2019-24 had initiated the move away from a revenue-centric tariff regime by removing customs duty and additional duties on over 2000 tariff lines (out of 7,589) – mainly covering raw materials and capital goods, the NTP 2025-30 aims to deepen these reforms, thereby enhancing transparency and policy predictability (Table 5.1.1).

The elimination of para-tariffs (additional customs duty and regulatory duty) is likely to improve Pakistan's competitiveness, as it will reduce the costs of imported industrial raw materials and intermediate goods. However, some sectors previously protected under the fifth schedule and SRO-based exemptions - for instance, the automotive industry - may face high exposure to competition.<sup>73</sup>

A major departure from the past practices is the institutionalization of tariff decision-making through stringent oversight of the Tariff Policy Board, therefore minimizing reliance on ad-hoc Statutory Regulatory Orders (SROs). This institutional streamlining aims to reduce discretion and align protection with sectoral performance and Global Value Chain (GVC) participation. With respect to benchmarking and global alignment, the current average tariff burden (including CDs, ACDs, RDs) is over 20 percent for Pakistan, the highest in South Asia.

National Tariff Policy Progression: Key Shifts from 2019–24 to 2025–30

Table 5.1.1

| Aspect                          | NTP 2019–24                                      | NTP 2025–30                                         | Measure                           | Current 2024-25 (percent) | Target by 2030 (percent)    |
|---------------------------------|--------------------------------------------------|-----------------------------------------------------|-----------------------------------|---------------------------|-----------------------------|
| <b>Purpose</b>                  | Shift from revenue-centric to trade policy tool  | Target export-led growth                            | <b>Simple average tariff</b>      | 20.2 (with CD, ACD, RD)   | 9.7                         |
| <b>Major Reform</b>             | Removed CD & ACD on 2,198 lines (raw/capital)    | Eliminate ACDs & RDs                                | <b>CD reduction</b>               | 11.9                      | 9.7                         |
| <b>Tariff Average</b>           | Reduced from 10.6% in 2018–19 to 6.7% by 2023–24 | Target 9.7% simple average                          | <b>ACD elimination</b>            | 3.6                       | 0 (4 years)                 |
| <b>Sectoral Rationalization</b> | Textiles, pharma, steel, footwear, paper         | Sector consolidation & auto sector reform post-2026 | <b>RD elimination</b>             | 4.6                       | 0 (5 years)                 |
| <b>Policy direction</b>         | Rationalize tariffs for efficiency               | GVCs, green tech, and competitiveness               | <b>Fifth schedule concessions</b> | High reliance             | Phase out to first schedule |

Source: NTC

<sup>73</sup> The current Auto Industry Development and Export Policy 2021-2026 will remain in effect, providing space for structural adjustments; thereby auto sector tariff reforms would be implemented starting July 2026.

The policy has also quantified economic impacts of the measures proposed in the policy. Specifically, exports are projected to rise by 10-14 percent driven by lower costs and improved integration in the GVC. Imports are expected to increase moderately by 5-6 percent. Thus, while trade deficit is likely to improve due to stronger export growth. Employment is expected to increase through industrial expansion and the policy would have a disinflationary impact, with consumer prices, particularly of imported food, expected to decline. From the fiscal perspective, the revenue loss is estimated around Rs 500 billion. However, GTAP simulations indicate that this loss may be offset in the medium-to-long term driven by higher GDP growth.

Pakistan's earlier tariff rationalization efforts, including the ones undertaken in late 1980s, mid-1990s, mid 2000s and mid-2010s, often failed or were rolled back because tariff cuts were too abrupt rather than being phased and calibrated, revenue loss was not credibly replaced and large-tariffs differentials fueled smuggling and rent-seeking. Reforms were further weakened by lacking complementary fixes such as custom modernization and logistics upgrades. The narrow export base and weak regional trade integration further limited gains.

Besides proposed reduction in tariffs and para-tariffs, the structure of tariffs also warrant attention. Literature suggests that cascading tariff structures can be distortionary and a source of anti-export bias. Therefore, greater policy focus should be placed on the selection of a tariff structure that minimizes distortions. Research often cites uniform or minimally dispersed tariffs as a solution because these mitigate lobbying, smuggling and government distortions and also create administrative simplicity.

