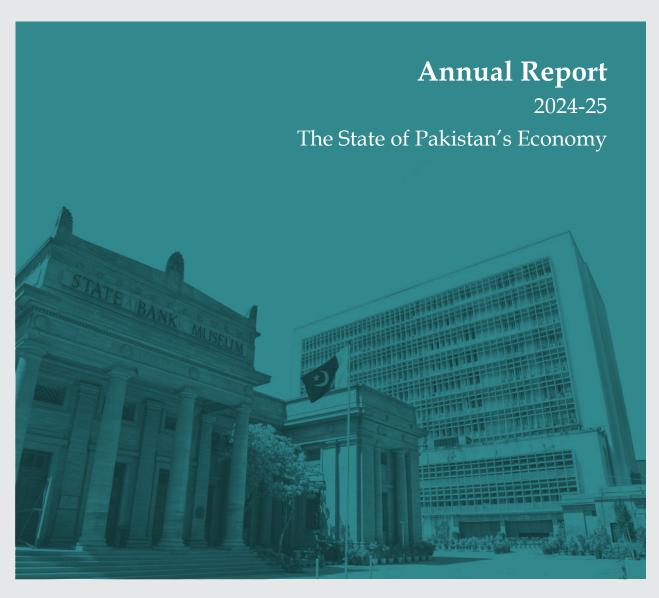


State Bank of Pakistan





The State of Pakistan's Economy 2024-25

October 16, 2025



State Bank of Pakistan

The State of Pakistan's Economy

Annual Report For the year 2024-25 of the Board of Directors of State Bank of Pakistan

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LETTER OF TRANSMITTAL

State Bank of Pakistan Karachi. October 16, 2025

Dear Mr. Chairman,

In terms of Section 39(2) of the State Bank of Pakistan Act, 1956, the Annual Report of the Board of Directors of State Bank of Pakistan on the State of Pakistan's Economy for the year 2024-25 is hereby enclosed for submission to the Majlis-e-Shoora (Parliament).

With warm regards,

Yours sincerely,

(Jameel Ahmad) Governor

Chairperson, Board of Directors

Syed Yousaf Raza Gilani Chairman Senate of Pakistan Islamabad

LETTER OF TRANSMITTAL

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Dear Mr. Speaker,

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Yours sincerely,

(**Jameel Ahmad**) Governor

Chairperson, Board of Directors

Sardar Ayaz Sadiq Speaker National Assembly of Pakistan Islamabad

LETTER OF TRANSMITTAL

State Bank of Pakistan Karachi. October 16, 2025

Dear Finance Minister,

In terms of Section 39(2) of the State Bank of Pakistan Act, 1956, the Annual Report of the Board of Directors of State Bank of Pakistan on the State of Pakistan's Economy for the year 2024-25 is hereby submitted.

With warm regards,

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Economic Review

1

1 Economic Review

1.1 Overview¹

A prudent monetary policy stance and continued fiscal consolidation helped macroeconomic stability to gain traction in FY25. Inflation dropped sharply, while real GDP growth increased moderately compared to the previous year. The current account balance (CAB) posted a record surplus, which induced stability in foreign exchange market and supported build-up of foreign exchange reserves. Fiscal deficit fell to a multi-year low, whereas primary surplus exceeded the budget target for the second consecutive year (Table 1.1). The tailwinds from favourable global commodity prices and approval of IMF's Extended Fund Facility (EFF) further supported these desirable outcomes.

Almost a consistent downtrend in inflation from January 2024 and improved external account position allowed the Monetary Policy Committee (MPC) to reduce the policy rate from June 2024 onwards. Meanwhile, fiscal policy continued to remain contractionary with a view to build fiscal buffers and contain the pace of public debt accumulation. In this backdrop, the reduction in the policy rate, together with benign global commodity prices, supported the gradual recovery in economic activity during FY25, with higher growth in H2-FY25 compared to the first half.

The uptick in real GDP growth in FY25 was led by expansion in services sector and industrial activities; the latter was mainly on account of higher value addition by electricity, gas and water supply and construction that more than offset the decline in large-scale manufacturing (LSM). However, the growth in agriculture sector slowed to multi-year low, primarily due to decline in production of important crops (**Figure 1.1**), with a

Selected Economic Indicators

Table 1.1

Selected Economic mulcators			able 1.1	
	FY23	FY24	FY25	
Growth rate* (percent)				
Real GDP a	-0.2	2.6	3.0	
Agriculture	2.2	6.4	1.5	
Industry	-3.9	-1.2	5.3	
o/w LSM	-9.8	0.9	-0.7	
Services	0.04	2.3	3.0	
National CPI (period average) a	29.2	23.4	4.5	
National CPI (yoy, June)	29.4	12.6	3.2	
Private sector credit b	0.6	6.1	12.2	
Money supply (M2) ^b	15.6	16.0	13.7	
Exports b#	-14.2	11.1	4.3	
Imports b#	-26.3	0.9	11.2	
Tax revenue – FBR ^c	16.7	29.9	26.1	
Exchange rate (end-period) app (+)/dep (-) b,*	-28.4	2.7	-1.9	
Policy rate (end-period) b	22.0	20.5	11.0	
million U	S\$			
SBP's reserves (end-period) b	4,445	9,390	14,506	
Workers' remittances b	27,333	30,251	38,300	
Current account balance b	-3,275	-2,072	2,113	
percent of GDP				
Fiscal balance ^c	-7.8	-6.9	-5.4	
Primary balance	-1.0	0.9	2.4	
Gross public debt	74.9	67.7	70.8	
Current account balance	-1.0	-0.6	0.5	
Investment a	14.0	13.2	14.3	

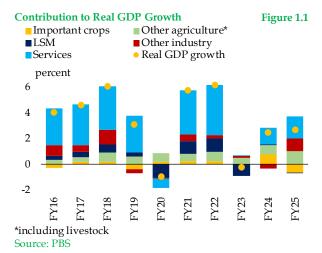
^{*} The numbers relating to real GDP for FY23, FY24 and FY25 are on constant basic prices of 2015-16 and represent final, revised, and provisional estimates, respectively.

Sources: a PBS; b SBP; c MoF; *mark-to-market; #goods only.

broad-based fall in yields and lower area under cultivation, except for sugarcane and rice.

The decline in yields reflected the impact of several unfavourable factors. First, subdued crop prices in FY24 and rising input costs during FY25 squeezed farmers' income, leading to lower input usage, especially fertilizer. Second, unfavourable climatic conditions – erratic rainfall during *Kharif* season, prolonged dry spell during *Rabi* season, canal water shortages and above average temperatures – prevented timely sowing of

¹ The analysis and projections presented in this report were prepared on data outturns for FY25 and finalized in the second week of October 2025, using data and information as of then.



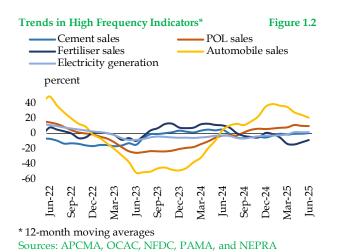
important crops, particularly wheat, cotton and rice. Third, continued shortages of certified seeds of important crops (except rice) led the farmers to use low quality seeds that also impacted crop yields. Moreover, farmers shifted from sowing cotton and wheat towards other (competing) crops including oilseeds, pulses and fresh vegetables due to uncertainty surrounding the minimum support price (MSP). The resultant increase in output of other crops, nevertheless, partly neutralized the impact of decline in output of important crops. Further support came from increase in livestock in FY25.

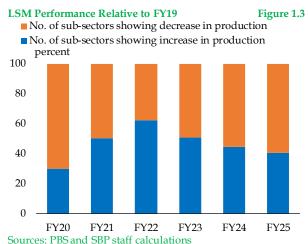
Industrial activities recovered in FY25 after a consistent decline during the previous two years. Within the industry, the growth in electricity, gas and water supply mainly reflected the impact of

higher subsidies, while a sizeable increase in development spending shored up construction activity during FY25. However, private construction activity remained subdued amid elevated input costs and increase in property taxes.

The LSM output contracted by 0.7 percent in FY25, compared to a slight increase in the previous year. Although the output of twelve out of twenty-two LSM sub-sectors increased, sharp decline in the output of other sub-sectors pulled down the overall LSM growth. Specifically, the decline in furniture alone dragged the LSM growth by 1.6 percentage points. The overall contraction in LSM, nevertheless, reflected the impact of moderate domestic demand (Figure 1.2) and higher input costs. The fiscal consolidation, lagged impact of tight monetary policy stance and prudential measures continued to keep the domestic demand contained in FY25. In addition, depressed farm incomes also weighed on domestic demand.

Meanwhile, a moderate recovery in global demand, fall in energy prices, stability in exchange rate and lower interest rates supported expansion in output of major industries including textiles, pharmaceuticals, petroleum products and automobiles during FY25. Notwithstanding the improvement in selected industries, a closer look at the past few years' performance shows that production in around half of the LSM sub-sectors





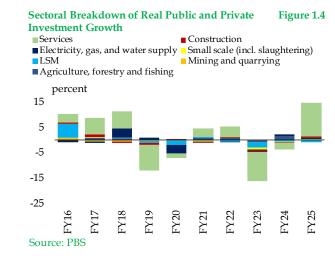
has not reached the pre-pandemic levels of FY19 (**Figure 1.3**).

From the expenditure-side, while household consumption remained dominant contributor to real GDP, gross fixed capital formation saw an uptick in FY25. Particularly, general government accounted for over half of the expansion in investment in FY25. Moreover, private investment also moderately increased, which mainly remained concentrated in services sector. The private investment in manufacturing sector, on the other hand, declined for the fourth consecutive year in FY25, which partly explains the lacklustre performance of the LSM during the past few years (Figure 1.4).

The moderate expansion in economic activity led to a concomitant increase in imports, primarily driven by higher volumes amid benign global commodity prices. The decline in output of important crops also added to import requirements, with raw cotton alone accounting for around one-third of the increase in import bill during FY25.

On the other hand, the combined effect of softening global food prices, uncertain global trade environment amid hikes in trade tariffs, and rising geopolitical tensions restrained export growth in FY25. Moreover, increased competition in the international rice trade adversely affected export unit values and hence Pakistan's rice exports. Nonetheless, driven by an uptick in global demand, export of textiles recovered in FY25. Encouragingly, textile exports benefited from increase in both volumes and unit prices, reflecting better pricing power of textile firms.

This also reflects improved competitiveness, as some of the large players in the textile industry have recently started investing in retrofitting of their production infrastructure to ensure greater compliance with global sustainability standards and achieve increased cost efficiency (Box 5.2). Beyond textiles, exports of other manufactures including pharmaceuticals, plastic and engineering goods also saw a notable increase

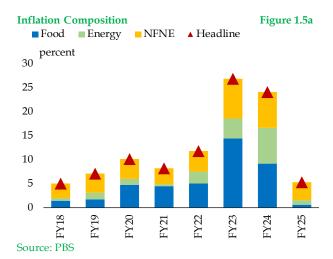


during FY25. Similarly, export of services, led by surge in ICT exports, maintained strong uptrend.

On balance, the trade deficit in goods & services, widened during FY25. The deficit in the primary income account remained almost unchanged at the previous year's level as repatriation of profits and dividends maintained the trend, while interest payments on external loans declined marginally. Nevertheless, a strong growth in workers' remittances more than compensated for the widening in trade deficit, turning the current account into a notable surplus in FY25, first in fourteen years and the highest in twenty-two years.

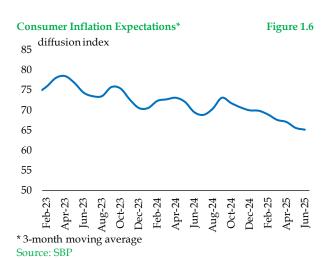
A mix of supportive domestic and global factors propelled workers' remittances in FY25. On the domestic front, various incentives introduced by the government and SBP aimed at reducing transaction cost, together with exchange rate stability, encouraged inflows through formal channels. Moreover, robust growth in host countries, particularly in Gulf region, bolstered labour demand. At the same time, falling cost of living in the host countries strengthened workers' real income, providing further impetus to remittances during FY25.

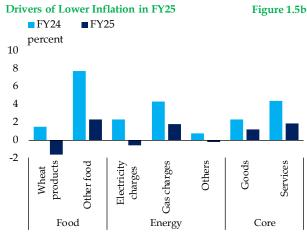
The sizeable current account surplus induced stability in the foreign exchange market and facilitated SBP to make substantial FX purchases. Although portfolio investment saw net outflows,



foreign direct investment (FDI) also ticked up during FY25. Additionally, the approval of IMF's EFF in July 2024 unlocked external inflows from other multilateral and bilateral creditors. These together boosted SBP's FX reserves to US\$ 14.5 billion at end-June 2025, up from US\$ 9.4 billion in FY24.

The contained domestic demand amid continued tight monetary policy stance and fiscal consolidation, alongside ample supply of key food commodities, a stable exchange rate, benign global commodity prices, and positive outcome of ongoing energy sector reforms contributed to a sharp disinflation during FY25. The average national CPI (NCPI) inflation dropped from 23.4 percent in FY24 to an eight-year low of 4.5 percent in FY25, below the medium-term target range of





5.0 – 7.0 percent. The decline was broad-based, with major contribution from a sharp fall in food prices.

More specifically, the collapse in prices of wheat and its products alone accounted for about one-fifth of the decline in urban inflation during FY25 (Figure 1.5a and 1.5b). Higher import volumes and bumper wheat harvest in FY24, along with the government's decision to discontinue support price and procurement regime in FY25 pulled down prices of wheat & wheat products to a three-year low. Moreover, delay in energy price adjustments, the efforts to improve operational performance of the power sector transmission & distribution, in addition to softening global oil prices, steepened the downtrend in energy inflation during FY25.

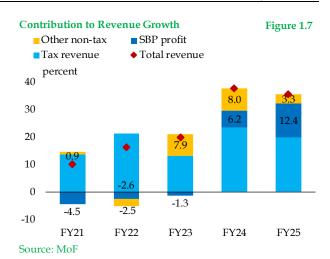
Core inflation nearly halved in FY25 compared to FY24, reflecting fading second-round effects of the previous shocks to food and energy prices, subdued domestic demand, stable exchange rate and anchored inflation expectations. Importantly, inflation expectations of households, which remained stubbornly elevated during the past few years, considerably eased during FY25 (**Figure 1.6**). However, the pace of decrease in core inflation somewhat moderated in H2-FY25, indicating sticky nature of underlying inflationary pressures. In this context, **Box 3.2** highlights the need to address the structural factors that entrench persistence in core inflation.

The greater-than-expected decline in inflation, its improved outlook and strengthened external account position, allowed the MPC to reduce the policy rate in all its six meetings held between June 2024 and January FY25, with a cumulative reduction of 1,000 basis points (bps). However, the concerns over rigidity of core inflation, escalating uncertainty surrounding global trade tariffs, and heightened geopolitical tensions, led the MPC to adopt a cautious approach during March to June 2025, reducing the policy rate by only 100 bps in the meeting held in May 2025.

The government's fiscal consolidation efforts, moderation in interest payments, and a sizeable increase in SBP profit improved fiscal balance during FY25. Fiscal deficit fell to a nine-year low of 5.4 percent of GDP, lower than the budget target, while the primary surplus rose to 2.4 percent of GDP from 0.9 percent in the previous year. A sharp increase in revenues mainly underpinned this improvement.

Total revenue rose to 15.8 percent of GDP in FY25 from 12.6 percent in the previous year. Tax and non-tax revenues equally contributed to the increase in revenue (Figure 1.7). Federal tax collection reached a multi-year high during FY25, with almost equal contribution from direct and indirect taxes in terms of GDP. Tax reform efforts including rationalizing of tax exemptions, withdrawal of preferential treatment and increase in rates/duties helped a strong growth in tax collection, despite a steep reduction in inflation and lacklustre performance of LSM. Moreover, provincial tax revenue also inched up, mainly helped by increase in collection of GST from services.

The strong growth in revenue, coupled with moderation in interest payments, provided fiscal space for increasing development spending during FY25, after exhibiting restraint in the previous year. Specifically, provincial development spending increased markedly, mainly directed towards construction, transport and agriculture projects. Although non-interest current expenditures also increased, the pace of overall increase in spending slowed due to



government's policy efforts. These included introduction of austerity measures to contain expenses for running of the civil government, and abolition of gas subsidies for consumers and fertilizer plants in continuation of policy shift towards rationalization of untargeted subsidies.

Notwithstanding the reduction in fiscal deficit, public debt-to-GDP ratio increased to 70.8 percent in FY25, from 67.7 percent in the previous year. This increase largely reflected slower growth in nominal GDP. Similar to the previous year, the government mobilized most of its funding requirements from domestic sources, notwithstanding increased availability of external inflows towards the end of FY25. The government mostly mobilised domestic financing through long-term securities (PIBs and Sukuk) and made retirement in short-term papers (T-bills). In a declining interest rate environment, the market also preferred to lock-in funds in the long-term government securities. This helped lengthen the maturity profile of public debt, besides lowering the rollover risk. Moreover, the increase in tax revenue and foreign exchange earnings, together with lower interest rates, strengthened the country's debt repayment capacity in FY25.

Lower fiscal deficit and greater availability of nonbank and external financing, reduced the government's borrowing requirements from the scheduled banks. This, together with continued retirement of commodity operations financing and credit to public sector enterprises (PSEs), slowed the pace of expansion in net domestic assets (NDA) of the banking system during FY25, despite doubling of private sector credit (PSC). The increase in both working capital and fixed investment loans contributed to the expansion in PSC. In addition to the lower cost of borrowing, slight uptick in economic activity, elevated input costs, rising cash flow constraints in some sectors, along with banks' efforts to keep their advance-to-deposit ratio (ADR) above 50 percent at end-December 2024 to avoid ADR-based taxation, also contributed to the surge in PSC during FY25.

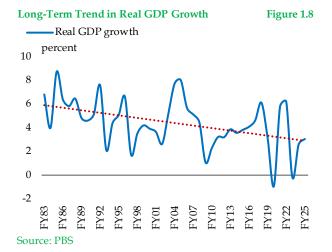
The deceleration in NDA more than offset a substantial expansion in net foreign assets (NFA) amid improvement in external accounts, slowing the broad money growth to 13.7 percent in FY25 from 16.0 percent in the previous year. On the liabilities side, lower deposit mobilisation in line with the steep reduction in interest rates, explains the deceleration in M2 growth, while currency-incirculation (CiC) expanded sharply.

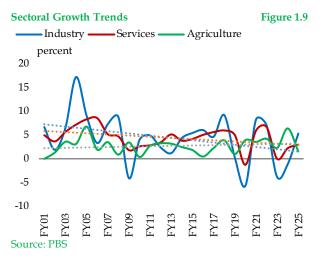
While the overall macroeconomic conditions have stabilized, a sustained increase in economic growth requires concerted policy efforts and reforms to address the structural issues that have undermined the growth potential of the country. The trend growth in Pakistan has been on a decline, indicating the country's weakening growth potential (Figure 1.8). This is mainly explained by the declining trend in industry and services, while the value addition by agriculture

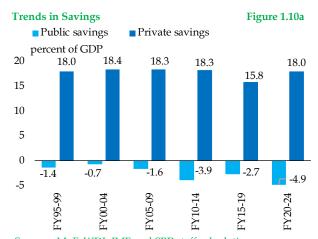
has seen a modest increase over the years (**Figure 1.9**).

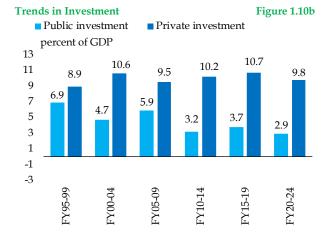
A range of factors has led to this undesirable outcome. Among these, low domestic savings is one of the weakest links in Pakistan's growth paradigm. In this regard, **Chapter 6** of the report presents a detailed review of factors responsible for low savings in the country. The analysis shows that low per capita income, high inflation rates, large fiscal imbalances, a large informal economy, weak financial intermediation, and high youth dependency have restrained savings in Pakistan. Low public and private savings both contributed to this lacklustre performance, which has in turn, led to low investment in the country.

In effect, persistently large fiscal deficit in past years has undermined the required expansion in both public and private savings and thus investment (Figure 1.10a and 1.10b). The situation is akin to debt spiral, where total revenues barely meet interest and non-interest current spending needs, squeezing fiscal space for development spending, which in turn constricts the country's debt repayment capacity. To put things into perspective, interest payments remained higher than development spending in terms of GDP over the past two decades (**Figure 1.11**). On the other hand, chronic inefficiencies in PSEs added further drag on scarce fiscal resources. This explains the anaemic level of public savings and hence declining public investment-to-GDP ratio, which









Sources: MoF, WDI, IMF and SBP staff calculations

has undermined the quality of human and physical capital in the country.

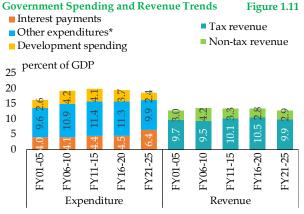
The financing of perpetually large fiscal deficit also remained a source of concern. The inadequate availability of external inflows and non-bank financing has given rise to a strong sovereignbank nexus in Pakistan, which often crowds out private sector credit. The persistently elevated financing requirements of the government have made banks complacent, where banking system enjoys high stream of profits by investing in government securities, rather than lending to private sector (Figure 1.12). The crowding out of private sector is one of the leading factors underlying the Pakistan's lowest credit-to-GDP ratio among peer economies (Figure 1.13). Hence, the low financial development further discourages savings and investment.

In addition to these deep-rooted challenges, rising frequency of climate events have further constrained growth potential and increased stress on fiscal and external accounts, besides amplifying dependence on food imports in the context of food security. Similarly, unfriendly business environment marked with frequent episodes of political and economic instability, high tax rates, complicated tax rules and regulations, logistic bottlenecks, cumbersome regulations and challenging law and order situation have affected investment climate in the country, particularly for manufacturing sector.

The resulting low technological upgradation in

The resulting low technological upgradation in manufacturing and narrow product base have not only hampered the country's ability to achieve a sustained increase in export earnings, it has also increased dependence on imports. Although

Scheduled Banks' Deposits, Advances and

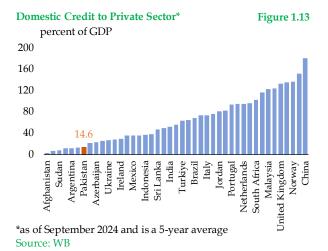


Investment in Government Securities Deposits • -Advances -Investment in govt. securities percent of GDP 45 30 15 0 CY10 CY12 CY13 CY16 CY11 **CY15** CY17 CY18 Sources: SBP and PBS

*This includes statistical discrepency Source: MoF

9

Figure 1.12



workers' remittances often help in financing imports, increasing foreign exchange earnings through exports can indeed reduce country's dependence on external borrowing as well as vulnerabilities to external shocks.

This situation warrants a holistic approach to further strengthen economic resilience for putting the economy on a high growth trajectory on a sustainable basis. This involves multi-pronged reform agenda to encourage savings and investment, and ensure efficient allocation of resources, through coordinated policy reforms, as well as initiation of governance reforms to strengthen institutions, simplification of regulatory framework, and improving market structure to promote competition in goods and services sectors.

In this context, fiscal policy reforms assume centre stage. This entails continuation of fiscal consolidation, through both revenue and spending reforms and creating fiscal space for building infrastructure to support sustainable growth. On the revenue side, policy efforts should focus on widening the tax base through rationalizing exemptions, eliminating any disparities in tax regime that discourage investment in manufacturing sector, improving tax administration by simplification of tax laws and procedures, and increasing the documentation of the economy.

As regards expenditures, enhancing coordination between various tiers of the government – federal, provincial and local – may help in enhancing spending efficiency for better allocation of scarce resources. Moreover, there is a need to minimize PSE losses by improving operational performance of these entities, introducing governance reforms and expediting privatization. Similarly, introducing targeted subsidies in the power sector will not only lower fiscal spending needs but will also help reduce accumulation of circular debt.

The government has already initiated reforms to contain circular debt. Some of the important policy interventions include timely adjustment of energy tariffs to ensure cost recovery, early termination of inefficient plants to contain capacity payments, and stimulating grid demand. In this regard, **Box 3.1** suggests various policy options based on country experiences to revive electricity demand for national grid and help further lower the burden of capacity payments.

These reforms would enable the government to achieve fiscal and debt sustainability (Box 4.1), reduce budgetary borrowing requirements, improve public debt profile (Box 4.2), help build fiscal buffers to withstand economic shocks and weaken the sovereign-bank nexus. The resultant increase in public savings will crowd-in private savings as well.

Similarly, the reforms in agriculture commodity market, the discontinuation of MSP and commodity procurement, need to be supplemented with the establishment of wholesale markets to eliminate farmers' exploitation at the hands of middle-men, and ensure efficient market-based commodity trading. Further, both import and export of agriculture commodities should also be de-regulated for creating competitive market and better price discovery. This will also help attract much needed investment, particularly for developing climateresistant high-yielding crop varieties, required to unlock the growth potential of agriculture sector.

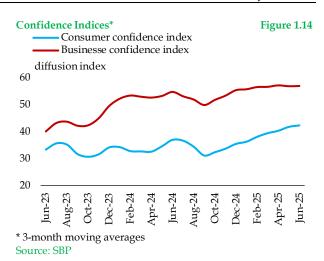
Additionally, efficient management of irrigation water can help mitigate repercussions of climate-change for agriculture productivity (**Box 2.1**). Similarly, the country need to leverage its large proven mineral reserves to accelerate growth (**Box 2.2**). Moreover, tourism sector of the country also offers significant potential to spur economic growth and employment (**Box 2.3**).

In external sector, while government's recent policy initiative to remove anti-export bias will help improve export competitiveness, the scope of these efforts need to be broadened to include non-tariffs barriers (NTBs) and para-tariffs (Box 5.1). Furthermore, expanding production capacity of critical industrial inputs – for instance, petrochemicals, will not only enhance export competitiveness but will also reduce import dependence (Box 5.3).

1.2 Economic Outlook

Pakistan's macroeconomic conditions were broadly stable at the start of FY26. The macroeconomic stability, alongside a cautious monetary policy stance revived confidence of businesses and households (Figure 1.14). Meanwhile, stable external account position, continued fiscal consolidation and implementation of reforms under the IMFs' EFF program led the three major international credit rating agencies to upgrade Pakistan's credit rating during April to August 2025.² However, the floodinduced damages to agriculture and infrastructure pose risks to overall macroeconomic outlook.

The floods submerged large swathes of land in two provinces of Pakistan – KPK and Punjab, causing widespread losses to human lives, agriculture produce and infrastructure. The floods specifically inundated extensive area under cultivation of major *kharif* crops – rice, cotton, maize and sugarcane. While the post-flood soil enrichment may partly offset these losses by improving yields of *Rabi* crops, the overall



agriculture output may be significantly affected. Moreover, the floods may also disrupt supply chains, weaken domestic demand and reduce availability of agriculture raw materials for agrobased industries.

However, the lagged impact of significant reduction in the policy rate is expected to maintain momentum in economic activity. A visible increase in high-frequency indicators including sales of automobiles, cement, POL products and import volumes in Jul-Aug FY26 lends credence to this view. Moreover, the planned increase in development spending and the post-flood reconstruction efforts are likely to support construction activity during FY26. Incorporating these developments, SBP projects the real GDP growth to remain close to the lower end of the earlier projected range of 3.25 – 4.25 percent during FY26.

The flood-induced losses to infrastructure have increased spending needs for undertaking rehabilitation and reconstruction of the affected areas. However, continued fiscal consolidation measures, including the efforts to contain energy sector circular debt and targeted power subsidies, together with moderation in debt servicing are expected to contain spending growth.

² Fitch Ratings upgraded Pakistan's sovereign credit rating from CCC+ to B- with a Stable outlook in April 2025. S&P Global Ratings followed in July with a similar upgrade from CCC+ to B-. In August 2025, Moody's raised Pakistan's rating from Caa2 to Caa1, citing improved external position under the IMF supported program. Source: Fitch Ratings, Moody's, and S&P Global.

On the revenue side, the ongoing tax reforms and the efforts to increase documentation of the economy are expected to strengthen tax collection. This, together with sizeable transfers of SBP profit in August 2025, are expected to bolster overall revenue growth. In view of these developments, SBP projects fiscal deficit to fall in the range of 3.8 – 4.8 percent of GDP in FY26.

The expansion in economic activity and expected shortages of agricultural commodities may translate into a concomitant increase in imports in FY26. On the other hand, the slowdown in global demand and damages to agriculture produce are expected to weigh on exports. However, lower US tariff on Pakistan's exports relative to the competitors may partly offset the fallout of floods and adverse global developments. Further, the workers' remittances are maintaining the momentum and likely to partly offset the deterioration in trade deficit. Incorporating these trends, SBP projects CAD in the range of 0 – 1.0 percent of GDP in FY26.

The flood-induced shortages of perishable food commodities may also exert upward pressure on food prices. Additionally, food and energy inflation is also likely to move up due to the phasing out of favourable base effect. With the steep increase in gas prices in July 2025 and the expiry of the relief in electricity prices applied in Q4-FY25, energy prices are expected to trend up in FY26. However, the restrained domestic demand,

Macroeconomic Targets and P	rojections for FY	'26 Table 1.2							
	Target	SBP Projections							
Growth 1	rate (percent)								
Real GDP a	4.2	3.25 - 4.25							
CPI (average) a	7.5	5.0 - 7.0							
billion US\$									
Remittances a	39.4	39.0 - 40.0							
Exports (fob) a	35.3	32.0 - 33.0							
Imports (fob) a	65.2	63.5 - 64.5							
percent of GDP									
Fiscal deficit ^b	3.9	3.8 - 4.8							
Current account deficit a	0.5	0.0 - 1.0							

Sources: a MOP&SI, b MoF 2025-26

alongside benign global commodity price outlook and stable external outlook, is likely to keep underlying inflationary pressure in check. Accounting for these trends and developments, the headline NCPI inflation may cross the upper bound of the medium term target range of 5.0 – 7.0 percent in the second half of FY26, before reverting to the target range in FY27 (**Table 1.2**).

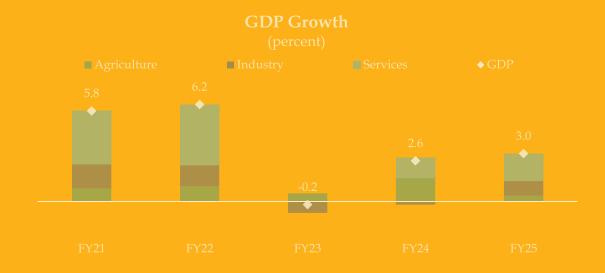
This outlook is subject to risks emanating from unfolding impact of floods, an uncertain geopolitical environment, and global trade uncertainties. The flood-induced losses to agriculture and infrastructure are likely to have upside risks for the projection of twin deficits and inflation outlook, while downside risks for growth. Similarly, geopolitical and trade uncertainty may impact external outlook through increased volatility in global commodity prices and slower global growth and trade flows.



2

Economic Growth

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



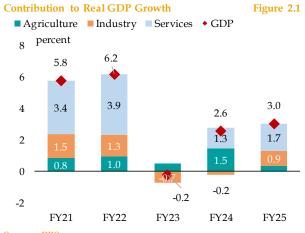
2 Economic Growth

2.1 GDP Growth

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

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

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



Source: PBS

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

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

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

GDP Growth Table 2.1

growth in percent, contribution in percentage points

8 · 1 · · · · · · · · · · · · · · · · ·	r	O . I .												
		FY24 ^R					FY25 ^P					Contrib	Contribution	
	Q1	Q2	Q3	Q4	Year		Q1	Q2	Q3	Q4	Year	FY24	FY25	
GDP	2.6	2.0	2.5	3.3	2.6		1.8	1.9	2.8	5.7	3.0	2.6	3.0	
Agriculture	8.3	5.9	4.0	7.4	6.4		1.5	2.0	2.4	0.2	1.5	1.5	0.4	
Industry	-4.1	-0.3	2.8	-3.1	-1.2		0.3	0.2	1.2	19.9	5.3	-0.2	0.9	
Services	2.5	1.2	1.8	3.6	2.3		2.4	2.5	3.5	3.7	3.0	1.3	1.7	

R: Revised, P: Provisional

Source: PBS

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

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

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

Real GDP from Expenditure Side percent of GDP

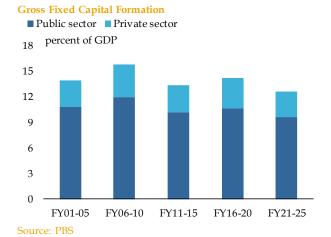
percent of GD1					
	FY21	FY22	FY23	FY24	FY25
Total consumption	94.4	96.4	93.5	93.6	92.9
Household*	83.5	85.9	83.2	84.8	83.4
Government	10.9	10.5	10.3	8.9	9.5
Investment	14.5	15.6	14.0	13.2	14.3
Net exports	-8.9	-12.0	-7.5	-6.8	-7.2
Exports	9.1	10.5	10.5	10.4	10.0
Imports	18.0	22.5	18.0	17.2	17.2
Memorandum item					
National savings	13.7	10.9	13.0	12.6	14.1
Saving-Investment gap	-0.8	-4.7	-1	-0.6	-0.2

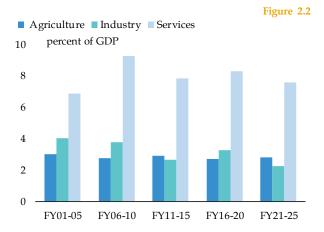
^{*}including non-profit institutions serving households

Sources: PBS and Annual Plan 2025-26

investment gap, despite an increase in investment to 14.3 percent of GDP in FY25 after falling to the lowest level in FY24.

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





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

growth in percent, contribution in percentage points

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

R: Revised; P: Provisional

Source: PBS

2.2 Agriculture

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

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

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

ginning also declined in line with lower domestic cotton production.

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

Meanwhile, the government continued to support farmers by ensuring availability of inputs and implementing targeted initiatives such as kissan card, livestock card, green tractor scheme, and wheat subsidy program 2025.² Moreover, a 20.0 percent increase in import of agricultural machinery during FY25 indicates rising mechanization (**Chapter 5**). The mechanization was further reinforced by PM's youth business and agricultural loan scheme.³

Inputs

Seed

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

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

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

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

Climatic Conditions

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

Water

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

The rainfall also remained erratic during *Kharif* FY25, as the season commenced with record rainfall (since 1961) in April 2024, followed by below normal rainfall till July 2024. August witnessed significantly above average rainfall, followed by below normal rainfall in September 2024.⁷ The dry spell continued throughout the *Rabi Season* FY25, with the exception of November, where slightly above normal rainfall was recorded (Figure 2.4a).

			-				
 wai	lahi	litv	of	Certi	fied	Seeds	ż

Table 2.4

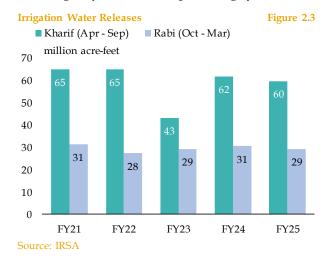
	FY24		FY25	FY25				
	Availability (MT)	% of Reg.	Availability (MT)	% of Req.				
Wheat	529,097	48	569,761	Keq. 50				
	*		•					
Cotton	25,425	51	17,684	32				
Paddy	57,072	125	68,615	114				
Maize	32,157	97	29,503	90				

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

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

Temperature

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



 $^{^4\,}SBP\ (2022).\ Jafri, S.\ K.,\ Imran,\ M.,\ \&\ Asif,\ M.\ H.,\ Investigating\ Pakistan's\ Seed\ Industry\ Dynamics,\ SBP\ Staff\ Note\ No.\ 02/22$

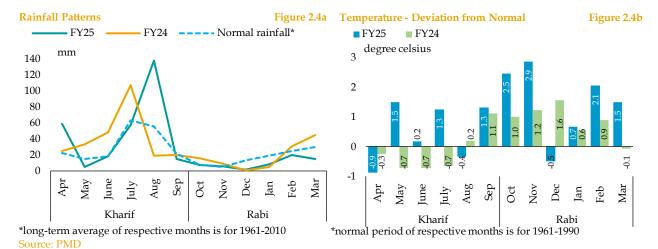
⁵ Sources: MoF and USDA.

⁶ Source: Press Release, October 2024. IRSA.

⁷ Source: PMD

⁸ Source: Press Release, March 2025. IRSA

⁹ Source: World Meteorological Organization



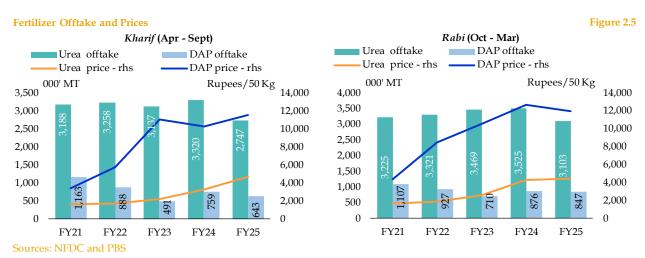
reduce productivity, and exacerbate the soil moisture deficits, particularly in already water-stressed areas. Therefore, development of climateresilient crop varieties and improving irrigation efficiency is crucial to mitigate these risks.

Fertilizer

The overall fertilizer offtake declined during FY25, compared to the previous year (Figure 2.5). Urea offtake fell by 17.3 and 12.0 percent during *Kharif* and *Rabi* FY25, respectively. DAP offtake also fell during *Kharif* and *Rabi* FY25. This decline largely emanated from reduced area under cultivation of

important crops and higher urea prices, coupled with the fall in crop prices during FY24. Furthermore, late sowing of the *kharif* crops due to climate change also contributed to lower fertilizer use.¹⁰

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



 $^{^{\}rm 10}$ Source: MoF, Economic Update and Outlook, September 2024.

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

Agriculture Cre	dit Disbursements
hillion Rupees	

Table 2.5

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

Source: SBP

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

Agriculture Credit

Agriculture credit disbursement gained further traction in FY25, achieving the target outlined in commercial banks' expansion plans (Table 2.5).¹⁴ The expansion in agriculture credit disbursement was broad-based. The credit to farm sector (production) witnessed a significant increase on the back of a substantial rise in credit to corporate farming. However, in case of important crops, the

adverse impact of other factors, as discussed above, pulled down their production despite higher credit offtake. In non-farm sector, credit to livestock also registered a significant increase. Similarly, credit for farm development increased despite decrease in tractor loans, which is also reflected by decline in domestic tractor production.¹⁵

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

Outputs

Wheat

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

¹³ Global DAP prices increased by 2.5 percent during Rabi FY25 compared to last year. Source: WB

¹⁴ Against the past practice of setting indicative targets, SBP facilitated commercial banks in formulating expansion plans. Accordingly, disbursement of Rs 2,572 billion was planned in FY25.

¹⁵ A 10 percent sales tax was levied in the budget FY25, which was further increased to 14 percent in October 2024. Source: S.R.O. 1643 (1) 2024, Revenue Division, Ministry of Finance and Revenue.

¹⁶ Source: Government of Punjab.

¹⁷ Source: SBP circular (ACFID Circular Letter No. 02 of 2024), November 14, 2024.

¹⁸ Source: GIEWS Country Brief, The Islamic Republic of Pakistan, March 2025, FAO. Source: Press Release 034, March 2025, MNFSR. https://mnfsr.gov.pk/Detail/M2Y0ZmRlYzMtMDFlNC00DU4LWI1MjktOGQ5NjNjYzJhYzI5

Important Crops Table 2.6

production in	n MT; area in 000 l	hectares; vield in	kg/ha; cha	ange in percent
production	i ivii, aica iii ooo .	ricciarcs, yicia iii	Kg/ Im, CI	ange in percent

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

*production in million bales

Source: PBS

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

Rice

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

Cotton

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

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

Maize

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

Sugarcane

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

Other Crops

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

¹⁹ USDA, Grain and Feed Annual Report, April 2025.

²⁰ Ibid and USDA Cotton and Products Update, August 2025.

²¹ Around 65 percent of maize is used in poultry feed in Pakistan. Source: USDA

²²GE soya bean and maize are used together as inputs to produce poultry feed

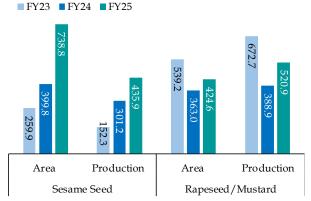
²³ USDA, Oilseed and Products Update, December 2023

²⁴ USDA, Sugar Annual Report, April 2025.

²⁵ USDA, Sugar Semi-annual Report, April 2024.







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

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

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

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

Poultry Products numbers in million

Table 2.8

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

Source: PBS

²⁶ USDA, Grain and Feed Annual, November 2024.

Other Crops

Table 2.7

area in 000'h	area in 000'hactares; production in 000' MT; change in percent								
	FY	Y24	F	Y25	Cha	Change			
_	Area	Prod.	Area	Prod.	Area	Prod.			
Canola	44.9	63.9	68.6	103.9	52.8	62.6			
Sunflower	62.6	98.5	60.5	96.2	-3.4	-2.3			
Potato	338.7	8,434.4	386.7	10,010.2	14.2	18.7			
Onion	142.7	2,304.20	166.2	2,747.10	16.5	19.2			
Tomato	67.1	797.3	65.2	837.9	-2.8	5.1			
Mung	201	153.3	185.4	131.2	-7.8	-14.4			
Mash	7.0	5.6	7.5	5.9	7.1	5.4			
Potato Onion Tomato Mung	338.7 142.7 67.1 201	8,434.4 2,304.20 797.3 153.3	386.7 166.2 65.2 185.4	10,010.2 2,747.10 837.9 131.2	14.2 16.5 -2.8 -7.8	18.7 19.2 5.1 -14.4			

Source: PBS

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

Livestock

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

2.3 Industry

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

Milk and Meat Production

Table 2.9

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

Source: Pakistan Economic Survey 2024-25

²⁷ USDA, Oilseeds and Products Update, December 2024.

²⁸Pakistan Economic Survey 2024-25, MoF.