Furthermore, without addressing non-tariff barriers (NTBs), tariff reforms could be less effective. Past research has shown that politically connected stakeholders successfully lobbied for NTBs and para-tariffs to cushion tariff reductions. This has limited the intended impact of reforms and maintained uncompetitive practices in the economy. Moreover, trade reforms lead to sustained economic success when such barriers are replaced with quality and supportive institutions, such as streamlined custom procedures and digitized documentation.<sup>74</sup>

Moreover, tariff reforms must be accompanied by complementary reforms across the economy. For example, country experiences show that measures such as fiscal reforms, a more flexible exchange rate and export facilitation accompany successful trade liberalization. This is worth highlighting that the countries that were able to reduce reliance on tariff revenues improved fiscal positions and/or broadened the tax base. For example, Chile undertook fiscal austerity concurrent to their self-initiated trade reforms. Past trade liberalisation efforts in Pakistan have been reversed due to the imposition of revenue based para-tariffs, which signal the importance of resolving fiscal constraints for sustainable tariff reforms.

Additionally, past waves of trade liberalisation have seen countries shift from import controls and quantitative restrictions towards more flexible exchange rate regimes. For example, Mexico made periodic adjustments during its trade reforms to maintain export competitiveness. Pakistan's shift towards a flexible exchange rate is a welcome step in this regard. Finally, export promotion policies also help to quicken export orientation. For instance, Bangladesh's export growth was in part due to low tariffs on inputs, along with export incentives and facilitation. Thus, tariff reforms must be viewed holistically, with complementary reforms implemented across the economy, especially because trade liberalisation is not a goal in of itself but rather a means through which countries can realise greater growth through exports and robust institutions.

*\*The contribution of Ana Khattak and Ali Ahmed Shah is acknowledged in writing this box.*

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<sup>74</sup> Qualitative assessment on U.S. imports show that there are many NTMs, which signal bureaucratic and difficult customs procedures. This is also supported the U.S Trade Representative Report on Foreign Trade Barriers, which cited a lack of uniformity on customs valuations and paper documentation requirements.

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### Box 5.2: Unlocking Green Trade Potential through Energy Efficient Textile Retrofitting<sup>75</sup>

Pakistan's textile sector accounts for around 55 percent of the country's export earnings. Despite this dominant position on the domestic front, Pakistan's share in global value-added textile export has only slightly inched up since 2015, while regional competitors have consistently increased their market presence. Notably, this gain is not built on an aggressive price competition, but on securing higher unit values – driven by investing in modern production facilities and adherence to global sustainability standards, which emphasize on energy, water, and chemical efficiency (**Figure 5.2.1**). In this context, this Box highlights how shifting sustainability norms and energy efficiency gains through retrofitting can define the future trajectory of Pakistan's textile exports.

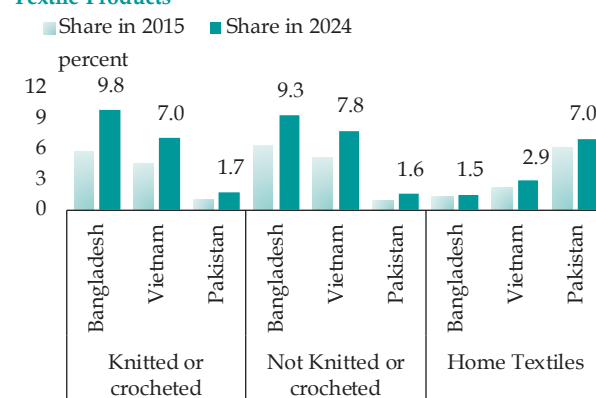
**Sustainability is the new currency in textile exports:** The global pivot toward sustainable sourcing is reshaping the industry's competitive landscape. The sustainable fashion market<sup>76</sup> is valued at US\$ 12.5 billion in 2025 and projected to reach US\$ 53.5 billion by 2032,<sup>77</sup> with the U.S. holding the largest share. Eco-conscious fashion brands willingly pay price premiums, signaling a structural shift in the global apparel trade dynamics.

**High energy costs is Pakistan's Achilles heel:** One of the most pressing structural challenges faced by Pakistan's textile sector is chronic energy volatility and higher energy costs.<sup>78</sup> Energy expenses account for 30-40 percent of the total production costs – nearly double that in the peer countries like Bangladesh and India.