²⁹ ibid

Industrial Activities Table 2.10

growth in percent	. contribution in	percentage points
growth in percent	, community and mi	percentage ponts

		FY24 ^R					FY25 ^p				Contri	Contribution	
	Q1	Q2	Q3	Q4	Year	Q	1	Q2	Q3	Q4	Year	FY24	FY25
Industry	-4.1	-0.3	2.8	-3.1	-1.2		0.3	0.2	1.2	19.9	5.3	-1.2	5.3
Mining and quarrying	7.9	-1.4	-5.3	-13.5	-3.3	-{	5.3	-2.7	-2.9	1.9	-2.4	-0.3	-0.2
Manufacturing	1.8	1.6	3.2	5.6	3.0	2	2.2	0.8	0.9	4.0	2.0	2.0	1.3
Large scale	-0.7	-0.8	1.3	4.2	0.9	-(0.9	-2.6	-2.0	3.0	-0.7	0.4	-0.3
Small scale	8.8	8.8	9.0	9.5	9.0	10	0.2	10.0	8.8	6.8	8.9	1.1	1.2
Slaughtering	6.4	6.4	6.6	7.0	6.6	7	7.4	7.2	6.3	4.9	6.4	0.5	0.5
Electricity, gas and water supply	-34.4	-5.0	19.0	-31.6	-19.1	-2	2.0	-5.0	-4.0	121.4	28.5	-2.7	3.3
Construction	4.7	-4.7	-5.4	2.5	-1.0	-3	3.1	3.1	10.7	17.6	6.6	-0.1	0.8

R: Revised, P: Provisional

Source: PBS

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

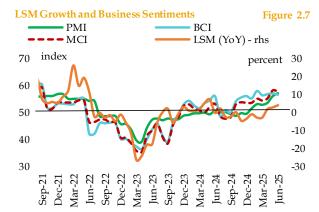
The revival in industry, nevertheless, reflects the unfolding impact of improved economic environment and business sentiments supported by lower interest rate, stable exchange rate, favourable external position, and positive business sentiments (Figure 2.7). The impact was particularly reflected in surge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

Mining and Quarrying

The value addition by mining and quarrying contracted for the fourth consecutive year in FY25. This can be attributed to decline in production of principal minerals, including crude oil, natural gas, and coal. The decline in fossil fuels, in addition to depleting ground reserves especially of natural gas,³⁰ is mainly linked to subdued

demand by main users amid sustained availability of contractual LNG supplies.^{31, 32} This curtailed production of crude oil and gas further affected the performance of mining and quarrying.³³

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



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

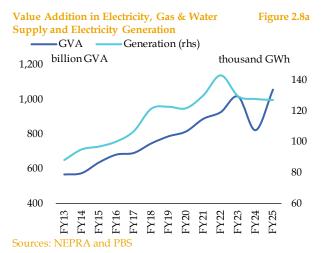
Sources: SBP and PBS

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

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

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

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



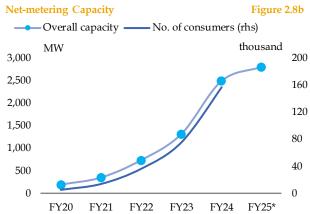
in the country offer significant investment and growth opportunities. However, harnessing the minerals potential depends on a coherent policy framework and enabling business environment. In this context, **Box 2.2** provides a brief overview of the key challenges and make recommendations for attracting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

Electricity, Gas and Water Supply

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

Construction Sector

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



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

increase in construction cost and taxes on property transactions.

Manufacturing

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

Large Scale Manufacturing

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

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

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

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

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

LSM Sub-sectors Showing Growth and Contraction percent

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

Source: PBS

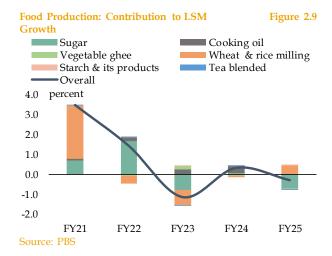
On the whole, a greater number of LSM groups posted an increase in output during FY25 compared to the previous year (Table 2.11). The groups with positive contribution included textile, wearing apparel, coke and petroleum products, pharmaceuticals, beverages, automobiles, and tobacco. On the other hand,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

Food

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

A notable increase in wheat and rice milling, the largest component within the food sub-sector,

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



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

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

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

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

Large-Scale Manufacturing Table 2.12

growth in percent, contribution in percentage points

I CM Costono	TA7a ! -1-1	Grow	th	Contrib	ution
LSM Sectors	Weight—	FY24	FY25	FY24	FY25
LSM	78.4	0.8	-0.7	0.8	-0.7
of which					
Food	10.7	1.7	-1.8	0.3	-0.3
Beverages	3.8	-3.2	1.3	-0.1	0.1
Tobacco	2.1	-23.0	7.0	-0.4	0.1
Textile	18.2	-5.7	2.5	-1.0	0.4
Wearing apparel	6.1	8.2	5.7	1.2	0.9
Leather products	1.2	5.6	0.9	0.0	0.0
Wood products	0.2	11.8	1.3	0.0	0.0
Paper & board	1.6	-0.6	0.4	0.0	0.0
Coke & petroleum	6.7	9.8	5.3	0.6	0.4
Chemicals	6.5	5.1	-3.5	0.4	-0.3
Pharmaceuticals	5.2	15.7	2.7	0.8	0.2
Rubber	0.2	-1.5	-1.3	0.0	0.0
Non-metallic mineral	5.0	-5.3	-7.9	-0.4	-0.5
Iron & steel	3.4	-4.4	-8.7	-0.2	-0.4
Fabricated metal	0.4	-7.8	-13.9	0.0	-0.1
Computer, electronics, optical	0.0	-12.4	2.6	0.0	0.0
Electrical equipment	2.0	-9.4	-11.7	-0.3	-0.3
Machinery and equipment	0.4	45.5	-35.5	0.2	-0.2
Automobiles	3.1	-25.0	46.2	-0.6	0.8
Other transport equipment	0.7	-4.0	36.6	0.0	0.2
Furniture	0.5	15.0	-56.3	0.4	-1.6
Other manufacturing	0.3	7.6	-16.0	0.0	-0.1

Source: PBS

Textiles

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

especially gas prices, besides decline in cotton production and high input cost.⁴³

Output of Textiles Table 2.13

growth in percent, contribution in percentage points

-23.3 49.4

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

25.7

8.2

5.7

0.9

1.2

Garments
Source: PBS

⁴² Cotton yarn and cloth together form 89 percent of the total weight of textile group in LSM.

⁴³ In the finance bill FY25, government imposed 18 percent sales tax on domestic textile inputs, while foreign inputs were exempted, which remained a negative element in addition to the decline in domestic cotton production.

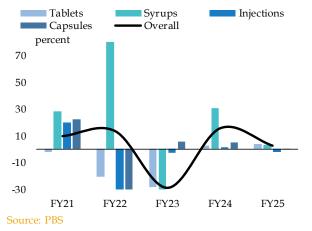
Coke and Petroleum Products

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

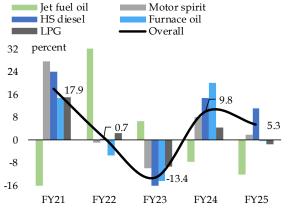
Pharmaceuticals

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





Growth in Output of POL Products Figure: 2.10

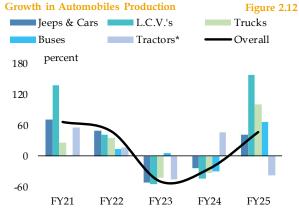


Source: PBS

investment and market expansion of alternative medicines, including nutraceuticals (food supplements) and therapeutic goods.⁴⁶

Automobiles

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



*Tractors production is a part of machinery group in LSM Source: PBS

⁴⁴ Economic Survey of Pakistan – 2024-25

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

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

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

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

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

Construction-allied Industries

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

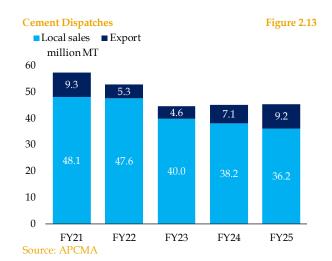
heavy machinery. Moreover, the availability of cheaper substitutes from China also affected local production of flat steel.⁴⁹

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

Other Industries

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

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



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

⁴⁸ Budget 2024-25 Source: MoF

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

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

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

Services Sector Table 2.14

growth in percent; contribution in percentage points

		FY24 ^R					FY25 ^P				Contrib	Contribution	
	Q1	Q2	Q3	Q4	Year	Č	1 Q	Q3	Q4	Year	FY24	FY25	
Services sector	2.5	1.2	1.8	3.6	2.3	2	4 2.	3.5	3.7	3.0	2.3	3.0	
Wholesale & retail trade	3.4	2.6	2.7	4.7	3.3	0	7 -1.	0.4	2.1	0.5	1.0	0.1	
Transport & storage	3.7	1.0	1.3	0.6	1.6	1	9 2.	1.6	4.1	2.4	0.3	0.4	
Accommodation and food services	4.0	4.0	4.1	4.3	4.1	4	6 4.	4.0	3.1	4.1	0.1	0.1	
Information and communication	8.1	0.2	-1.4	10.7	4.3	2	5 4.0	13.8	3.1	5.9	0.2	0.3	
Finance & insurance activities	-14.5	-19.5	-9.3	-6.7	-12.7	-4	6 7.	6.8	6.8	3.9	-0.4	0.1	
Real estate activities	3.6	3.6	3.7	4.0	3.7	4	3 4.	3.7	2.9	3.8	0.4	0.4	
General government	-9.7	-10.2	-7.4	0.0	-7.0	4	4 9.0	13.4	12.9	9.9	-0.5	0.7	
Education	9.8	10.0	10.3	10.2	10.1	4	5 4.3	4.0	3.7	4.1	0.5	0.2	
Human health and social work activities	4.3	2.9	3.0	3.2	3.3	4	0 4.4	3.4	2.5	3.6	0.1	0.1	
Other private services	3.8	3.8	3.3	3.6	3.6	3	7 3.	3.5	3.0	3.5	0.5	0.5	

R: revised, P: provisional

Source: PBS

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

2.4 Services

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

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

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

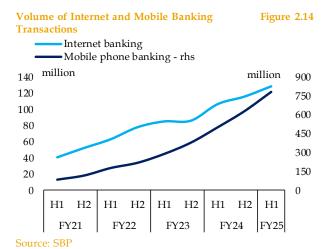
Information and communication services maintained its upward trajectory in FY25 as well. This was the result of a strong growth in computer programming and consultancy services, with major impetus coming from steady increase in ICT exports that rose by 18.6 percent in FY25 (Chapter

Growth in Finance and Insurance Services Table 2.15
percent

1		
	FY24	FY25
Scheduled banks	-10.8	5.4
Non-scheduled banks	-0.7	-13.0
Insurance, reinsurance, and pension	-56.4	-4.2
Other financial services	-25.9	-1.4
Auxiliary activities	17.0	16.0
Other monetary intermediation	-10.6	5.1

Source: PBS

⁵² Budget in Brief FY25-26 Source: MoF



5).⁵³ Furthermore, the continued increase in internet and mobile banking transactions points to rising digitalization across the economy **(Figure 2.14)**. By end-June 2025, the telecom subscription in Pakistan reached 200 million⁵⁴, including 150 million broadband users.

The pace of increase in value addition by *transport* & *storage* services also accelerated in FY25, mainly on account of improved performance of water, air, and road transport (**Table 2.16**). Maritime

Growth in Transport and Storage Services

Table 2.16

percent

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

Source: PBS

transport benefited from increase in import and export volumes and the rollout of the Pakistan Single Window and faceless-assessment systems by Pakistan Customs. 55 This initiative facilitated rapid cargo clearances and smoother operations at ports, consequently encouraging greater port traffic and trade volumes. 56 Similarly, air transport saw notable growth due to increased operational coverage, especially the restarting of European routes, and expanded interline partnerships by PIA. 57 Moreover, road transport — holding the largest share within this segment — also registered a moderate growth.

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

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

2.5 Labour Market

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

⁵³ In ICT exports, software consultancy services and other computer services grew by 27.2 percent and 34.4 percent, respectively, in FY25 (Source: SBP).

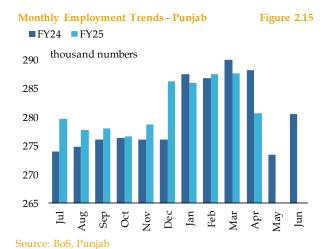
⁵⁴ Source: Press Release June 2025, PTA. https://www.pta.gov.pk/category/pta-celebrates-landmark-achievement:-pakistan-surpasses-200-million-telecom-subscribers-1561058794-2025-06-20.

 $^{^{55}\,}Source: Press\,Release, January\,2025, FBR.\,https://www.fbr.gov.pk/pr/pakistan-customs-achieves-significant-success/174194$

⁵⁶ Total cargo handling rose by 4.5% in FY25. Vessel traffic increased approximately 11%, with the port handling a total of 1,943 vessels, comprising 1,093 container ships, 218 bulk carriers, and 452 liquid bulk tankers. Source: Karachi Port Trust

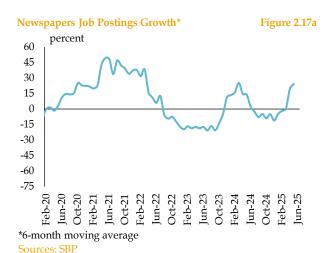
⁵⁷ PIA entered into Special Prorate Agreements with international carriers including Air France-KLM, Air New Zealand, Avelo Air, Allegiant Air, and Alaska Air, enabling extended network access across Europe, North America, New Zealand, and Asia. Source: Pakistan Economic Survey 2024-25. Further, anecdotal evidence suggests that after the EU's safety ban was lifted in January 2025.

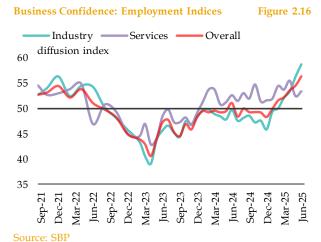
⁵⁸ Total imports rose to US\$ 58.4 billion with imports quantum rising 23.1 percent in FY25. Source: PBS



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

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

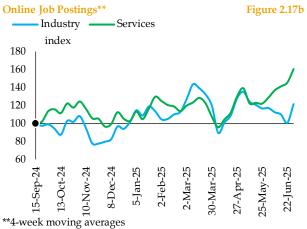


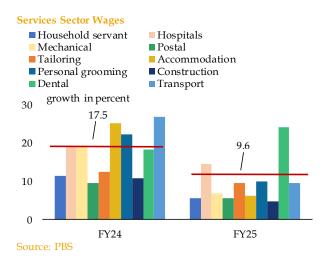


surpassing the optimistic mark (i.e. 50) from February 2025 onwards.

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

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





10 Dec-17 May-18 Oct-18 Mar-19 Mar-19 Mar-19 Mar-19 Mar-19 Mar-19 Mar-22 May-23 Oct-23 Mar-24 Aug-24 Jul-25 Jul-25

Figure 2.18

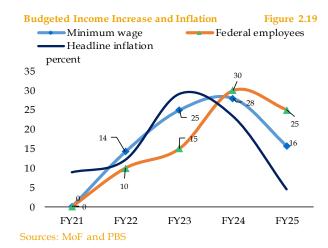
Services sector wages

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

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

reduction in the country.⁵⁹

Headline inflation -



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

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

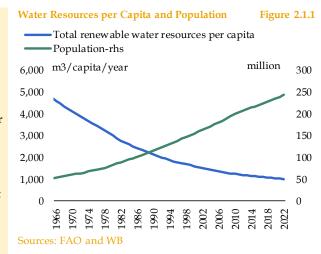
Inefficiencies within IBIS: Much of the infrastructure of the IBIS built in the colonial era is old and in dire need of modernization and rehabilitation. Deteriorating infrastructure, such as silted canals, eroded canal walls, and poor maintenance has led to high seepage losses, worsening the waterlogging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

⁵⁹ Pakistan Economic Survey FY25

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

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

Water availability: Total renewable water resources per capita has declined sharply from 4,469.8 cubic meters in 1967 to 1,012.7 cubic meters in 2022, well below the water stress threshold of 1,700 cubic meters⁶¹ - a situation further exacerbated by rapid population growth (Figure 2.1.1). Furthermore, country's water stress level stood at 110 percent in 2022, indicating unsustainable use, with the agriculture sector being the primary contributor, followed by municipal and industrial sectors.⁶² The combined effect of dwindling per capita water availability and excessive withdrawals mean that IBIS face immense pressure to supply adequate water despite shrinking resources, also leading to over extraction and ground water depletion.



Climate change: IBIS is largely dependent on water from glaciers, which suggests that its vulnerability to climate change and depleting glacier mass is very high (Van et al., 2025). Climate change has disrupted the water availability and in turn traditional irrigation cycles. Rising temperatures have increased evapotranspiration rates⁶³, reducing water retention in the soil, while erratic rainfall patterns have altered sowing and harvesting schedules. These effects are more pronounced in arid and semi-arid zones, where canal water is the only viable irrigation source. At the same time, extreme rainfall and glacial melts are becoming more common, however, Pakistan lacks infrastructure to store or utilize this water effectively. Pakistan's water storage capacity is limited to just 30 days, compared to 1,000 days in Egypt, 900 in the US, and 220 in India (Lad and Jaybhaye, 2025). Consequently, this water is eventually being lost in the sea. An estimate suggests that more than two-thirds of the annual flow of western rivers transpires into the sea during June-August, whereas, water needs remain high year-round (FAO, 2021)

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

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

⁶¹ Source: Falkenmark Water Stress Indicator

⁶² Contribution of agriculture, municipal, industrial sectors was 103.4, 5.8, and 0.84 percent, respectively. Source: FAO (2021), AQUAST (https://data.apps.fao.org/aquastat)

⁶³ Evaporation rate is the rate at which water is lost from a surface – soil and other surfaces including plants – due to evaporation and transpiration. Climate change has accelerated the evaporation rate resulting in speedy water loss.

⁶⁴ Source: The Indus Water Treaty 1960

⁽https://www.internationalwaterlaw.org/documents/regionaldocs/IndusWatersTreaty1960.pdf)

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

* Contribution of Romaisa Batool is acknowledged in writing this box

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

The global demand for mineral resources has surged over the last fifty years, rising to 80 billion tonnes in 2024 compared to 18 billion in 1970, with a visible transition from fossil fuels to metallic and non- metallic minerals (Figure 2.2.1a & 2.2.1b). The global demand for natural resources is projected to increase by 60 percent by 2060.66 Moreover, clean energy alone would further push demand for minerals – such as graphite, lithium, and cobalt – by around 5 times by 2050.67 United Nations Conference on Trade and Development (UNCTAD) has estimated investment in the range of \$360 to \$450 billion during 2022-30 to meet this demand, with an anticipated shortfall of \$180 billion to \$270 billion. Copper and nickel account for the major portion of this shortfall, making up 36 percent and 16 percent, respectively.

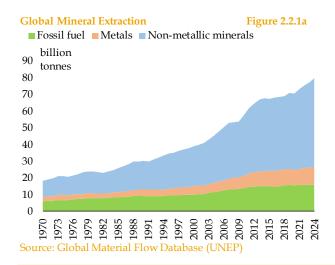
Pakistan is home to one of the world's largest coal, copper and salt reserves, in addition to extensive deposits of other metallic, non-metallic and industrial minerals (**Table 2.2.1**).⁶⁸ This wealth of natural resources positions the country as a strong contender to benefit from the growing global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

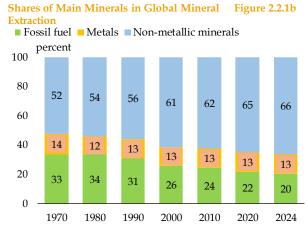
⁶⁵ Source: World Bank

⁶⁶ Fossil fuels include coal, petroleum, natural gas, oil shale and tar sands, while metals include iron, aluminium, copper and other non-ferrous metals. Non-metallic minerals include sand, gravel and clay for construction and industrial purposes (*Source and classification by United Nations Environment Programme (UNEP)* (2024). Global Resources Outlook 2024.

⁶⁸ Sources: SIFC website, TDAP (2021). Analysis of Minerals and Metals Sector of Pakistan: The Case of Gypsum, Trade Development Authority of Pakistan. December – 2021.

Table 2.2.1





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

A number of factors explain this underperformance, including lack of investment, outdated infrastructure and exploration and extraction technology, weak enforcement of environmental and social aspects, and fragile political and business environment (Shah, 2018 and Hamid and Fredrick, 2019). A safer environment across the mineral supply chain is critical to attract foreign as well as local investment. A recent survey, notwithstanding some improvement in the security situation, also highlighted gaps in important parts of the

Pakistan's Mineral Reserves .11. reserv

ves ın m	res in million tons									
llic	Reserves	Non- metallic	Reserves	Industrial	Reserves					
	1,427	Marble		Barite	30					
er	6,100	Onvx	12	Rock Salt	800					

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

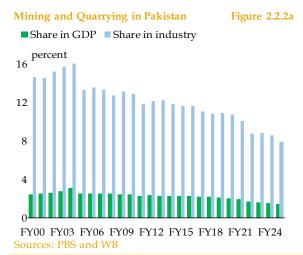
Source: SIFC Pakistan

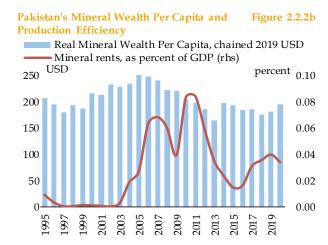
country (OICCI, 2025). However, a noteworthy barrier to the sector's economic contribution is a fragmented policy framework consisting of the federal government's National Mineral Policy (NMP) 2013, and provincial policies and rules, designed and formulated under the provision of Article 172 of the constitutional of Pakistan.⁷⁰

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

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

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





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

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

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

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iv. International Energy Agency, Introducing the Critical Minerals Policy Tracker, available at https://www.iea.org/reports/introducing-the-critical-minerals-policy-tracker

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

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Box 2.3: Unlocking Pakistan's Tourism Potential

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

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

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

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

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

⁷² Source: Tourism and Competitiveness (updated 2024) World Bank.

https://www.worldbank.org/en/topic/competitiveness/brief/tourism-and-competitiveness

⁷³ Promoting Responsible Tourism in Pakistan's North (feature story, 2023). Source: World Bank

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

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

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

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

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

* Contribution of Saad Ali is acknowledged in writing this box

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⁷⁴ Source: ILO (2022)

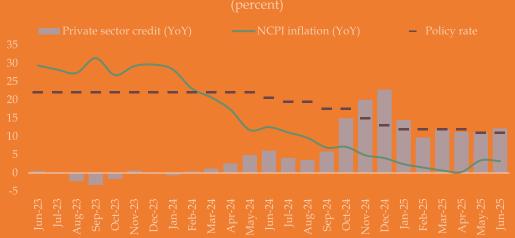


3

Monetary Policy and Inflation

The interaction of restrained domestic demand and improved supply conditions led to steep disinflation during FY25. Continued tight monetary policy stance, together with fiscal consolidation, kept the domestic demand in check, while adequate availability of food commodities, downward adjustments in administered energy tariffs, stable exchange rate, and softened global commodity prices eased pressures on food and energy prices. The average NCPI inflation fell to an eight-year low of 4.5 percent in FY25. Inflation saw an almost consistent decline from January 2024, with year-on-year inflation falling to a multi-year low of 0.3 percent in April 2025. The significant drop in inflation, together with an improvement in balance of payments position, allowed the Monetary Policy Committee to reduce the policy rate by 1,100 basis points between June 2024 and June 2025. The easing financial conditions spurred demand for private sector credit, which doubled compared to the previous year. Nevertheless, growth in net domestic assets of the banking system slowed, as reduced government reliance on bank borrowing and continued retirement of commodity operations financing and PSE debt more than offset the expansion in private credit. Therefore, despite a substantial increase in net foreign assets amid improvement in external account and build-up of SBP's FX reserves, broad money growth decelerated in FY25.





3.1 Policy Review

Faster-than-anticipated pace of disinflation, improved inflation outlook and strengthened external account position allowed the Monetary Policy Committee (MPC) to aggressively reduce the policy rate by a cumulative 1,100 basis points (bps) during June 2024 - June 2025. The average national CPI (NCPI) inflation fell in FY25, to an eight-year low of 4.5 percent, below the mediumterm target range of 5.0 – 7.0 percent. Monthly data shows an almost consistent fall in inflation from January 2024, with year-on-year (YoY) inflation bottoming out at 0.3 percent in April 2025. Moreover, the inflation for about half of the urban CPI items fell below 7 percent, the upper bound of the medium-term target range, as compared to 18 percent in FY24 (Figure 3.1a and 3.1b).

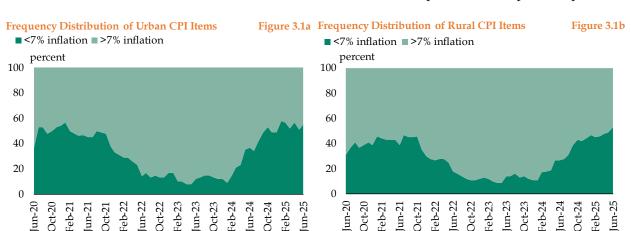
At the start of FY25, the MPC projected average NCPI inflation to fall in the range of 11.5 – 13.5 percent in FY25, compared to the average inflation of 23.4 percent in FY24. These projections took into account the unfolding impact of tight monetary policy stance, budgeted fiscal consolidation, reduced economic uncertainty amid approval of IMF's extended fund facility (EFF), stability in exchange rate, benign global commodity prices and lower-than-anticipated

3 Monetary Policy and Inflation

impact of FY25 budget measures on inflation. However, potential fiscal slippages, unanticipated hike in administered energy prices, and the likelihood of new tax measures to address revenue shortfalls presented significant upside risks to these projections. On the downside, the major factors included favourable global food and fuel prices, along with the possibility of delays in domestic energy tariff adjustments.

The Committee projected real GDP growth in the range of 2.5 – 3.5 percent for FY25, expected to be driven by industrial and services sectors, supported by relatively lower interest rates and increased budgeted development spending. While the modest increase in economic activity was likely to lift import growth, a significant expansion in workers' remittances and exports was anticipated to keep the current account deficit (CAD) in the range of 0 to 1.0 percent of GDP.

As the year progressed, inflation saw a steep decline, falling from 12.6 percent (YoY) in June 2024 to below medium-term target range in November 2024. Several factors contributed to this sharp fall in inflation. First, in addition to the impact of tight monetary policy stance and continued fiscal consolidation, depressed farm incomes because of lower commodity prices in FY24 and subsequent fall in output of important



Sources: PBS and SBP staff calculations

crops in FY25 further restrained domestic demand. Second, the prices of non-perishable food items, especially of wheat and wheat products, declined sharply due to discontinuation of minimum support price (MSP) and procurement of the commodity by provincial governments. As farmers shifted away from major crops, discouraged by lower prices, the output of other crops including, perishable food crops, increased that reduced their prices as well. Third, delay in planned increase of energy prices postponed the pass-through effects on inflation. Lastly, global commodity prices continued to ease more than anticipated, adding to disinflationary trends.

Moreover, sluggish performance of agriculture sector slowed the real GDP growth in Q1-FY25, slightly lower compared to Q1-FY24. This was despite a moderate uptick in production of key LSM sub-sectors including textile, automobiles, food and petroleum products. In view of these developments, together with better-than-expected external sector performance, the MPC revised down inflation projection range for FY25 to 5.5 – 7.5 percent in January 2025. Additionally, based on strong growth in workers' remittances, current account balance (CAB) was expected to remain in the range of a surplus and a deficit of 0.5 percent of GDP.

Accounting for these favourable developments, the MPC reduced the policy rate in all six meetings between June 2024 and January 2025, with a cumulative reduction of 1,000 bps. In H2-FY25, however, the pace of decrease in core inflation slowed. This, along with uncertainty emanating from tariffs, geopolitical tensions, and the timing and size of adjustments in administered energy prices led the MPC to adopt a more cautious approach during March to June 2025, reducing the policy rate by only 100 bps in the meeting held in May 2025.

The MPC viewed that the monetary policy stance, with real interest rates remaining adequately positive, was appropriate to stabilize inflation in the medium-term range of 5.0 – 7.0 percent, after some near-term volatility. Moreover, the MPC

underscored the need for achieving budgeted fiscal consolidation through prioritizing fiscal policy and tax reforms to preserve macroeconomic stability and support economic growth.

On balance, the MPC's forward-looking approach anchored inflation expectations, while the reduction in the policy rate revived demand for private sector credit—supporting a gradual recovery in economic activity. However, the MPC noted that these gains remained subject to risks, including volatility in food prices, uncertainties in energy price adjustments, potential global supply chain disruptions, and volatile international commodity prices.

3.2 Monetary Aggregates

Broad money (M2) growth slowed to 13.7 percent in FY25, compared to 16.0 percent in the previous year (**Table 3.1**). The deceleration was primarily due to slower pace of expansion in Net Domestic Assets (NDA), while the contribution of Net Foreign Assets (NFA) of the banking system increased considerably relative to FY24. The NFA expanded by nearly three times its FY24 increase, supported by a marked current account surplus that contributed to the build-up of foreign exchange reserves. Additionally, the IMF's EFF program catalysed multilateral and bilateral inflows that further strengthened external buffers.

Besides slower growth, the composition of NDA also improved in FY25. Private sector credit offtake doubled compared to the previous year. On the other hand, budgetary borrowings from scheduled banks, while still sizable, declined from their FY24 peak due to continued fiscal consolidation and better availability of funding from external and non-bank financing sources. Moreover, net retirements by public sector enterprises (PSEs) and commodity operations financing also contributed to deceleration in NDA growth.

On the liabilities side, the slowdown in M2 growth is mainly explained by deposits amidst declining interest rate and advances-to-deposit

Monetary Aggregates

flows in billion Rupees, growth in percent

Table 3.1

9.6

3.8

	Flows		Grov	Growth*		Contribution to M2 Growth	
	FY24	FY25	FY24	FY25	FY24	FY25	
Broad money (M2)	4,938.8	4,911.0	16.0	13.7	16.0	13.7	
NFA	659.2	1,885.4	-	-	2.1	5.3	
NDA	4,279.6	3,025.6	13.1	8.2	13.8	8.4	
Net budgetary borrowing	7,479.9	4,358.4	33.6	14.7	24.2	12.1	
SBP	-713.1	-691.5	-13.6	-15.3	-2.3	-1.9	
Scheduled banks	8,192.9	5,049.9	48.2	20.0	26.5	14.1	
Commodity operations	-107.6	-311.8	-7.2	-22.6	-0.3	-0.9	
Credit to private sector	512.9	1,081.9	6.1	12.2	1.7	3.0	
Credit to PSEs	-99.9	-87.1	-4.4	-4.0	-0.3	-0.2	
Other items net	-3,439.2	-2,487.0	-	-	-11.1	-6.9	
Currency in circulation	4.4	1,481.4	0.0	16.2	0.0	4.1	

3,435.2

1357.8

22.6

2.3

12.9

11.7

*Growth in stocks as on end-June.

Source: SBP

Reserve money

Deposits

ratio (ADR)-linked tax on banks, as currency-incirculation (CiC) expanded sharply. Specifically, deposits declined in Q2-FY25 primarily due to banks' efforts to comply with the ADR threshold. To meet the threshold, certain banks imposed service charges on large deposits, which discouraged deposit inflows during the quarter.

4921.0

255.7

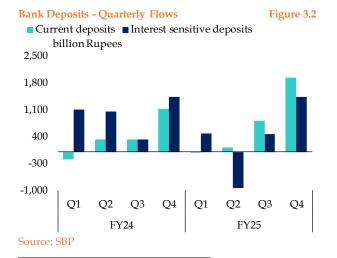
As a result, the deposits rose by Rs 3.4 trillion in FY25, lower compared to the expansion of Rs 4.9 trillion in FY24. While a sharp reduction in weighted average deposit rate (WADR), in nominal terms, discouraged interest-sensitive deposits, current deposits increased during FY25. Most of this increase was concentrated in Q4-

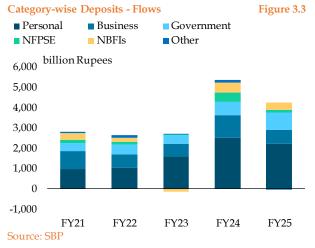
FY25, indicating end-of-the-year seasonal pattern; nearly three-fourths of this surge was reversed by the second week of July 2025 (**Figure 3.2**).

15.9

0.8

Category-wise bifurcation shows that deposits of private businesses and Non-bank Financial Institutions (NBFIs) decreased, as they redirected funds to alternate investment avenues in pursuit of higher returns, including increased participation in the Pakistan Stock Exchange (PSX) amid falling interest rates. Moreover, personal deposits also saw a slowdown during the year due to lower returns (**Figure 3.3**).





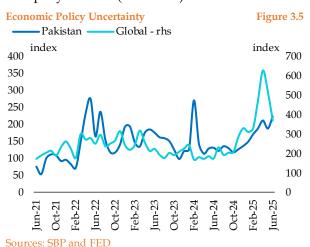
¹ These were later removed after SBP abolished the Minimum Deposit Rate (MDR) requirement for deposits of financial institutions, public sector enterprises and public limited companies. (BPRD Circular No.5 of 2024)

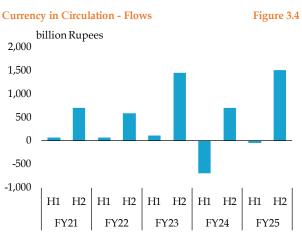
The CiC expanded by Rs 1.5 trillion in FY25, after remaining almost stagnant in FY24 (**Figure 3.4**). Specifically, H2-FY25 saw a notable spike in CiC, which is partly attributable to Ramadan and Eid festivals along with surge in remittances. Additionally, rising domestic uncertainty amid regional conflicts² might also have contributed to the increase in CiC (**Figure 3.5**).³

Credit to PSEs

Continuing the previous year's trend, credit to PSEs contracted by Rs 87 billion during FY25 (**Figure 3.6**). Pakistan State Oil (PSO) and power sector entities mainly led this decline, largely reflecting improved profitability amid lower financing costs. In addition to the lower cost of borrowing, PSO also benefitted from benign global commodity prices and greater operational efficiency, supported by expansion in marketing and distribution network.⁴

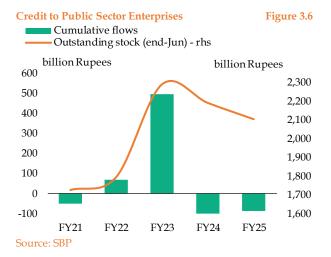
Similarly, National Power Parks Management Company Limited (NPPMCL) demonstrated





Source: SBF

strong operational performance, maintaining plant availability above 90 percent. This, coupled with reduced financial costs, led to higher profitability and reduced reliance on bank financing.⁵ On the other hand, National Transmission & Despatch Company's (NTDC) borrowing from banks declined due to increased support from government in the form of loans.⁶



² CiC increased by Rs 257.6 billion during the first week of May 2025, coinciding with a period of heightened geopolitical tensions. ³ Literature suggests that in periods of high uncertainty, consumers tend to hold money for safety reasons. Source: Muñoz, M. A., & Soons, O. (2023). Public money as a store of value, heterogeneous beliefs, and banks: Implications of CBDC, ECB Working Paper No. 2801. European Central Bank.

Rösl, G., & Seitz, F. (2023). Uncertainty, politics, and crises: The case for cash, IMFS Working Paper No. 186. Institute for Monetary and Financial Stability.

⁴ PSO's net profit increased to Rs 15 billion during Jul-Mar FY25. Source: PSO (2025). Report for the nine month ended March 31, 2025. Karachi.

⁵ NPPMCL's finance costs declined from Rs 13.5 billion to Rs 6.9 billion during first half FY25. Source: Ministry of Finance (2025)

⁶ MoF (2025). Bi-Annual Report on Federal State-Owned Enterprises (SOE), Ministry of Finance, Islamabad.

In contrast, bank borrowing by gas distribution companies increased during FY25. Sui Southern Gas Company (SSGC) raised financing for pipeline rehabilitation activities aimed at reducing transmission losses, in addition to meeting liquidity needs arising due to circular debt. Sui Northern Gas Pipelines Limited (SNGPL) also borrowed to manage liquidity requirements, amid significant outstanding receivables from the power and energy sector. Pak Arab Refinery Company (PARCO), on the other hand, relied on bank financing to cover maintenance and upgradation expense during its shutdown period, which adversely affected its profitability.

Commodity Financing

The provincial governments made a net retirement under the commodity operations financing for the second consecutive year in FY25 (**Figure 3.7**). Most of these retirements were made by the Punjab Food Department, which repaid a substantial portion of the financing availed for wheat procurement.¹⁰ In an effort to reduce the stock of commodity debt and move towards a competitive agriculture commodity market, the provincial governments discontinued the MSP

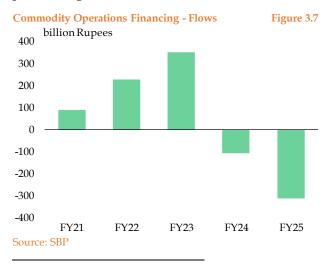
operations during the Rabi 2025.^{11,12} Moreover, the government also implemented various other measures including timely servicing of commodity debt to prevent further accumulation.¹³

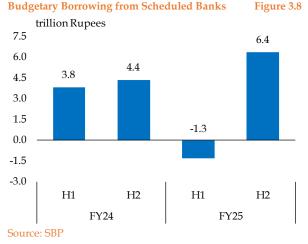
policy for wheat and withdrew from procurement

Budgetary Borrowing

A lower fiscal deficit and greater availability of financing from external and non-bank sources reduced government's borrowing requirements from the banking system in FY25. As a result, the net budgetary borrowing from scheduled banks remained Rs 5.0 trillion during FY25, down from a record Rs 8.2 trillion during FY24. In H1-FY25, supported by substantial profit transfers from SBP and the ongoing fiscal consolidation efforts, the government retired debt to scheduled banks on a net basis (**Figure 3.8**). However, the borrowing needs increased in H2-FY25 due to higher fiscal deficit relative to H1-FY25.

The government met most of its financing requirement through Pakistan Investment Bonds – Floating (PFLs) Semi-Annual coupon and Pakistan Investment Bonds (PIBs) - Fixed (**Table 3.2**). In





⁷ Ibid.

⁸ Ibid.

⁹ PARCO's net profit declined from Rs 35 billion to 2.7 billion during first half FY25. Source: MoF (2025)

¹⁰ GOPb (2025). Punjab Debt Bulletin, Government of Punjab, Lahore.

¹¹ Source: www.na.gov.pk/en/pressrelease.php?content=103, Accessed on August 4, 2025.

¹² IMF (2025). IMF Country Report No. 25/109, International Monetary Fund.

 $^{^{\}rm 13}$ GOPb (2025). Punjab Debt Bulletin, Government of Punjab, Lahore.

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	Target	Maturity	Offers (competitive)	Acceptance (net of maturity)
		Treasury Bills	3	
Q1-FY25	1,835	1,343.9	9,049.5	1,165.7
Q2-FY25	5,050	8,822.5	12,323.5	-3,480.5
Q3-FY25	2,900	3,446.2	7,567.6	-1,014.9
Q4-FY25	5,550	5,023.9	16,734.1	692.8
Total .	15,335	18,636.5	45,674.7	-2,636.9
		Pakistan Investment	Bonds	
ixed Rate				
Q1-FY25	515	428.9	1,196.6	-94.4
Q2-FY25	850		2,375.0	947.2
Q3-FY25	1,050	70.3	2,954.7	842.6
Q4-FY25	950		2,960.0	1,283.4
Total .	3,365	499.2	9,486.2	2,978.7

802.1

980.1

1,782.3

Source: SBI

Q1-FY25

Q2-FY25

Q3-FY25

Q4-FY25

Total

Auction Summary - FY25

overall terms in FY25, the government kept T-bills auction targets below the maturities, and assigned higher targets for longer-tenor PIBs in order to contain the rollover risk, and to benefit from a lower borrowing cost.

1,990

3,300

1,950

1,950

9,190

In the backdrop of reduction in the policy rate in all MPC meetings between June 2024 and January 2025, the market's interest in shorter-tenor T-bills also waned gradually. This was reflected in falling offer-to-target ratio for T-bills during the first three quarters of FY25. Among these, 12-month T-bills received the highest bids, indicating the markets' preference to lock funds in longer-tenor securities (**Figure 3.9**).

The decline in the policy rate and the government's reduced borrowing needs amid a surplus in the fiscal balance in Q1-FY25 drove a steep decline in T-bill cut-off rates in H1-FY25. The improved fiscal position also allowed the government to conduct three buyback auctions in Q2-FY25 of 6-month and 12-month T-bills, which further pushed down the cut-off rates in subsequent T-bill auctions.

3,829.9

7,599.6

5,355.4

8,693.7

25,478.5

Table 3.2

180.5

3,946.9

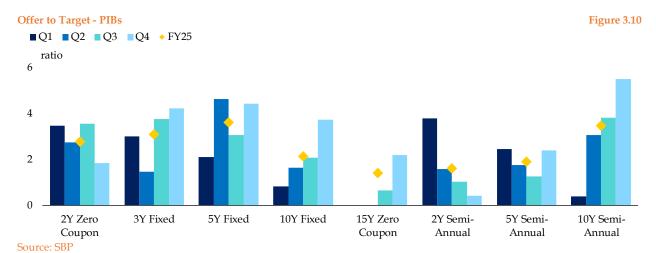
2,611.9

1,316.0

8,055.3

These developments scaled up market's appetite for longer-tenor securities. Within PFLs, the Semi-Annual coupon bonds were consistently oversubscribed – especially the 10-year, followed

T-Bill Auction Summary - FY25 3 Month Figure 3.9 6 Month 12 Month □Offered • Cut-off -rhs ■ Accepted (all) Target Maturity billion Rupees billion Rupees percent billion Rupees percent 900 20 600 20 600 20 400 16 400 16 600 16 200 12 200 300 12 12 0 8 0 8 0 Q3 Q4 Q1 Q2 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Source: SBP



by 5-year PFLs (**Figure 3.10**). ¹⁴ Bids for the 10-year Semi-Annual coupon surged towards the end of FY25, due to anticipation of a reduction in the policy rate in the June MPC meeting. On a net-of-maturity basis, 10-year PFLs accounted for the highest mobilization

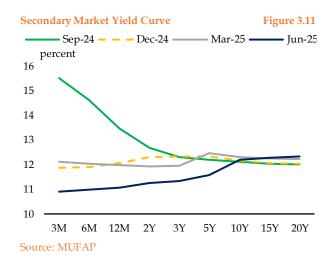
The net acceptances from PIBs-Fixed more than quadrupled compared to FY24,¹⁵ in line with the government's strategy to contain interest rate risk.¹⁶ The 3-year and 5-year Fixed coupon PIBs received offers exceeding three times their targets with the highest interest seen in Q4-FY25, a parallel to the trends in floating-rate instruments. In line with this demand and its objective to extend the average maturity of public debt, the government introduced a zero-coupon 15-year PIB in H2-FY25.¹⁷

The secondary market yields on shorter-tenor securities also declined sharply, in line with developments in the primary market and a favourable macroeconomic outlook (Figure 3.11). This led to a positive spread between the yields on

10-year security and 3-month T-bill from December 2024 onwards, likely indicating prospects of improved economic activity. 18,19

Interbank Liquidity

Despite lower government borrowing from banks, inter-bank liquidity remained under pressure in



¹⁴ Commensurate with this interest, the government introduced a 2-year zero coupon bond in the fixed category and a 2-year semiannual coupon in the floating category.

¹⁵ In FY24, net acceptances for PIBs-Fixed were Rs 624.7 billion. State Bank of Pakistan. (2024). The State of Pakistan's Economy, Annual Report FY24.

¹⁶ Ministry of Finance. (2025) Chapter 9: Public Debt. Economic Survey, Jul-March FY25.