**Global standards, local gaps:** At the same time, global regulatory pressures on textile sector are intensifying. Out of the 456 ecolabels tracked worldwide, around 100 apply to the textile sector, with a strong emphasis on energy, water, and chemical efficiency. Yet Pakistan's preparedness remains weak: only 32 percent of the textile firms, mostly large, export-oriented firms, hold eco-label certifications. Empirical studies confirm that textile firms certified under voluntary environmental standards demonstrate higher profitability, stronger stock performance and better sustainability outcomes. Literature suggests, participation in global green supply chains is linked to stronger export growth.

Share in Global Trade - High Value Added Textile Products

Figure 5.2.1



Source: ITC

<sup>75</sup> Retrofitting is the process of upgrading an existing structure or process to enhance its performance or its lifespan.

<sup>76</sup> Sustainable fashion refers to clothing designed and produced with consideration for environmental impacts.

<sup>77</sup> Apparel accounts for 26 percent of this market; Source: Coherent Market Insights (2025). Global Sustainable Fashion Market Size and Trends

<sup>78</sup> In 2021, a 15-day gas suspension resulted in an estimated US\$ 250 million in lost textile exports revenues. Spinning and processing units alone consume around 28 percent of electricity and 40 percent of gas.

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Estimation of Cost Savings per Annum

Table 5.2.1a

| Retrofit Measures                    | Energy Saved (kWh)<br>(a) | Cost Saving (Rs) 1 textile mill<br>(b) | Cost Saving (Rs) for 100 textile mill<br>c=b*100 |
|--------------------------------------|---------------------------|----------------------------------------|--------------------------------------------------|
| Efficient Motors                     | 1,279,214                 | 26.9 million                           | 2.69 billion                                     |
| Lighting + Solar PV                  | 104,160                   | 2.2 million                            | 220 million                                      |
| Compressor Leak Management           | 122,360                   | 2.6 million                            | 260 million                                      |
| <b>Estimated Total Annual Saving</b> | <b>~1.5 million kWh</b>   | <b>~31.6 million/mill</b>              | <b>~3.16 billion</b>                             |

Note: Row (a) represents the estimated energy savings in (kWh) for each of the specific retrofit measure, based on Energy Audit of Textile Industry (2021).

Row (b) represents costs savings which are calculated by multiplying the estimated energy saved with the average industrial unit cost of electricity i.e. Rs. 21/kWh, e.g., Efficient Motors = 1,279,214 kWh × average unit cost (Rs 21/kWh ≈ 26.9 million).

Row (c) shows the aggregate savings for 100 textile mills by multiplying per mill savings Row (b)\*100

The figures are rounded to nearest million/billion. Minor discrepancies do not effect overall trends and conclusions.

Yearly Spillover Gains on Textile Exports from Energy Retrofitting

Table 5.2.1b

| Metric                                                  | Value US\$        |
|---------------------------------------------------------|-------------------|
| Emission reduction per mill - tCO <sub>2</sub> e (a)*   | 20,000            |
| Gross carbon revenue per mill (b)**                     | 240,000           |
| Estimated initial investment cost for retrofitting (c)  | 50,000            |
| Net carbon revenue per mill (d=b-c)                     | 190,000           |
| <b>Total net carbon revenue for 100 mills (e=d*100)</b> | <b>19,000,000</b> |
| Average export per mill (f)***                          | 12,000,000        |
| Export uplift per mill (g=f*5%)****                     | 600,000           |
| <b>Export uplift for 100 mills in a year (h=g*100)</b>  | <b>60,000,000</b> |

Note: \*The emission reduction per mill values are taken from the report, reported in the unit tons of carbon emissions. MoCC&EC (2025).

\*\* Net carbon revenue assumes carbon credit price of US\$12/tCO<sub>2</sub>e

\*\*\*Export values vary widely (from US\$ 20 million for small firms to US\$ 450 million for large composite units). A conservative average of US\$ 12 million is assumed.

\*\*\*\*A 5 percent export uplift is assumed; reflecting potential gains from access to sustainable fashion markets, premium pricing and energy savings.