¹⁷ Pak Investment Bonds, Auction Profile. sbp.org.pk/ecodata/Pakinvestbonds

¹⁸ A positive yield spread between the 10Y and 3 Month US T-bill was a valuable indicator of economic activity and short-term interest rate expectations for two to six quarters ahead. Estrella & Mishkin (1996). The Yield Curve as a Predictor of U.S. Recession. Federal Reserve Bank of New York, Current Issues in Economics and Finance. Volume 2 Number 7.

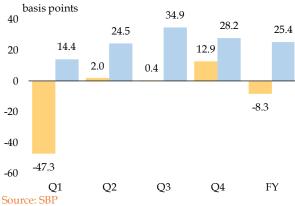
¹⁹ Empirical findings for Pakistan show that an increase in the yield spread is a strong predictor of output growth. Hussain, F. & Mahmood, A. (2017). Predicting Inflation and Output in Pakistan: The Role of Yield Spread, SBP Working Paper Series, No.93

FY25. This mainly reflected a significant expansion in private sector credit and increase in CiC. Although net retirements in commodity operations financing and PSEs debt somewhat cushioned liquidity situation, the persistent liquidity demand kept the Weighted Average Overnight Repo Rate (WAONR) on average 25.4 basis points above the policy rate during FY25 (Figure 3.12).

The sources of liquidity pressures, however, varied between the two halves. In H1-FY25, surge in private sector credit and an outflow of deposits, as banks' levied service charges on large deposits, increased liquidity needs. However, retirement in commodity operations financing, SBP's FX purchases, and a retirement of budgetary borrowing moderated these pressures. Nonetheless, the situation reversed in H2-FY25 as budgetary borrowings rose sharply, whereas CiC also saw a significant increase.

The heightened demand drained liquidity from the interbank market, causing larger positive deviations in WAONR from the policy rate and increased volatility in WAONR in H2-FY25 (**Figure 3.13**). Literature suggests that fluctuations in autonomous liquidity factors – particularly increase in currency demand - may induce volatility in overnight rates.²⁰ Moreover, banks'

Average Deviation of WAONR from Policy Rate Figure 3.12 FY24 FY25 basis points 34.9 28.2 25.4 24.5



large investment in long-term government securities may also have increased liquidity pressures, causing fluctuations in the overnight rate.21

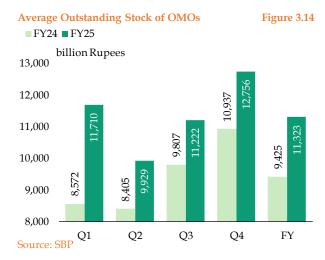
In response to elevated liquidity demand, SBP scaled up liquidity injections through its Open Market Operations (OMOs), resulting in the outstanding stock of OMOs rising to Rs 11.3 trillion by end-June 2025 from Rs 9.4 trillion at end-June 2024 (Figure 3.14). The bulk of these injections were made through 7-day OMOs, followed by 28-day and 14-15-day operations. However, in Q4-FY25, SBP reduced the use of longer-tenor OMOs keeping in view market's





²⁰ Disyatat, P. (2008). Monetary Policy Implementation: Misconceptions and their consequences. BIS Working Papers No 269.

²¹ Dack, J. (1998). Implementing Monetary Policy in Emerging Market Economies: An Overview of Issues. BIS Policy Papers.



liquidity requirements amid expectations of further monetary easing.

Besides increase in OMO injections, banks' recourse to the ceiling facility also increased considerably in FY25, especially in Q4-FY25, mirroring the trends in budgetary borrowings and CiC.²² The number of days the facility was accessed also rose considerably compared to FY24, indicating persistent liquidity demand.

Similarly, the liquidity needs of the Islamic Banking Institutions (IBIs) also remained higher in FY25, as evidenced from an increase in the average volume per injection, which more than

 Credit-to-GDP Ratio in Pakistan
 Figure 3.15

 Yearly ——— Average FY01-FY24 percent
 16.1

 25
 16.1

 15
 10

 5
 0

 10
 5

 0
 10

 10
 5

 0
 10

 10
 10

 20
 11

 10
 11

 10
 11

 10
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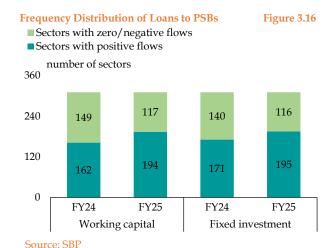
doubled to Rs 234.6 billion from Rs 102.4 billion in FY24. Additionally, usage of the Islamic ceiling facility also increased, with both higher frequency and the amount borrowed.

3.3 Private Sector Credit

Private sector credit (PSC) saw a notable expansion during FY25, after remaining sluggish in the previous two years. Specifically, PSC grew by 12.2 percent in FY25, compared to the increase of 6.1 percent and 0.6 percent in FY24 and FY23, respectively. As a result, the credit-to-GDP ratio inched up slightly to 8.7 percent in FY25, though it remains significantly below the long-term average (Figure 3.15).

The growth in credit to private sector businesses (PSBs) was relatively broad-based, as the number of sectors availing credit for both working capital and fixed investment ticked up during FY25 (**Figure 3.16**). However, the credit uptake was largely concentrated in H1-FY25, as H2-FY25 saw retirement amid seasonal factors, a slowdown in exports and withdrawal of ADR-based tax²³ (**Table 3.3 and Figure 3.17**).

A number of factors explain the expansion in PSC during FY25. First, lower cost of borrowing and



²² Utilization of the floor facility decreased in FY25 although it was still quite high.

²³ ADR-linked policy aimed to tax banks' income from government securities at progressively higher rates in case their ADR fell below 50 percent. (For details, see Chapter 3 in SBP's FSR (2024)).

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Loans to PSBs Table 3.3

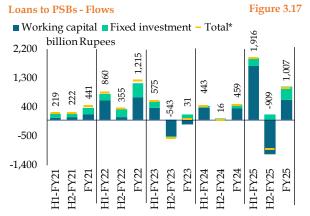
flow in billion Rupees

		Total Loans*					Working		Fixed	
Major Sectors		FY24			FY25		Capit	tal#	Invest	tment
	H1	H2	FY	H1	H2	FY25	FY24	FY25	FY24	FY25
Total Loans to PSBs	442.6	16.0	458.6	1,915.7	-909.1	1,006.6	364.7	617.3	118.2	413.8
A. Agriculture, forestry & fishing	73.0	-16.5	56.5	59.9	34.0	93.9	-17.7	42.8	74.4	51.1
Of which: growing of wheat	18.4	5.3	23.7	28.6	16.9	45.4	13.2	36.6	10.5	8.8
B. Mining and quarrying	2.2	8.5	10.8	16.3	-16.9	-0.6	11.8	-4.9	-1.1	4.3
C. Manufacturing: off which	307.3	-9.3	298.0	1,401.0	-884.9	516.1	337.1	409.9	-33.8	109.5
Textile and wearing apparel	113.9	-90.7	23.2	611.1	-319.2	291.9	35.8	290.3	-11.6	4.5
Rice processing	82.9	-79.7	3.2	222.9	-222.9	-0.1	1.3	-8.6	3.6	8.8
Sugar	-49.4	180.4	131.0	-26.7	-16.4	-43.2	-22.1	8.2	-16.7	-27.5
Vegetable & animal oils	18.9	-18.6	0.2	17.6	-6.7	10.9	1.0	12.3	-0.5	-1.4
Cement & plaster	-18.0	-21.7	-39.8	107.1	-126.6	-19.5	-22.1	8.2	-16.7	-27.5
Fertilizers	-33.5	29.2	-4.4	45.8	2.5	48.4	6.0	28.1	-10.4	20.2
Refined petroleum	-5.1	-16.2	-21.2	42.7	-11.0	31.7	-21.0	5.1	-0.3	26.5
Motor vehicles	15.3	-16.2	-0.9	27.9	-19.4	8.6	2.4	11.5	-3.3	-3.0
Basic iron & steel	33.6	0.0	33.5	18.2	-2.7	15.5	39.6	1.1	-5.9	13.2
Paper and paper products	16.0	14.4	30.5	14.4	8.1	22.5	20.5	7.6	10.0	14.9
D. Electricity, gas, steam & air conditioning supply	-54.5	-2.9	-57.4	-24.8	-3.0	-27.8	-24.4	0.1	-32.8	-27.4
E. Water supply, sewerage, waste management	5.9	3.5	9.4	7.2	1.1	8.3	0.7	-1.9	8.7	10.2
F. Construction	10.0	-7.4	2.6	25.9	-8.4	17.5	8.1	11.7	-1.3	24.1
G. Wholesale and retail trade^	84.2	3.9	88.1	91.7	45.5	137.2	62.4	79.2	27.1	60.6
H. Transport. & storage	7.2	-2.4	4.8	-14.8	20.7	5.9	1.6	-17.3	3.4	20.0
I. Accommodation & food service	3.0	-1.7	1.3	43.0	-0.8	42.2	0.5	-1.1	3.4	43.6
J. Information and communication	14.4	52.2	66.5	133.9	11.5	145.4	3.6	42.6	63.3	102.5
Others	-10.2	-11.9	-22.1	176.4	-107.8	68.5	-19.1	56.3	6.8	15.5

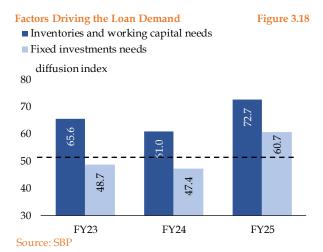
 $^{^{\}wedge}$ including repair of motor vehicles and motorcycles; ** includes trade finance

stable macroeconomic conditions encouraged slight improvement in economic activity, leading to increased demand for both working capital and fixed investment loans (**Figure 3.18**). Second, elevated operational costs also lifted short-term financing requirements of some of the sectors, including textile and fertilizer. Specifically, heightened domestic prices of cotton, LNG, coal

and other inputs kept the cost of production higher for these sectors (**Table 3.4**). Third, a few sectors including agriculture, forestry and fishing availed short-term financing to overcome cash flow constraints. Lastly, banks' efforts to achieve the ADR threshold to avoid additional taxation in the first half, partly explain the overall expansion in PSC during the year.



* Total includes construction finance



^{*} Total amount also includes construction finance. In terms of IH&SMEFD Circular Letter No. 28 of 2020, the data on credit/loans has been revised since June 2020 due to inter-sectoral adjustment in private sector business.

Cost Components	Table 3.4	
growth in percent		
	FY24	FY25
Financial Conditions		
Mark-up rate (6-m average KIBOR)	21.9	13.8
Global Commodity Prices Index	-13.4	-4.7
Raw materials	4.8	5.0
Agriculture	-0.8	4.9
Metal and minerals	-0.3	3.3
Energy	-18.1	-9.1
Vholesale price index components		
Textile and apparels input#	27.2	16.3
Metal product, machinery & equipment		
Engines and motors	42.2	18.7
Steel products	41.4	12.7
Fuels		
Natural gas liquefied	61.1	15.7
Coal	24.8	16.7
Agriculture machinery and agrochemicals		

[#] excluding cotton yarn, nylon yarn and blended yarn whose prices are unchanged in WPI for about 4 years. Sources: SBP, MoF, PBS, World Bank

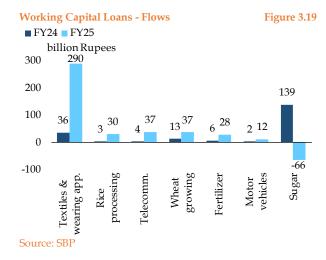
Fertilizers

Pesticides

Insecticides

The uptick in external demand partially reflected in the working capital needs of export-oriented sectors

The disaggregated data shows that manufacturing of textile and wearing apparel remained the major borrowers, which together accounted for 47 percent of the expansion in working capital loans in FY25. Rising domestic production and export volumes drove the sector's demand for short-term financing (Figure 3.19). Specifically, the production of cotton yarn and cloth recovered during FY25 after witnessing consistent decline in the preceding two years. Moreover, lower cotton production caused upward pressure on domestic cotton prices, besides driving increase in raw



cotton imports.^{24,25} These, along with elevated energy and other costs, raised the financing requirements for all sub-sectors within the textile and wearing apparel groups (Figure 3.20). 26

Similarly, the rise in demand for working capital loans by *rice processing* is also reflected by increase in export in H1-FY25. In line with the seasonal trend and 19.0 percent expansion in export volumes, the entire increase in credit offtake for rice processing was concentrated in H1-FY25. 27

Weak farm incomes scaled up short-term financing requirements of agriculture-related sectors

The governments' decision to discontinue wheat procurement and support prices, which led to notable decrease in prices and production of some important crops, suppressed farmers' incomes and profitability compared to the previous year (Table 3.5).28 Weakened financial positions increased demand for working capital loans, particularly for wheat-growing in FY25.

9.4

11.8

15.4

23.3

16.6

27.9

²⁴ The raw cotton imports increased to 683,000 MT in FY25 compared to 205,000 MT last year. Source: PBS.

²⁵ Average seed cotton prices rose by 2.2 percent during FY25 as compared to a decline of 5.7 percent during FY24. Source: PCCC

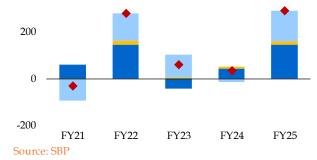
²⁶ The export of yarn other than cotton, ready-made garments and tents, canvas & tarpaulin increased in FY25 compared to last year. Source: PBS.

²⁷ Export finance under working capital for rice increased by Rs 12 billion in FY25, as against a decline of Rs 7 billion and Rs 5 billion in FY24 and FY23, respectively. Source: PBS

²⁸ The total loans for agriculture sector under Prime Minister's Youth Business & Agriculture Loan Scheme (PMYB&ALS) increased by Rs 18 billion in FY25, as compare to a rise of Rs 35 billion last year.

Composition of Working Capital Flows - Textile Figure 3.20 and Wearing Apparel

■ Export finance ■ Import finance ■ Others ◆ Working capital billion Rupees



Additionally, unfavourable economic conditions prevented farmers from increasing the use of crop nutrients, which in turn weighed on cash flow of fertilizer manufacturers.²⁹ This, together with soaring input costs led by elevated gas prices explain the increased credit demand of *fertilizer sector* during FY25.

Improvement in business sentiments, together with lower interest rates spurred demand for fixed investment loans

After a sluggish trend in the preceding two years, fixed investment loans to private sector businesses almost tripled in FY25, compared to previous year (Figure 3.21). This is in line with improving macroeconomic conditions and business sentiments. However, most of the loans for fixed investment were meant for enhancing production efficiency and upgrading of infrastructure, and only a few sectors borrowed for capacity expansion.

The *telecommunication sector* continued to borrow for the ongoing expansion in wired and wireless

 Production (million tons)
 WPI Prices (percent)

 FY23
 28.2
 67.1

 FY24
 31.8
 15.7

29.0

Source: PBS

FY25

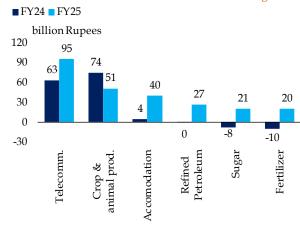
communication infrastructure. Similarly, *fertilizer sector* availed long-term loans to finance merger and acquisition. Additionally, the sector is investing in gas pressure enhancement infrastructure to ensure adequate supply of gas required for urea manufacturing on a sustainable basis.³⁰ Moreover, some of the fertilizer companies reported opening of retail outlets across the country to increase outreach to the farmers.³¹ The *refined petroleum sector* obtained fixed investment loans to finance refinery's expansion aimed at improving efficiency and increasing capacity.³²

Beside these sectors, *sugar industry* also saw an uptick in fixed investment during FY25, marking a shift from the net retirements seen over the previous three years. This increase corresponds to

Fixed Investment Loans - Flows



-35.3



Source: SBP

²⁹ First Quarterly Report 2025, Engro Fertilizers Limited, Karachi.

³⁰ Annual Report 2024, Engro Fertilizers Limited, Karachi.

³¹ Fatima fertilizer launched six retail outlets under the Sarsabz Agri Mart banner, with 24 more outlets planned for year 2025. Fauji Fertilizer Co. (FFC) took long-term loans for merger of Fauji Fertilizer bin Qasim Ltd. (FFBL) into FFC and announced the acquisition of Agritech Ltd. FFC also announced to increase the retail outlets across the Country 2024. Source: Annual and Quarterly Financial Statements of fertilizer companies.

³² Pakistan Refinery Limited (PRL) has initiated a Refinery Expansion and Upgradation Project (REUP) to enhance domestic refining capacity. The initiative will double the crude processing capacity to 100,000 barrels per day (bpd). Source: Financial reports and PRL's "Disclosure of Material" letter to PSX, May 2024.

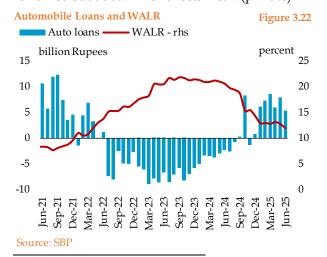
development of ethanol distilleries, previously announced by several sugar producers.³³

Consumer Financing

In line with the reduction in weighted average lending rate (WALR), consumer financing expanded by Rs 111.5 billion in FY25, recording the first annual increase after two consecutive years of contraction under the tight monetary stance. The expansion in consumer financing was broad-based (Table 3.6). Nonetheless, auto loans, which are relatively more sensitive to the changes in interest rates, saw the largest increase (Figure 3.22). This is also corroborated by sharp increase in sale of passenger cars and light commercial vehicles (LCVs) in FY25.³⁴

Credit card loans maintained the rising trend. This is supported by rising tendency in use of credit cards. In first three quarters of FY25, the number of cards issued grew by 5.9 percent, the transaction volumes almost doubled, and the value of transactions rose by 23 percent compared with the same period of last year.³⁵

The increase in housebuilding finance, however, remained subdued. This reflects weak (private)



Consumer Financing flows in billion Rupees

Table 3.6

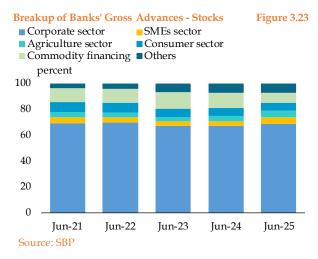
	FY21	FY22	FY23	FY24	FY25
Consumer Financing	708	192	-40.4	-57.4	111.5
Credit cards	55.1	17.7	21	28.5	36.3
House building	103.6	97.1	11.6	-8.7	3.5
Personal loans	235	16.4	1.2	-14	24.4
Consumer durables	6.1	1.2	0	0.1	1.2
Auto loans	308.1	59.7	-74.1	-63.2	46.1

Source: SBP

construction activity amid increase in construction material prices – particularly of cement and cement blocks, which rose by about 13 percent in FY25 following increase in Federal Excise Duty (FED) on cement from Rs 2 to Rs 4 per kg³⁶ – and higher taxation on property transactions.³⁷

Advances to priority sectors slightly increased in FY25

The share of SMEs and agriculture in total advances has increased in the past two years (Figure 3.23). This reflects the impact of several initiatives by the government and the SBP to promote credit to SMEs, agriculture and other underserved segments. These policies and schemes included SME Asaan Finance (SAAF) Scheme, Refinancing Facility for Modernization of SMEs and Risk Coverage Scheme for SMEs.



³³ In Q3-FY24, Chashma Sugar Mills Limited and JDW Sugar Mills Limited disclosed plans to set up distilleries, anticipated to be completed in FY25. Source: Quarterly financial reports.

³⁴ Source: Pakistan Automotive Manufacturers Association (PAMA)

³⁵ SBP (2025). Payment Systems Quarterly Reviews, State Bank of Pakistan, Karachi.

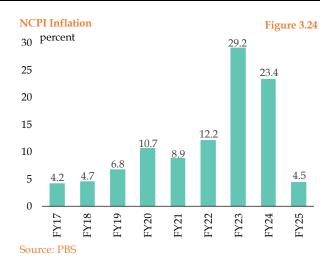
³⁶ Source: FBR C. No. 1/8-ST13/2024, dated August 5, 2024

³⁷ Source: FBR finance act – explanation regarding important amendments made in the income tax ordinance 2001, published on July 29, 2024, Available at: https://download1.fbr.gov.pk/Docs/20247291973384Circularno01of2024-25.pdf

3.4 Inflation

The NCPI inflation dropped to an eight-year low of 4.5 percent in FY25, compared to 23.4 percent in the previous fiscal year (Table 3.7 and Figure 3.24). This steep disinflation reflected the interplay of favourable supply and demand dynamics during the year. Continued tight monetary policy stance, fiscal consolidation and lower farm incomes amid decline in prices and output of important crops kept the domestic demand subdued during FY25. On the supply side, greater availability of food commodities, a downward adjustment in administered energy tariffs, relative stability in exchange rate, and softened international commodity prices contributed to sharp decline in food and energy inflation, besides easing cost pressures.

In overall terms, easing prices of food group alone accounted for around half of the inflation decline during FY25, followed by one-third contribution of energy. The falling trend was not limited to food & energy prices, non-food-non-energy (NFNE) inflation – a measure of underlying inflationary pressures – also fell to nearly half of its FY24 level in both rural and urban baskets (Figure 3.25a and 3.25b). However, the pace of



decrease in core inflation slowed in H2-FY25, indicating rigid underlying inflationary pressures.

Improved supply conditions drove broad-based drop in food inflation

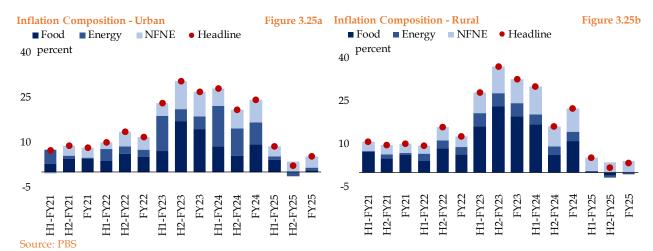
Food inflation, which had been the major contributor to both urban and rural CPI inflation in FY24, receded substantially during the course of FY25. A steep reduction in the prices of non-perishable food items, particularly of wheat and wheat flour, made the largest contribution to fall in food inflation in urban and rural baskets in FY25. This was the result of a bumper domestic

CPI Inflation and its Composition

percent

Tt	XA7- ! -1-1	Average Inflation						C	ontribution	
Items	Weight	H1-FY24	H2-FY24	FY24	H1-FY25	H2-FY25	FY25	H1-FY25	H2-FY25	FY25
NCPI	100	28.8	18.7	23.4	7.2	1.9	4.5	7.2	1.9	4.5
Urban										
CPI	100.0	28.0	20.7	24.1	8.7	2.1	5.3	8.7	2.1	5.3
Food	36.8	33.2	12.9	22.1	2.7	0.6	1.6	1.1	0.3	0.7
Perishable	4.4	7.5	25	16.2	21.6	-16.8	1.1	0.9	-0.8	0
Non-perishable	32.4	37	11.5	22.9	0.5	3	1.7	0.2	1.1	0.6
NFNE	53.7	18.4	13.9	16.1	9.5	7.5	8.5	8.7	4.1	3.2
Energy	9.5	47.9	76.1	62.6	24.8	-8.2	6.1	3.5	-1.4	1
Rural										
CPI	100.0	30.0	15.9	22.4	5.0	1.6	3.3	5.0	1.7	3.3
Food	45.9	33.7	11.6	21.6	0.4	-2.2	-0.9	0.2	-1.1	-0.5
Perishable	5.7	7.7	27.7	17.7	21.1	-21.1	-1.7	1.2	-1.3	-0.1
Non-perishable	40.3	37.8	9.6	22.1	-2.1	0.5	-0.8	-1	0.2	-0.4
NFNE	42.6	25.9	19.9	22.7	12.7	9.6	11.1	4.6	3.6	4.1
Energy	11.4	26.9	22.9	24.8	2.3	-6.2	-2.1	0.3	-0.8	-0.3

Source: PBS

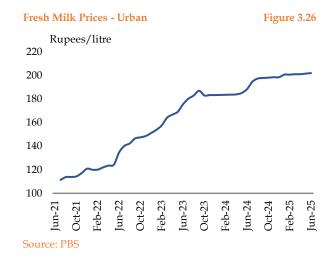


wheat crop in FY24, ³⁸ which together with substantial import of wheat before the harvest, improved domestic supply during FY25. In addition, the government's policy to move away from wheat procurement further weakened the prices of wheat and its products.

The increase in prices of other non-perishable food items – rice, cooking oil, readymade food, tea, condiments and spices, and fresh milk – also remained muted in FY25 compared to FY24. Among these, the pace of increase in price of fresh milk – having significant weight in CPI – saw a notable slowdown in FY25, compared to the past two years (**Figure 3.26**).³⁹ This reflected the impact of strict enforcement of administered prices by provincial authorities.^{40, 41} In addition, easing transportation and energy costs also limited the rise in the retail prices.

Similarly, improved domestic availability of rice amid large crop output and reduced export quantum kept the rice prices, on average, almost unchanged in FY25, compared to the previous year. ⁴² The prices of cooking oil and tea also

remained stable, reflecting the lagged impact of declining international prices and a stable exchange rate. Meanwhile, lower food and energy prices were also transmitted to the ready-made food prices. Overall, these six categories – wheat and wheat flour, rice, tea, fresh milk, and readymade food, and condiments and spices – collectively accounted for nearly three-fourths of the decline in food inflation during FY25 (**Figure 3.27**).



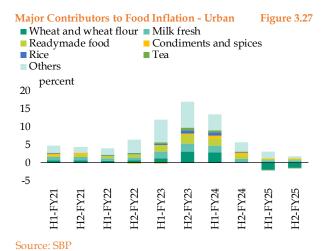
³⁸ Wheat production increased by 12.2 percent to 31.4 MMT in FY24. Source: PBS

³⁹ Fresh milk prices posted 10.3 percent increase in FY25, against 18.8 percent increase in FY24.

⁴⁰ Source: The Commissioner Office Karachi.

⁴¹ The Punjab Price Control of Essential Commodities Act, 2024, expanded the authority of Deputy Commissioners across the province to monitor and curb artificial price hikes and profiteering. The Act includes essential items such as tea, vegetable oil, ghee, and milk in the list of regulated commodities. Source: Punjab Price Control of Essential Commodities Act, 2024

⁴² Rice production stayed near 9.7 million tonnes in FY25, just below the record 9.8 million tonnes in FY24.

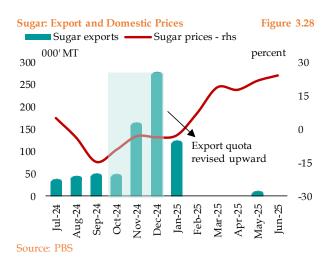


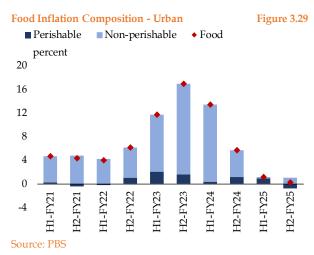
However, within non-perishables, sugar exhibited a distinct price path. Following a period of subdued prices in the first half of the year, sugar prices began rising sharply in the second half and contributed about one-half of the urban food inflation in H2-FY25 (**Figure 3.28**). This reversal came after a substantial increase in export quotas, which constrained domestic availability, ⁴³ partially offsetting the overall benefit from declining prices of other non-perishable items in H2-FY25.

Perishable food prices presented a mixed picture. In H1-FY25, rise in prices of tomatoes and onions amid lower domestic supply,⁴⁴ partly neutralized the impact of falling prices of non-perishable items. The lower domestic supply of onions was due to increase in exports.⁴⁵ Export of onion more than doubled in Q4-FY24, squeezing domestic supply in H1-FY25.⁴⁶ However, the situation improved in H2-FY25,⁴⁷ as fresh supplies entered the market and prices of key perishables declined. This led to decline in food price index in the latter part of the year (**Figure 3.29**).

Energy inflation subsided following downward adjustment in power tariffs and fall in global oil prices

Energy inflation in urban areas fell sharply from 62.6 percent in FY24 to 6.1 percent in FY25 (**Figure 3.30**). Several factors contributed to this drop. These included dissipating base effect from earlier gas tariff adjustments – particularly the increase implemented in November 2023, downward adjustment in electricity charges, fall in global oil prices and the positive impact of government's reform measures in energy sector.





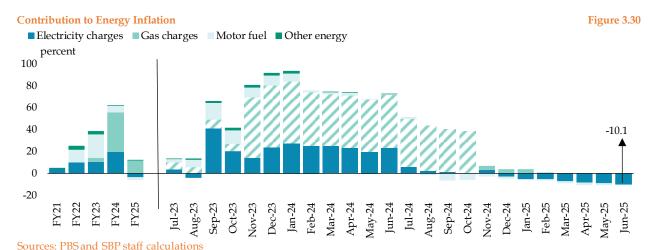
 $^{^{43}}$ From November 2024 onward, sugar exports surged – reaching 755 thousand metric tons in FY25, up from 33.1 thousand metric tons a year earlier. Moreover, sugar ending stocks declined sharply in FY25 compared to FY24, falling from 3.39 million tons to 1.95 million tons due to higher exports, and strong domestic demand during Ramadan. Source: USDA

⁴⁴ Tomato production declined by 30.3 percent in FY25. Source: PBS

⁴⁵ India's export ban during Dec 2023-Jun 2024 provided Pakistani suppliers the opportunity to grab the export market. Source: World Trade Scanner

⁴⁶ Source: PBS

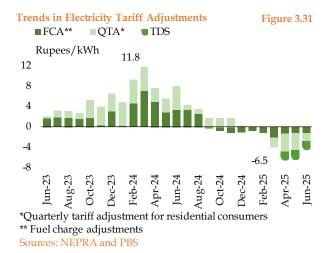
⁴⁷ The production of onion increase by 15 percent in FY25. Source: PBS



While the decline in energy inflation was broadbased, electricity contributed the most as Quarterly Tariff Adjustment (QTA) and Fuel Charge Adjustment (FCA), the mechanism through which electricity tariffs are periodically revised,⁴⁸ turned negative from December 2024 onwards. To shield domestic consumers from a large increase in tariffs, the government staggered the annual rebasing adjustment of Rs 5.72/kWh that originally had to take effect from July 1, 2024.⁴⁹

Instead, an initial increase of Rs 3.29/kWh was applied between July and September, while the remaining portion was incorporated from October 2024 onwards. In addition, the advance collection of quarterly adjustment charges for July and August 2024—carried out in June 2024—temporarily dampened effective tariffs during the first half of the year. These measures were supported by implementation of the Tariff Differential Subsidy (TDS) in Q4-FY25. Consequently, adjustments in electricity tariff declined to negative Rs 6.5 per kWh by April 2025 (Figure 3.31).50

Beyond these adjustments, policy actions further eased tariffs. The government renegotiated contracts with Independent Power Producers (IPPs), facilitating early termination of contracts of five power plants, which reduced capacity payments.⁵¹ At the same time, the government introduced a 5 percent levy on industrial captive power plants in March 2025 to encourage a shift back to grid usage, with an objective to improve



⁴⁸ QTA is revised every three months to account for variations in capacity payments, O&M costs, exchange rate fluctuations, and other allowed costs not captured in the base tariff. While FCA is a monthly mechanism that passes on the changes in actual cost of fuels (such as coal, gas, furnace oil, LNG) compared to the projected cost used at the time of tariff setting. Source: NEPRA ⁴⁹ Source: NEPRA notification dated July 11, 2024, and May 31, 2024, effective from June 01, 2024.

⁵⁰ Source: NEPRA notification dated April 10, 2025, effective from April 01,2025.

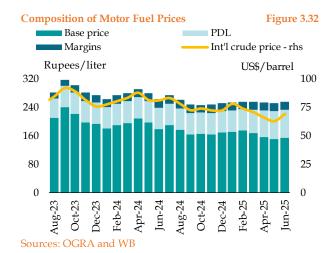
⁵¹ Pakistan capacity payments crisis triggered power purchase agreement renegotiations with independent power producers. Five IPPs included Saba, Lalpir, Atlas, Rousch and Hub Power, with a combined 2,463 MW capacity. Source: IEEFA

utilization and reduce capacity payments to contain electricity tariffs (**Box 3.1**).⁵²

A combination of lower interest rates and improved operational performance provided further relief. Lower borrowing cost reduced the tariff impact of power sector liabilities financed through commercial loans, while improved collections and early outcomes of reforms in distribution companies helped reduce inefficiencies.⁵³

Together with the pricing measures, these gains laid the ground for sustained disinflation in electricity charges. Overall, electricity charges, alongside the fading impact of earlier gas price increases, accounted for nearly three-fourths of the decline in energy inflation.

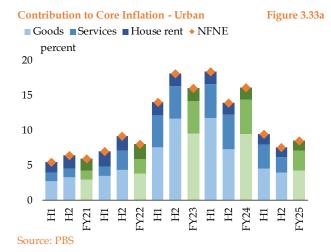
Motor fuel prices also dropped during the year, in line with the retreat in global oil benchmarks. Although the Petroleum Development Levy (PDL) was raised from Rs 70 per litre in March 2025 to Rs 78 in April 2025, its inflationary effect was largely neutralized by the concurrent drop in international oil prices. Together, these developments ensured that energy inflation—remained subdued throughout the year (Figure 3.32).

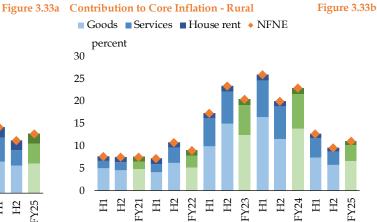


Core inflation in FY25 almost halved compared to FY24

Reflecting the fading second-round effects of shocks to food and energy prices, contained domestic demand and stable exchange rate, core inflation in both urban and rural baskets nearly halved in FY25, compared to the preceding year. However, the pace of disinflation moderated in the second half of FY25, reflecting persistence in underlying inflationary pressures (Figure 3.33a and 3.33b).

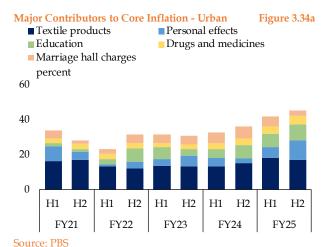
The breakdown of core inflation into its components shows large contributions from

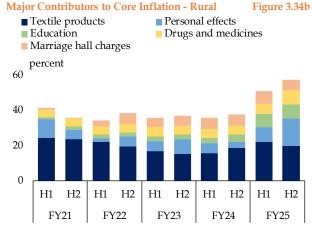




⁵² Source: OGRA Notification No. 10-3(8)/2023, published on January 26, 2025

⁵³ Since T&D losses and non-recoveries are typically passed on to consumers through tariff adjustments, higher collections help narrow these inefficiencies, and limit upward pressure on electricity prices.





clothing, drugs & medicines, personal effects, education and marriage hall charges in slowing the pace of decline in core inflation across urban and rural baskets (Figure 3.34a and 3.34b). This reflects the combined impact of elevated operational costs, escalating prices of raw materials, and the governments' regulatory and tax measures. Specifically, the lingering impact of the hike in gas charges introduced in November 2023 and a 15 percent increase in minimum wages pushed up the operational costs pushed up the prices across core goods and services.⁵⁴

Additionally, the pass-through of rising raw material costs exacerbated price pressures in some of the core goods. For instance, a notable increase in domestic cotton prices, following a large drop in cotton production in FY25 led to higher prices of cloths, whereas surging prices of gold drove the prices of personal effects items during FY25.55,56 Moreover, the impact of deregulation of non-essential drugs' prices announced in February

2024 partly explains increase in drugs & medicines price in FY25. 57

Increase in core services inflation had sizeable contributions from education and marriage hall charges. Apart from the rising operational costs, imposition of sales tax on education services in Sindh, was also responsible for uptick in education fees in FY25.⁵⁸ Moreover, strict enforcement of withholding tax (WHT) on marriage halls contributed to price increases in this services sub-sector.⁵⁹

Alongside the short-term dynamics, the persistence in core inflation also encompassed the impact of structural factors, including frequent supply shocks, weak supply-chains and market imperfections (**Box 3.2**). Moreover, weak coordination between monetary and fiscal policies in past has also restrained the effectiveness of monetary policy in addressing price rigidities in the past two decades.

⁵⁴ Sources: No. SO (L&P) MW/2024, Labour & HR Department, Govt. of the Punjab.

No. SO (L-II)/13-3/2016-I, Labour & HR Department, Govt. of Sindh.

No. SOL/LD/8-4/2024/MWB/3364-84, Labour Department, Govt. of KPK.

⁵⁵ Gold constitutes about 50 percent share in personal effects items.

⁵⁶ Gold prices surged by around 31 percent in FY25 as compared to FY24. Source: PBS

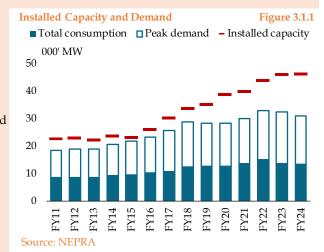
⁵⁷ Prices of non-essential medicines were deregulated through S.R.O 228(I)/2024 issued by the Ministry of National Health Services, implemented in April 2024.

⁵⁸ Government of Sindh imposed 3 percent sales tax on educational institutions through Finance Act 2024.

⁵⁹ WHT on marriage halls was imposed through The Finance (Supplementary) Act 2023.

Box 3.1: Policy Measures to Increase Grid Demand and Lower Electricity Prices

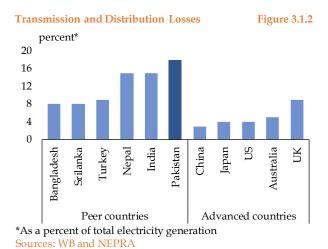
Pakistan's power sector has long struggled with a mismatch of available capacity and actual demand, compounded by transmission and distribution (T&D) inefficiencies. To address this issue, the government undertook a large-scale expansion of generation capacity (Figure 3.1.1), backed by long-term power purchase agreements (PPAs) with Independent Power Producers (IPPs) on terms that often included take-or-pay clauses and dollar indexation. At the same time, other long-standing inefficiencies have further inflated costs. A major contributor to these inefficiencies is Pakistan's aggregate technical and commercial (AT&C) losses, currently at 18 percent—high compared to regional peers (Figure 3.1.2).ⁱⁱ These losses reduce the effective supply reaching consumers and increase the burden on grid users.

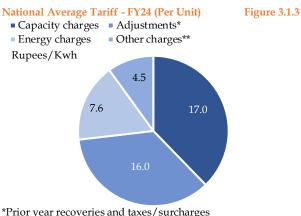


Electricity tariffs are set to recover the total cost of supply — including generation costs, capacity payments, operations and maintenance, and T&D expenses — from paying customers. This means that those who remain connected to the grid carry the combined burden of idle capacity and system losses. This creates a spiral: higher losses push tariffs up, prompting more users to leave the grid, which further erodes the paying customer base and amplifies the problem. The impact of these losses thus swells electricity tariffs and deepens the sector's long-term inefficiencies.

This entrenched imbalance has created a high-cost, low-demand system, where capacity payments dominate the cost structure and declining grid usage undermines financial viability. This necessitates a closer look at utilization trends, tariff design, and country experiences with regard to increasing grid demand.

Excess supply and system constraints: The power generation capacity in Pakistan has outpaced demand growth since past many years. At the end of FY24, the installed electricity generation capacity stood at 45,888 MW (including KE and excluding solar capacity), while the peak demand recorded during the year was only 30,150 MW and the average utilization rate remained around 44 percent.¹ In this backdrop, electricity prices reflect the structural weight of fixed capacity charges. In FY24, capacity-related charges contributed approximately Rs 17.01 (38 percent) per unit in the overall per unit cost of electricity of Rs 45.06 (Figure 3.1.3). However, with demand projected to grow by 3–5 percent, the capacity cost component is expected to decline slightly to Rs 16.67 per unit in FY26.





*Prior year recoveries and taxes/surcharges
**Transmission, market, and DISCO service cost

Source: NEPRA

Assessing capacity payments: According to NEPRA, eligibility for capacity payments requires compliance with Annual Dependable Capacity (ADC) tests, which confirm a plant's ability to reliably generate electricity under standard conditions. Under PPAs, capacity payments compensate power producers for maintaining available capacity, as determined by the ADC test required once a year under the contract. As a result, even if power plants remain idle due to low demand, they continue receiving payments for their availability. However, only 15 power plants were tested for dependable capacity in FY24.ⁱ Irregular testing may lead to over-invoicing, particularly for plants whose reliable output has declined over time. Rationalizing this process would improve the alignment between payments and actual capacity.

Electricity slabs and solar adoption discourage demand: Between FY21 and FY24, total electricity consumption remained stagnant. As capacity payments grew, the flaws in the existing tariff structure became more apparent. Originally designed to discourage excessive usage during years of power shortfalls, the slab-based tariff structure is incompatible with current conditions with surplus capacity. Currently, each additional slab consumed pushes households into a higher tariff bracket, raising the effective marginal rate and discouraging further usage. This limits grid demand and undermines the ability to recover fixed costs through higher volumes (Table 3.1.1).

Concurrently, solar adoption has gained traction—spurred by declining installation costs, and higher grid electricity prices. As more consumers generate power off-grid, the volume of on-grid sales shrinks—yet fixed capacity charges remain, pushing per-unit tariffs even higher for remaining users.

Electricity Ta	riff Slabs		Table 3.1.1
	Usage Slab (Units)	Rate (Rs/kWh)	Percentage increase
	Up to 50 (Lifeline)	3.95	
Protected	51 - 100 (Lifeline)	7.74	95.9
Protected	1 - 100	11.69	51.0
	100 - 200	14.16	21.1
	1 - 100	23.59	
	101 - 200	30.07	27.5
	201 - 300	34.26	13.9
II t t d	301 - 400	39.15	14.3
Unprotected	401 - 500	41.36	5.6
	501 - 600	42.78	3.4
	601 - 700	43.92	2.7
	Above 700	48.84	11.2

Source: NEPRA

Government efforts to address demand decline: The higher electricity prices have placed domestic and industrial users at a clear disadvantage, with electricity consumption in FY24 remaining around FY21 level. To address the issue of lower demand, the government has tried making alternative fuels less economical — by increasing levies on natural gas for captive power. In Q4-FY25, the government announced a tariff differential subsidy of Rs 1.71 per unit to generate higher demand for grid electricity. However, these measures are not enough and more collaborated long-term efforts are needed to make grid electricity more attractive.

International experiences for stimulating grid demand: International experience shows that sustainable demand growth requires structural reforms in tariff design and targeted incentives that encourage households and industries to remain connected to the grid.

Nepal's experience with demand inertia and tariff restructuring. Nepal transitioned from severe shortages to surplus generation and faced a similar inertia in electricity demand. Households moved to LPG, diesel, and backup generators and were slow to return to grid electricity. To address this, Nepal restructured its tariffs to encourage consumption: slab rates were flattened; time-of-use pricing was introduced for applications like EV charging; and, lifeline consumers (1–20 kWh/month) received free electricity. These measures increased electricity sales and utilization without amplifying subsidies, and led to a broader shift towards electrification of cooking and heating.