Source: Author's calculation based on Energy Audit of Textile Industry (2021) and MoCC&EC (2025). Carbon Credits in Pakistan: Turning Climate Action into a Business Opportunity

**The efficiency dividend:** The potential for efficiency gains is substantial as is evident in various audits conducted. For instance, PIDE estimates annual cost savings, valued at Rs 6 billion, across the spinning-processing sub-sector through efficiency upgrades. Similarly, under the APTMA-GIZ Renewable Energy and Energy Efficiency Project, small-scale energy retrofit across 3 districts saved around Rs 600 million per year.

**Quantifying the potential gains of energy retrofitting:** An analysis of audited data of 100 textile mills shows that basic energy retrofit interventions can yield annual savings of around Rs 3.16 billion (Table 5.2.1a). Moreover, under Pakistan's Policy Guidelines for Carbon Markets, these retrofitted mills can earn carbon credits as well, with conservative estimates suggesting a net carbon revenue of up to US\$ 190,000 per mill per annum. Even a modest 5 percent export uplift driven by premium pricing, access to sustainable fashion markets, and profitability gains from energy savings, could generate an additional US\$ 60 million in annual textile exports (Table 5.2.1b).

**The triple dividend:** Conclusively, energy retrofitting in Pakistan's textile sector offers a triple dividend:

- significant cost savings;
- compliance with international eco-standards ensuring access to premium export markets; and,
- Export uplift through sustainability alignment, enabling higher unit prices, strong brand partnerships and access to new green trade deals.

**Inaction is costlier than retrofit:** In today's competitive landscape, where buyers reward sustainability with loyalty and premiums, energy retrofitting is no longer optional – it is a strategic necessity to sustain Pakistan's textile export market share and strengthening industrial resilience.

\* The contribution of Ana Khattak is acknowledged in writing this box.

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## Box 5.3: Tapping Opportunities in Petrochemicals Sector

An analysis of Pakistan's import pattern over the past years highlights that the stabilization measures introduced in FY22 had a mixed impact across different import categories. While consumer goods imports remained largely unchanged and capital goods contracted, raw material imports rose – even amid elevated global commodity prices (Figure 5.3.1). This reflects the inelastic nature of demand for critical industrial inputs, particularly in export-oriented industries. To reshape the composition of imports more strategically, Pakistan needs to invest in domestic capacity – particularly in sectors with strong industrial linkages. Among these, the petrochemical sector emerges as a key sector of strategic importance.

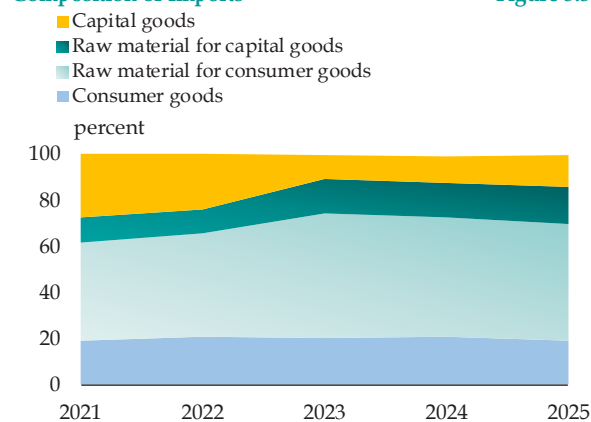
Petroleum and petrochemical products constitute a significant portion of Pakistan's import bill. Yet, they also represent an opportunity to reduce external reliance and catalyze industrial expansion. Petrochemicals – derived mainly from petroleum and natural gas through processes

such as steam cracking – serve as essential intermediates in the production of numerous value-added goods; therefore making them pivotal to enhancing domestic manufacture capabilities.<sup>79</sup> Globally, the sector is the fastest growing driver of oil demand. Buoyant margins and robust demand from sectors such as automotive, pharmaceutical, packaging and construction are driving capacity expansion, particularly in Asia.