Indonesia's drive to electrification of end-uses to absorb surplus capacity. In Indonesia, the government addressed the issue of potential oversupply of electricity by electrifying end-users that had traditionally relied on other fuels. A flagship initiative – the "induction stove program" – aimed to convert households from LPG cooking gas to electric cooking (including induction cooktops and rice cookers). This strategy sought both to reduce the fiscal burden of LPG subsidies and to absorb surplus electricity generation.iv

Ghana's tariff reforms to address excess capacity and tariff burden. Ghana provides another example where rapid capacity expansion created excess generation and significant capacity payment obligations. To mitigate underutilization and assuage the tariff burden, the Public Utilities Regulatory Commission in 2018 enacted a major tariff cut—reducing average electricity prices by 17 percent for households and 30 percent for businesses—while making the tariff structure less steeply progressive, thereby incentivizing higher consumption.

Policy suggestions for Pakistan: First, the current punitive slab structures should be rationalized. A more gradual tariff progression would mitigate abrupt cost increases, making additional electricity use less prohibitive. Introducing a mid-block band for households moving beyond lifeline slabs could facilitate a gradual shift towards electric cooking, which is especially relevant under recurring gas shortages. Second, Time-of-Use (ToU) pricing should be mainstreamed with off-peak discounts, encouraging industries and households to shift flexible demand—such as ironing, refrigeration, and washing—into non-peak hours. This would help keep the grid busier throughout the day without requiring new generation capacity. Third, for industries, demand packages that guarantee lower rates during nights and weekends can make it viable to return from captive generation to grid electricity.

While these reforms can stimulate demand, their effectiveness depends on parallel improvements in distribution, billing, and collection. Capacity payments are contractually fixed, so higher demand can distribute costs more evenly—it does not eliminate them. Moreover, with new plants of about 7,500 MW expected to enter the system by 2030, the need to expand demand is urgent. Without demand-enhancing reforms, idle capacity and high fixed charges will continue to elevate tariffs, undermining competitiveness and discouraging grid reliance. At the core, Pakistan cannot achieve sustained economic growth without ensuring the availability of ample and affordable energy. Hence, enhancing demand must go hand in hand with policies that guarantee cheap and reliable power, which is fundamental to industrial competitiveness and overall development. However, increasing demand will only be effective if transmission and distribution inefficiencies are also addressed.

*The contribution of Syed Hamza Ali is acknowledged in writing this box.

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Box 3.2: Persistence in Core Inflation in Pakistan

Inflation persistence refers to a situation when inflation takes longer to revert to its long-term trend in response to a shock. According to the ECB (2006), the return of inflation to its long-run trend is inversely related to its degree of persistence. A high degree of persistence usually requires larger monetary policy adjustments to bring down inflation to the desired range, which leads to higher output losses. In view of SBP's primary objective to maintain domestic price stability, it is instructive to assess inflation persistence and understand the possible contributory factors.

In this backdrop, this Box first estimates inflation persistence at disaggregate level and then explores the underlying factors. The estimates based on sum of autoregressive coefficients (SARC) for the period FY01-FY25 are shown in **Table 3.2.1.**⁶⁰ The estimates suggest that core inflation in Pakistan is more persistent than food and energy inflation. Moreover, the persistence in core inflation increases in periods of high inflation. The literature identifies a number of factors responsible for inducing inflation persistence. These include backward looking inflation perceptions;

⁶⁰ A value of the persistence coefficient below 0.7 indicates that the impact of about half of the initial shock to inflation fades in approximately three quarters ECB (2006). This benchmark is based on the sum of autoregressive coefficients in univariate time-series, the frequently use method in literature to measure inflation persistence.

indexation of wages; imperfect markets; weak coordination between fiscal and monetary policies; and persistent supply shocks. These factors are discussed below.

Backward looking inflation perceptions. IMF (2023) shows that inflation expectations of economic agents in emerging economies are usually backward looking, and do not take into account the impact of monetary policy actions on future inflation. Pakistan is not an exception. As shown by Choudhary et al. (2016), the backward looking pricesetting behaviour of firms partially explains inflation persistence in Pakistan. According to their findings, about 71 percent of the firms were either relying solely (25 percent) or using some backward information alongside inflation forecast for price adjustments (46 percent) (Table 3.2.2). Although the latest survey reports drop in percentage of firms considering just the past information

Inflation Persistence in Pakistan - SARC

Table 3.2.1

	Overall Sample	High Inflation	Low Inflation
	FY01-FY25	Periods1	Periods ²
Variable	SARC	SARC	SARC
CPI	0.63*	0.49*	0.00
Food	0.45*	0.17*	-0.26
Energy	0.47*	0.27*	0.00
Core	0.71*	0.83*	0.46*

* Significant at 5 percent

Source: SBP staff estimates

for price setting [Inayat, A., Naeem, S. (2025)], backward looking price-setting behaviour still remains significant factor in price adjustments.

IMF (2023) suggests that strengthening monetary policy framework with the aim of increasing central bank's autonomy and adopting clearer communication strategy is likely to increase credibility of central bank. This, in turn, helps in effectively anchoring inflation expectations of households and firms with central bank's medium-term projections and the inflation target range. As the economic agents' confidence in central bank inflation forecast

Information Used for Price Adjustment Decisions Table 3.2.2 share of firms, percent

State of Illino, percent		
	2009	2019
Historical data	25	22
Forecast	29	15
An average of past and future	46	63

Sources: Choudhary et al. (2016), Naeem and Inayat (2025).

solidifies, they start factoring in central bank forecasts in their economic decisions, rather than relying on past inflation. In this context, it is crucial to have a monetary policy framework with a clearly defined nominal anchor to better anchor inflation expectations and enhance policy credibility.

Structure of market and degree of competitiveness: Market structure plays a crucial role in the pricing strategy of the firms. According to a large strand of literature, firms in a highly competitive environment adjust prices more frequently according to market conditions, whereas market imperfections significantly contribute to inflation persistence [(ECB, 2006), Hosny (2014), Fabiani et al. (2006)].

In the case of Pakistan, firm-level price-setting surveys indicate presence of less competitive markets. In the latest survey in 2025, the proportion of firms that report using mark-up-over-cost pricing has increased substantially, whereas a lower percentage of firms now structure their prices on competitors' behaviour, suggesting existence of market power (**Table 3.2.3**). This highlights the

Price Setting Rule
percent share of firms

Table 3.2.3

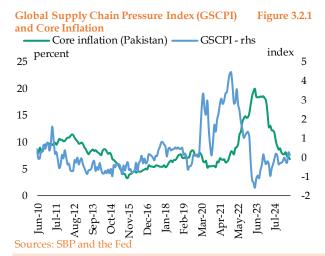
percent state of tities		
	2011	2019
Mark-up on cost	47	61
Competitor's price	37	33

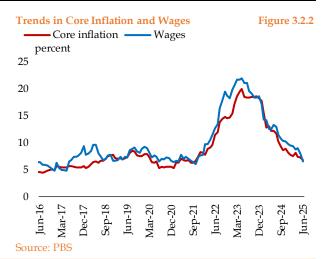
Sources: Choudhary et al. (2016), Naeem and Inayat (2025)

importance of reforms to enhance degree of competition in the economy, including facilitating market entry, simplification of tax procedures, and rationalization of corporate tax rates. Additionally, the Competition Commission of Pakistan (CCP) needs to be empowered to ensure effective enforcement of its decisions.

Supply chain disruptions and supply-side shocks: Shocks whether stemming from domestic or global commodity prices, particularly oil, are also an important source of inflation persistence in Pakistan. Moreover, disruptions in food supply caused by floods, droughts and other climate-related events often lead to sharp price swings. These shocks seep into core inflation through second-round effects and have a pronounced impact over time. Khan and Hanif (2012) find that the impact of supply shocks on inflation is not only substantial but also long lasting, reinforcing the role of supply-side factors in driving persistent inflation.

¹ and ² When CPI inflation remained above/below average of FY01-FY25 (single-digit inflation years)





Supply chain disruptions also lead to higher core inflation. Unlike supply shocks that influence core inflation indirectly, supply chain disruptions affect the production and delivery of manufactured goods, raising core inflation directly. Events such as political instability, natural disasters and terrorism frequently interrupt supply chain operations in Pakistan, contributing to sustained inflationary pressures. Moreover, global supply chain disruptions caused by geopolitical events also have a persistent and significant impact on inflation. **Figure 3.2.1** shows that global supply chain pressures impact inflation in Pakistan with a lag, highlighting the lasting influence of global supply conditions.

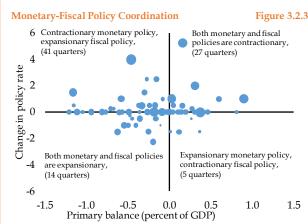
Mitigating these challenges entails reducing dependence on oil imports through improved energy efficiency, enhancing water governance, expanding storage infrastructure, and fostering climate-resilient agriculture.

Indexation of wages: The indexation based on past inflation plays a significant role in inflation persistence. If the workers or firms expect inflation to remain elevated by looking at the inflation in previous periods, the actual inflation outturn would be significantly influenced by past inflation. This is despite the fact that the forecast suggests inflation to fall. In other words, backward-looking wage indexation tends to amplify the persistence of inflation shocks. The rise in wages not only adds inflationary pressures through a rise in cost of production but also by boosting the aggregate demand.

According to Choudhary et al. (2016), in Pakistan, approximately 47 percent of firms in the informal sector and 30 percent in the formal sector report indexing wages to inflation, with most relying on historical inflation data. Furthermore, there is strong evidence that minimum wage adjustments are closely linked to inflation, shaping

workers' expectations and prompting demands for higher wages. These implicit indexation mechanisms have become an important driver of inflation persistence in the country (Figure 3.2.2). Adopting innovative strategies for labour compensation, for instance partially linking income adjustments to the central bank's inflation target or a medium-term forecast may help address this issue.

Weak coordination between fiscal and monetary policies raises concern about credibility of monetary policy actions and adversely affects inflation expectations. Looking at Pakistan's experience, the policy environment is characterized with low coordination between fiscal and monetary policies. An analysis of data from FY03 to FY25 reveals that SBP adopted a contractionary monetary policy stance in 68 out of 87 quarters. However, the contractionary monetary policy stance was accompanied



Note: bubble size indicates average inflation for each quarter. Sources: SBP, PBS and MoF

by a contractionary fiscal policy in only 27 instances, when primary balance reported a surplus (**Figure 3.2.3**). This disconnect undermined the central bank's ability to manage inflation expectations, contributing to inflation persistence. Hence, stronger coordination between fiscal and monetary policies is a necessary condition to mitigate inflation persistence. A strong monetary framework is also necessary to absorb and respond effectively to the challenges posed by expansionary fiscal actions.

*The contribution of Syed Qamar Hussain and Muhammad Zuhaib is acknowledged in writing this box.

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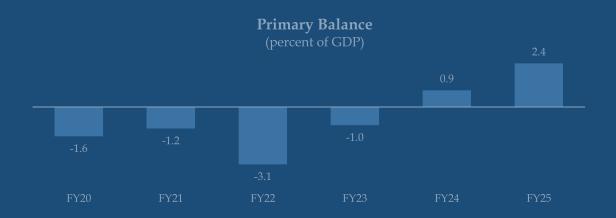
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4

Fiscal Policy and Public Debt

Fiscal and primary balances further improved in FY25, both outperforming the budget estimates. This sustained improvement can be traced to robust growth in revenue and rationalization in expenditure. In terms of GDP, total revenue rose to the highest level in more than two decades. Robust growth in FBR taxes led the increase in tax revenue, while record SBP profit, followed by petroleum development levy collection, supported non-tax revenue. On the expenditure side, entire increase was due to non-interest expenditure as interest payments remained unchanged in terms of GDP, creating space for increased development spending in FY25. Notwithstanding the fiscal consolidation, the public debt accumulation almost maintained the last year's pace. The public debt-to-GDP ratio increased to 70.8 percent of GDP mainly on account of lower growth in nominal GDP. Nonetheless, strong revenue growth, higher foreign exchange earnings and build-up in foreign exchange reserves improved the country's debt repayment capacity.



4.1 Fiscal Trends and Policy Review

Fiscal deficit narrowed further, while primary balance improved for the third consecutive year in FY25, both outperforming their respective budget estimates (Figure 4.1a & Figure 4.1b).¹ This improved performance can largely be attributed to robust growth in revenue (Table 4.1).

The total revenue rose to the highest level (in terms of GDP) in more than two decades, with equal contribution from both tax and non-tax revenue. The tax-to-GDP ratio exceeded the 11.0 percent mark in FY25, with sizeable increase in both direct and indirect taxes. The direct taxes increased due to a combination of higher tax rates and expansion of tax base, while growth in indirect taxes reflected withdrawal of concessional rates, exemptions, and increase in import duties. The substantial increase in non-tax revenue was largely contributed by SBP profit, followed by Petroleum Development Levy (PDL) collection.²

On the other hand, total expenditure increased by 1.9 percentage points to reach 21.5 percent of GDP. This increase was primarily due to non-interest expenditures, led by development,

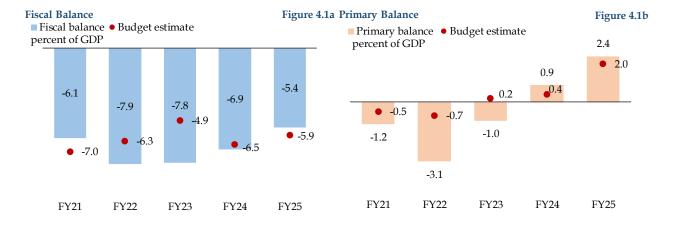
4 Fiscal Policy & Public Debt

defense, subsidies and grants. In contrast, interest expenditures remained unchanged in terms of GDP amid declining interest rates, government's buyback of its own securities, and reduced financing needs in FY25.

While continued fiscal consolidation is encouraging, it is important to assess the underlying drivers from the standpoint of sustainability. Though tax revenue increased in terms of GDP, higher SBP profit contributed substantially to fiscal consolidation during FY25. Adjusting for the SBP profit, the fiscal deficit in FY25 turns out to be almost same as in FY24, while primary surplus falls to just 0.1 percent of GDP. This underscores the need for implementation of tax policy and administration reforms for steady increase in tax revenue both at federal and provincial level.

4.2 Revenue

Total revenue grew by 35.6 percent, rising to 15.8 percent of GDP in FY25, from 12.6 percent in FY24 (**Table 4.2**). The increase of 3.2 percentage points was contributed equally by tax and non-tax revenue (**Figure 4.2**).



Source: MoF

 $^{^{1}}$ The provinces contributed a higher surplus of 0.8 percent of GDP to the consolidated surplus in FY25, compared to 0.5 percent in the previous year.

² The FY24 SBP profit was transferred to federal government in Q1-FY25 after publishing of audited annual financial statement.

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Consolidated Fiscal Position		Table 4.1

	Value (billi	on Rupees)		Growth		
	FY20-FY24 Avg	FY24	FY25	FY20-FY24 Avg	FY24	FY25
1. Total revenue (a+b)	8,823	13,269	17,997	22.4	37.7	35.6
(a) Tax revenue	6,869	10,085	12,723	19.3	29	26.2
o/w FBR taxes	6,277	9,311	11,744	19.8	29.9	26.1
(b) Non-tax	1,954	3,184	5,275	52.3	75.4	65.7
2. Total expenditure (a+b+c)	13,976	20,476	24,166	19.9	26.7	18.0
(a) Current expenditure	12,458	18,571	21,529	21.5	27.3	15.9
o/w Mark-up payments	4,482	8,160	8,887	33.6	43.3	8.9
(b) Development expenditure & net lending	1,642	2,078	2,966	11.7	6.4	42.7
o/w PSDP	1,568	2,027	2,983	15.4	7.1	47.2
(c) Statistical discrepancy	-124	-173	-329	-	-	-
				Percer		
3. Fiscal balance	-5,154	-7,207	-6,168	-7.1	-6.9	-5.4
4.Primary balance	-672	953	2,719	-1.2	0.9	2.4
5. Revenue balance	-3,636	-5,302	-3,531	-5.0	-5.0	-3.1
6. Provincial balance	273	518	921	0.4	0.5	0.8
7. Financing (a+b)	5,154	7,207	6,168	7.1	6.9	5.4
a) External (net)	611	321	619	1.1	0.3	0.5
b) Domestic (net)	4,543	6,886	5,549	6.0	6.5	4.9

Note: 1) Fiscal balance is total revenue minus total expenditure; primary balance is fiscal balance excluding interest payments; revenue balance is total revenue minus total current expenditure. 2) Numbers might not add up due to rounding-off Source; MoF

Tax Revenue

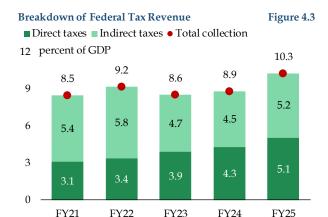
Total tax collection rose to 11.2 percent of GDP in FY25. This was largely contributed by higher FBR tax collection, while provincial taxes also ticked up. The increase in FBR taxes was almost equally contributed by direct and indirect taxes (Figure 4.3).

Direct Taxes

Direct taxes maintained the rising trend for the fourth consecutive year, increasing from 4.3

Breakdown of Total Revenue Figure 4.2 ■ Tax ■ Non-tax 16 percent of GDP 4.6 12 1.9 3.0 2.9 2.2 8 11.2 10.1 4 FY21 FY22 FY23 FY24 FY25

percent of GDP in FY24 to 5.1 percent in FY25. This increase pushed the share of direct taxes in total FBR taxes to 49.3 percent, the highest level in more than two decades. Both withholding taxes (WHT) and voluntary payments drove the growth in direct taxes. A major factor behind the rise in WHT collection was the increase in tax rates across all slabs for salaried class. In addition, higher WHT rates on toll manufacturing, property transactions; dividends from mutual funds; and, profit on debt for non-filers, coupled with increase in imports in PKR terms, also contributed to



Note: In FY24, the numbers might not add up due to rounding off Source: MoF

Source: MoF

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	Values (l	Values (billion Rupees)			Percent of GDP			Growth(percent)		
	FY20-FY24 Avg.	FY24	FY25	FY20-FY24 Avg.	FY24	FY25	FY20-FY24 Avg.	FY24	FY25	
Total Revenue (a+b)	8,823	13,269	17,997	12.3	12.6	15.8	22.4	37.7	35.6	
(a) Tax revenue	6,869	10,085	12,723	9.6	9.6	11.2	19.3	29	26.2	
Federal	6,277	9,311	11,744	8.7	8.9	10.3	19.8	29.9	26.1	
Direct taxes	2,668	4,531	5,792	3.6	4.3	5.1	26.5	38.5	27.8	
Indirect taxes	3,609	4,780	5,953	5.1	4.5	5.2	15.5	22.7	24.5	
Sales tax	2,362	3,099	3,901	3.4	2.9	3.4	16.6	19.5	25.9	
Federal excise duty	359	577	767	0.5	0.5	0.7	21.0	56.2	32.8	
Customs	888	1,104	1,285	1.3	1.1	1.1	11.2	18.1	16.4	
Provincial	592	774	979	0.8	0.7	0.9	14.3	19.2	26.4	
Direct taxes	-	39	38	-	0.0	0.0	-	8.3	-2.6	
Land revenue	-	23	20	-	0.0	0.0	-	7.6	-11.8	
Property tax	-	5	7	-	0.0	0.0	-	-31.4	42.0	
Indirect taxes	-	735	941	_	0.7	0.8	_	19.8	27.9	
Sales tax on services	361	505	612	0.5	0.5	0.5	20.1	21	21.4	
(b) Non-tax revenue	1,954	3,184	5,275	2.8	3.0	4.6	52.3	75.4	65.6	
Federal	1,800	2,961	4,961	2.6	2.8	4.4	57.2	79.6	67.5	
SBP profit	681	972	2,620	1.0	0.9	2.3	1,491.0	161.9	169.5	
PDL	489	1,019	1,220	0.6	1.0	1.1	89.5	75.8	19.7	
Provincial	154	223	314	0.2	0.2	0.3	22.9	34.5	40.6	
Profits (Hydroelectricity)	26	24	99	0.0	0.0	0.1	65.5	334	313.9	
Others, including forest	122	192	198	0.2	0.2	0.2	26.3	24.7	3.2	
Memorandum Items										
Naminal CDP*	71 775	105 100	112 749							

Note: Numbers might not add up due to rounding-off

* Revised GDP numbers as published by PBS in October 2025

Source: MoF

increase in WHT collection.³ Apart from tax rate changes, broadening of tax base by extending the scope of advance tax to sales made to distributors, dealers, wholesalers and retailers across all sectors also contributed to direct tax collection.

Notwithstanding these measures, WHT collection from income earned on interest-bearing accounts and investment in government securities declined as compared to the previous years due to both lower interest rates (price effect), and resulting decline in individual's demand for interest-bearing securities and accounts (volume effect).^{4,5} Besides increase in WHT collection, voluntary payments also increased to 1.9 percent of GDP in FY25 from 1.6 percent in the previous year. This was largely on account of rise in minimum tax rate from 39 percent to 44 percent on banks in FY25.

Indirect Taxes

Similar to direct taxes, indirect taxes increased from 4.5 percent of GDP in FY24 to 5.2 percent of GDP in FY25. Major contribution to this increase came from sales tax, whereas customs collection remained almost unchanged at previous year's level. The increase in sales tax collection was on account of revenue measures introduced in FY25 budget,⁶ which included withdrawal of zeroratings and exemptions on several items – electricity, plant and machinery, bakery products, certain types of feed and seeds, various categories of milk and tractors. Most of these items are now subject to either the standard 18 percent GST rate or a reduced rate.

Importantly, concessional GST rates on LPG, textile and leather products were also withdrawn.

³ WHT rates on toll manufacturing, which comes under the head of 'Contracts', were raised from 5 percent to 9 percent for companies, and 5.5 percent to 11 percent for other than companies. Moreover, advance tax on profit on debt for non-filers was increased from 30 percent to 35 percent in FY25.