For Pakistan, the sector's importance is underscored by its extensive forward linkages and annual domestic demand of petro-chemicals exceeding US\$ 5.3 billion. Polyester and synthetic fiber for textiles, polypropylene for packaging, butadiene for rubber crude and rubber tyres, and polyvinyl for construction are all petrochemical derivatives. Yet, there is heavy reliance on imports.<sup>80</sup> This reliance not only creates structural vulnerabilities – such as exposure to unfavourable global price movements and FX constraints – but also undermines export competitiveness of

Composition of Imports

Figure 5.3.1



Source: PBS

<sup>79</sup> Health, Safety and Environment; <https://www.hseblog.com/petrochemicals/#>

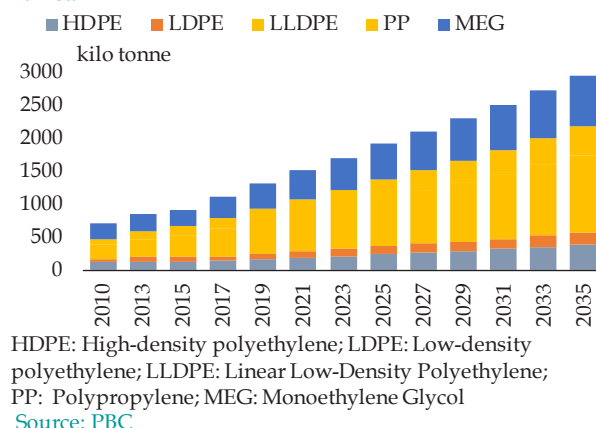
<sup>80</sup> Chemical Industry Vision - 2030. Final Report, Pakistan Engineering Board

employment-generating industries. Industry estimates suggest that every additional US\$ 1 of petrochemical output can generate US\$ 4 GDP in Pakistan, underscoring its strong multiplier effect.<sup>81</sup>

**The case for an integrated refinery and petrochemical complex:** The demand for petrochemical derivatives in Pakistan is increasing at an accelerating pace driven by manufacturing upgrades, infrastructure growth and rising consumer demand (Figure 5.3.2). Meeting this demand through imports is neither sustainable nor strategic. Establishing an integrated refinery-petrochemical complex offers dual advantages: reorienting imports away from value-added refined petroleum imports to crude oil imports, while reducing reliance on imported plastics, rubber (including crude and tyre-grade), other chemicals, and synthetic fibers.

**Demand for Petrochemical Derivatives in Pakistan**

**Figure 5.3.2**



As per PBS, Pakistan exported nearly 1 million metric tons of Naphtha (furnace oil) in FY25. Instead of exporting Naphtha at relatively low prices, an integrated complex could convert this excess Naphtha into high-value Olefins, which can fetch nearly double the unit price of Naphtha. According to the Pakistan Business Council estimates, investment in such a complex can save the import bill by US\$ 2.7 billion.<sup>82</sup>

**Fast tracking Pakistan's petrochemical breakthrough:** The long-delayed petrochemical policy, under discussion for over three years, rightly identifies the sector's potential to fill the critical industrial gaps by encouraging investments in cracker plants. The policy also envisions enabling exports of synthetic fibers, high-unit value garments<sup>83</sup>, and high-value added plastics such as polypropylene, polystyrene, and polyethylene. However, prolonged inaction risks eroding this opportunity to regional competitors who are expanding capacity rapidly. A time-bound and actionable implementation plan is essential to translate policy intent into tangible industrial and export gains.

**A calibrated path to modern industrialization:** Global pathfinders like South Korea and China scaled their industrial ladder by fostering domestic value-chain sectors and integrating into efficient, global supply chains. For Pakistan, an integrated refinery-petrochemical complex represents a step towards such industrial deepening. Beyond easing external vulnerabilities, it could re-orient imports into productive capacity, foster export-led growth and increase economic resilience to external shocks.

*\*The contribution of Ana Khattak is acknowledged in writing this box.*

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<sup>81</sup> Plastipack Pakistan website: <https://plastipackpakistan.com/pakistan-is-on-the-precipice-of-its-first-ever-petrochemical-policy/>

<sup>82</sup> Pakistan Business Council website: <https://www.pbc.org.pk/wp-content/uploads/Presentation-Integrated-Refinery-Petrochemical-Complex.pdf>

<sup>83</sup> Reports have highlighted how absence of cracker plants have constrained Pakistan's industries for instance, the absence of a naphtha cracker plant means strong reliance on imported synthetic fibers and filaments for textile manufacturing. Source: SBP (2018). The State of Economy Report, Third Quarterly 2018, Karachi: SBP