⁴ The interest-bearing accounts (fixed, savings, and remunerative current) cumulatively recorded a contraction of around 98 percent in FY25 compared to FY24. Source: Financial Soundness Indicators by SBP.

⁵ Non-competitive bids also showed an overall decline of 12.1 percent in FY25 compared to FY24. Source: State Bank of Pakistan.

⁶ Source: Various Budget documents

These measures, along with increased tax rates on imported products such as computers and laptops, accelerated the growth in sales tax collection to nearly 26 percent in FY25 compared to average growth of 11.0 percent in the previous two year. In case of customs, increased tax rates on petroleum products, withdrawal of exemptions and concessions on wheat and sugar imports, and administrative measures supported the 16.4 percent growth, albeit slower compared to the

Notwithstanding these measures, indirect taxes missed the initial budgeted target by Rs 1.5 trillion.⁸ In part, this is due to economic factors – such as GDP growth, inflation, and growth in imports and LSM turned out to be lower than the levels FBR assumed to project tax collection for FY25 (Table 4.3).

The tax rationalization measures introduced in the last couple of years have helped in restraining tax expenditures, which declined from 4.6 percent of GDP in FY23 to 2.3 percent in FY24.9 The continuation of these measures in FY25 and FY26 is a step in the right direction, as it will further strengthen the country's tax revenue capacity.

Provincial Taxes

previous year.7

Provincial taxes increased slightly by 0.2 percentage points to 0.9 percent of GDP in FY25 (**Table 4.2**). This slight rise is largely attributed to indirect taxes, primarily general sales tax on services, while direct taxes witnessed a slight decline in terms of GDP. Higher collection from GST on services was on the back of increase in GST rate on services from 13.0 percent to 15.0 percent by the government of Sindh. However, overall provincial tax collection continues to remain less than 1 percent of GDP, partially

FBR Evidence Based Forecasts vs Actual

s Actual Tabl	le 4.3
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growth	ı in	percent	
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	Annual Projections	Actual (FY25)
Imports	16.9	7.3
Inflation	15.6	4.5
Real GDP	3.7	3.0
LSM	3.5	-0.7

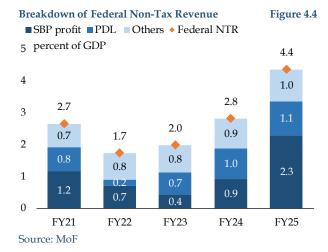
Sources: FBR Evidence Based Revenue Forecasting FY25, SBP and PBS

reflecting modest revenue efforts amid substantial revenue transfers from the federal government under the NFC award.

Non-Tax Revenue

Non-Tax revenue (NTR) maintained the momentum, rising to 4.6 percent of GDP in FY25 compared to 3.0 percent last year. Almost entire increase came from federal NTR, mainly large SBP profit and higher PDL collection, while provincial NTR only increased slightly (Figure 4.4).

The sharp increase in SBP profit is attributed to interest income generated through liquidity injections into the financial system amid elevated interest rates. ¹¹ The increase in PDL collection was due to both higher PDL rate ¹² and increase in POL



⁷ Source: Various Budget documents

⁸ However, as per the revised target, indirect taxes missed the target by 125 billion only.

⁹ Tax expenditures is defined as revenue forgone due to selective provisions in the tax code. Source: Tax Expenditure Report 2025 ¹⁰ Source: Circular no. 5/2024 dated 30th June 2024 by Sindh Revenue Board (SRB).

¹¹ FY24 SBP profit was transferred to federal government in Q1-FY25. In FY24, the interest rates were at the highest level of 22 percent, with first cut initiated in June FY25. See chapter 3 for more details.

¹² PDL rate on Petrol was raised from Rs 60 to Rs 70 per litre on March 15, 2025, and then to Rs 78 on April 15, 2025. Likewise, PDL rate on HSD was raised from Rs 60 to Rs 70 on March 16, 2025 and then to Rs 77 on April 16, 2025. Source: OGRA; PSO

Breakup	of	Conso	lidated	Ext	enditure

Table 4.4

	Values (bi	Illion Ru	pees)	Percen	t of GD	P	Growth (percent)		
	FY20-FY24	FY24	FY25	FY20-FY24	FY24	FY25	FY20-FY24	FY24	FY25
Total expenditure*	14,073	20,649	24,494	19.6	19.6	21.5	20.2	25.9	18.6
1. Current expenditure (a+b)	12,431	18,571	21,529	17.3	17.7	18.9	21.5	28.5	15.9
(a) Federal	9,078	13,970	15,696	12.5	13.3	13.8	24.4	29.5	12.4
Mark-up payments	4,482	8,160	8,887	6.0	7.8	7.8	33.6	43.3	8.9
Domestic	3,953	7,164	7,997	5.3	6.8	7.0	33.6	45.1	11.6
Foreign	528	996	890	0.7	0.9	0.8	37.9	31.1	-10.6
Defense affairs and services	1,477	1,859	2,194	2.1	1.8	1.9	10.2	17.2	18.0
Pension	581	808	911	0.8	0.8	0.8	15.9	21.2	12.8
Running of civil government	599	784	892	0.9	0.7	0.8	9.5	23.7	13.7
Subsidies	892	1,067	1,298	1.2	1.0	1.1	66.3	-1.2	21.6
Grants to others	1,020	1,292	1,514	1.5	1.2	1.3	29.0	30.8	17.2
(b) Provincial	3,380	4,601	5,833	4.8	4.4	5.1	14.7	21.1	26.8
General public services	-	2176	2793	-	2.1	2.5	-	25.0	28.4
2. Total development expenditure	1,642	2,078	2,966	2.3	2.0	2.6	11.7	6.4	42.7
(a) Development expenditure	1,586	2,027	2,983	2.3	1.9	2.6	12.0	7.1	47.2
PSDP	1,568	2,027	2,983	2.2	1.9	2.6	15.4	7.1	47.2
Federal	519	635	786	0.8	0.6	0.7	7.7	-2.6	23.7
Provincial	1,048	1,392	2,198	1.5	1.3	1.9	23.8	12.1	57.9
(b) Net lending to PSEs	55	52	-18	0.1	0.0	0.0	12.9	-13.7	-134.2
Memorandum items							•		
Non-interest (total) expenditure	9,591	12,490	15,607	13.7	11.9	13.7	15.2	16.7	25.0
GDP	71,775	105,190	113,748				19.2	25.7	8.1

Note: Numbers might not add up due to rounding-off

Sources: MoF and SBP staff calculations

sales during FY25.¹³ In the case of provinces, NTR increased slightly to 0.3 percent of GDP in FY25 compared to 0.2 percent in the previous year. This is attributed to Punjab government's income from investments.¹⁴

4.3 Expenditure

Total expenditure rose by 1.9 percentage points to reach 21.5 percent of GDP in FY25. This increase came entirely on the back of non-interest expenditure, while interest expenditure remained unchanged at FY24 level (**Table 4.4**).

Non-Interest Expenditure (NIE)

The increase in NIE was due to higher development spending, defense expenditure, subsidies, grants and expenditure on running of the civil government, while spending pertaining to pension remained unchanged in terms of GDP.

Development spending witnessed a considerable increase of 0.7 percentage points to 2.6 percent of GDP in FY25. This increase was led by higher provincial spending, with Punjab claiming the largest share, followed by Baluchistan, Sindh and KPK. The focus of provincial development was on the projects related to construction and transport, agriculture, food, forestry and fishing. The federal PSDP, on the other hand, fell short of the budgetary target due to administrative delays and lower target for FY25.¹⁵

After two years of consecutive decline, total subsidies rose to Rs 1.3 trillion, up by 0.1 percent of GDP during FY25. This increase was driven by higher power subsidies, which more than offset a notable reduction in non-power subsidies. Power subsidies rose on account of more-than-budgeted disbursements to Independent Power Producers (IPPs) in Q4-FY25 (Table 4.5). These subsidies were meant to reduce circular debt stock, which

^{*} This excludes statistical discrepancy

¹³ POL sales include sales of petrol and HSD only. Petrol and HSD sales increased by 4.2 percent and 12.3 percent in FY25, respectively.

¹⁴ It includes principal and markup receipts from investment in government securities – three months TDR. Source: Finance Department, Government of Punjab

¹⁵ IMF (2025) Country report dated May 2025.

Breakup of Subsidies and Grants

Table 4.5

values in billion Rupees, share of budget and growth in percent

		Actual Values		Actual as percent of Budgeted		
	FY24	FY25	FY24	FY25	FY25	
Subsidies						
Total	1,067	1,298	100.3	95.2	21.6	
Power subsidies	893	1,212	99.9	101.8	35.6	
IPPs	262	753	100.0	350.1	187.2	
K-Electric (TDS)	298	3	174.3	1.7	-99.0	
AJK (TDS)	105	-	-	-	-100.0	
Inter-disco TDS	149	288	99.4	104.3	93.1	
Non-power subsidies	174	86	220.2	68.5	-50.4	
Petroleum	51	4	100.0	19.7	-92.8	
RLNG to consumers	28	-	97.4	-	-100.0	
Shortfall payments (PS	O) 8	2	-	29.2	-77.0	
Others	124	83	103.3	53.4	-33.0	
Fertilizer plants	25	1	100.0	35.3	-95.8	
NPHFS	23	16	197.5	73.5	-33.4	
USC	35	13	100.0	20.0	-62.9	
Grants						
Grants to provinces	103	119	111.5	105.2	15.4	
Grants to others	1,292	1,514	98.2	91.0	17.2	
BISP	466	592	100.0	100.0	27.1	
AJK and GB	150	173	109.5	100.0	15.6	
DIII	10	20	-	100.0	100.0	
Others	667	729	91.5	83.0	25.5	
Total grants	1,395	1,633	99	92	17.0	

TDS: Tariff Differential Subsidy; PSO: Pakistan State Oil; USC: Utility Stores Corporation; NPHFS: Naya Pakistan Housing Finance Scheme; DIII: Digital Information Infrastructure Initiative Source: MoF

decreased substantially in FY25.^{16,17} However, other subsidies witnessed a notable decline, primarily due to government's decision to abolish untargeted subsidies, such as gas subsidies to fertilizer plants that were not serving the intended purpose of reducing urea prices for farmers.¹⁸ Grants also increased by 0.1 percent of GDP during FY25. About 17.0 percent growth in grants was due to higher disbursements under Benazir Income Support Program (BISP) on account of 0.7

million increase in the number of program beneficiaries in FY25.¹⁹ Moreover, government also increased the quarterly payment in Kafaalat program under BISP.²⁰

Despite the implementation of austerity measures, the spending on running of civil government increased by 0.1 percent of GDP in FY25. The major austerity measures introduced during FY25 included the complete ban on purchase of non-essential vehicles, machinery, ad-hoc new posts and non-obligatory visits abroad introduced at the end of Q1-FY25.²¹

The provincial current expenditure, adjusted for interest payments, witnessed a notable rise of 0.8 percentage points during FY25 from a decline of 0.2 percentage points in the previous year. This increase was mainly driven by higher spending on general public services, especially on transfers, and financial and fiscal affairs.

Interest Expenditure

Interest expenditure, after persistently increasing during the preceding two years; remained unchanged at 7.8 percent of GDP in FY25 compared to FY24. This was mainly due to a sharp decline in interest rates and government's buyback of securities issued at higher interest rates as part of its debt management strategy. Resultantly, mark-up payments as a percent of key fiscal indicators improved in the current year although, remained higher than the average of last 5 years (Table 4.6).

4.4 Public Debt

The pace of public debt accumulation slightly slowed from 13.3 percent to 13.0 percent during

 $^{^{16}}$ Circular debt declined substantially by Rs 801 billion to Rs 1.614 trillion at end-June 2025. Source: Circular Debt Report – June 2025.

¹⁷ Source: Circular Debt Management Plan, 2025.

¹⁸ IMF (2024). Pakistan: 2024 Article IV Consultation and Request for an Extended Arrangement under the Extended Fund Facility-Press Release; Staff Report; and Statement by the Executive Director for Pakistan, International Monetary Fund, Washington, D.C.

¹⁹ IMF (2025) Country report dated May 2025.

²⁰ Quarterly UCT Kafaalat Program benefit was increased from Rs 10,500 to Rs 13,500 in January 2025. Source: IMF First Review Under Extended Arrangement (May 2025)

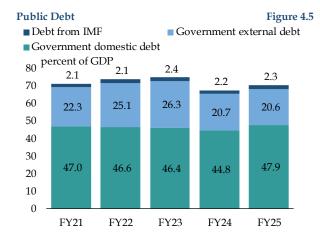
²¹ MoF Circular titled: "Austerity measures for controlling expenditures of Federal Government" dated: 4 September 2025

Mark-up Payments (as perconheads and GDP)	Table 4.6		
	FY20-24 Avg.	FY24	FY25
Total expenditure	30.3	39.5	36.3
Current expenditure	34.4	43.9	41.3
PSDP	273.5	402.6	297.9
Non-interest expenditure	44.5	65.3	56.9
Total revenue	48.4	61.5	49.4
FBR tax	68.4	87.6	75.7
Net FBR taxes*	166.2	201.6	181.7
CDP	6.0	7.0	7 9

^{*} FBR tax revenue adjusted for NFC transfers to provinces Sources: MoF, SBP staff calculations

FY25. In terms of GDP, however, the public debt rose to 70.8 percent as of end-June 2025 from 67.7 percent as of end-June 2024 (**Figure 4.5 and Table 4.7**). This increase was primarily driven by domestic debt, as external debt remained unchanged in terms of GDP. The decomposition of change in public debt-to-GDP ratio suggests that lower inflation relative to previous year²² and PKR depreciation increased, while primary surplus and real GDP growth reduced the debt-to-GDP ratio during FY25 (**Figure 4.6**).

Lower fiscal deficit, coupled with higher foreign exchange earnings and build-up in foreign exchange reserves, boosted the country's debt repayment capacity during FY25 (**Figure 4.7**). Further, public debt profile improved, as both domestic and external borrowings were largely concentrated of long-term, resulting in

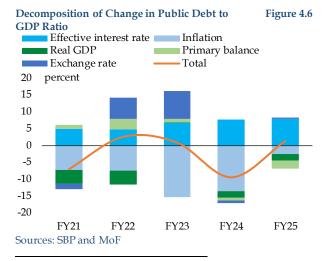


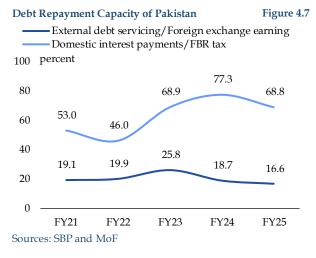
Source: SBP

lengthening the average time to maturity (ATM) in FY25 (**Figure 4.8**). However, from the debt sustainability standpoint, besides managing the debt profile, the government also needs to focus on reducing the public debt-to-GDP ratio (**Box 4.1**).

Domestic Debt

The domestic debt rose to 47.9 percent of GDP in FY25 from 44.8 percent in the previous year. This was despite slower growth in domestic debt due to lower gross financing needs (GFN) during FY25. Most of the domestic debt during FY25 was mobilized through longer-tenor instruments (like





²² The contribution of inflation in reducing public debt-to-GDP ratio decreased to 2.5 percentage points during FY25 compared to 13.6 percentage points in the previous year.

Summary of Pakistan's Debt and Liabilities

stock and flows in billion Rupees, growth in percent

Table 4.7

	Stock			Flows	Growth		
	FY23	FY24	FY25	FY24	FY25	FY24	FY25
Total Debt & Liabilities	76,511.5	85,457.5	94,197.1	8,946.0	8,739.6	11.7	10.2
Gross Public Debt (I+II+III)	62,881.0	71,245.9	80,518.0	8,364.9	9,272.1	13.3	13.0
I. Government domestic debt	38,809.8	47,160.2	54,471.3	8,350.4	7,311.1	21.5	15.5
II. Government external debt	22,030.9	21,753.6	23,416.9	(277.3)	1,663.2	(1.3)	7.6
III. Debt from IMF	2,040.2	2,332.1	2,629.8	291.8	297.7	14.3	12.8
IV. External liabilities	3,101.9	3,265.6	3,392.3	163.6	126.7	5.3	3.9
V. Private sector external debt	5,503.3	5,467.0	5,019.9	(36.4)	(447.1)	(0.7)	(8.2)
VI. PSEs external debt	2,147.9	2,068.1	2,200.5	(79.8)	132.3	(3.7)	6.4
VII. PSEs domestic debt	1,687.2	2,105.0	2,015.6	417.8	(89.4)	24.8	(4.2)
VIII. Commodity operations	1,485.9	1,378.3	1,066.5	(107.6)	(311.8)	(7.2)	(22.6)
IX. Intercompany external debt	1,301.4	1,592.2	1,638.5	290.9	46.3	22.4	2.9
Percent of GDP							
Gross public debt	75.2	67.7	70.8	-	-	-	-
Government domestic debt	46.4	44.8	47.9	-	-	-	-
Government external debt	28.8	22.9	22.9	-	-	-	-
Total external debt and liabilities	43.2	34.7	33.7	-	-	-	-

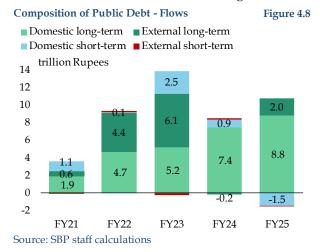
Source: SBP

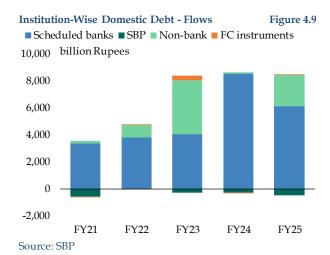
PIBs and Sukuk), while a considerable amount of short-term debt (T-bills) was retired on net basis (**Table 4.8**). This improved the maturity profile of domestic debt by extending the ATM to 3.8 years as of end-June 2025 from 2.7 years as of end-June 2024 and, lowering the rollover risk.

Similar to previous year, major chunk of the domestic debt was raised through variable coupon rate instruments.²³ While it reduced the cost of borrowing amid falling interest rates, it increased the interest rate risk as around 70 percent of the domestic debt stock is on floating rate. This indicates the existence of domestic original sin

(DSIN) - a concept generally defined as country's inability to borrow domestically in local currency at long-term maturities with a fixed interest rate (Box 4.2).

The institution-wise holding of domestic debt shows that scheduled banks continued to dominate with 64.5 percent of domestic debt, even though non-banks' participation increased in auctions (**Figure 4.9**), especially in H1-FY25. Amid declining interest rates and change in minimum deposit rate policy, the public limited companies





²³ However, the government raised relatively more funds through fixed-rate securities (28.7 percent) during FY25 compared to FY24 (17.8 percent).

Government Domestic Debt

billion Rupees; share in percent

Table 4.8

	Stock		Flows	1	Share	
	Jun-24	Jun-25	FY24	FY25	Jun-24	Jun-25
Government domestic debt, of which	47,160.2	54,471.3	8,350.4	7,311.1	100.0	100.0
GOP Ijara Sukuk	4,766.2	6,187.1	1,615.6	1,420.9	10.1	11.4
Pakistan Investment Bonds	28,025.8	35,015.0	6,016.5	6,989.0	59.4	64.3
Prize Bonds	385.1	407.5	2.6	22.4	0.8	0.7
Treasury Bills	10,167.3	8,638.5	898.1	-1,528.8	21.6	15.9
National Saving Schemes (net of prize bonds)	2,707.8	2,942.4	-110.7	234.5	5.7	5.4
Naya Pakistan Certificates, held by residents only	84.1	61.9	-58.6	-22.2	0.8	0.7

Source: SBP

percent.

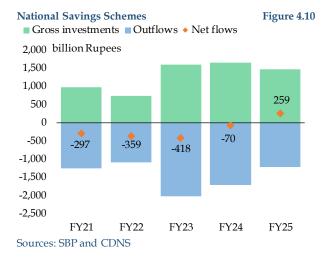
and financial institutions shifted their funds from deposits to investment in government securities. Unlike previous year, National Saving Schemes (NSS), including prize bonds, recorded net inflows; reversing the trend of net outflows observed for the past four years (**Figure 4.10**). Though contributing a small amount, it reflects shifting interest of retail investors, possibly due to reduced spread between returns on bank deposits and government securities, and NSS instruments.²⁴

In an effort to diversify the funding sources, the government introduced new debt instruments: Zero Coupon Sukuk (of 1-Year & 10-Year) and PIBs (2-Year & 15-Year); 3-Year variable rental rate (VRR) Green Sukuk; and 22-Days and 1-month T-bills. The government was able to mobilize around 12 percent of the total domestic debt

through these instruments during FY25. The government's move to generate funds through a diversified base, for relatively longer tenor and fixed instruments was in-line with its Annual Borrowing Plan of FY25; and is likely to lower GFN for the next year due to improved ATM.

Domestic Debt Servicing

During FY25, interest payments on domestic debt rose to Rs 8.1 trillion from Rs 7.2 trillion in the previous year (**Figure 4.11**). Despite increase in PIB stock, interest payments on PIBs marginally declined in FY25, reflecting the impact of lower interest rates. Within T-bills, major rise in interest payments was against 12-month T-bills (constituting 79 percent of T-bills) as these were raised at the time of higher interest rates during FY24. Similarly, a slight increase in interest



Interest Payments on Domestic Debt Figure 4.11 ■ PIBs ■ Sukuk ■ T-bills ■ Unfunded debt ■ Others 10,000 billion Rupees 8,000 2,140.2 6,000 1,276.0 4,000 1,059.1 4,569.7 4,547.8 2,000 586.7 720.5 2,858.4 1,565.9 1,322.1

FY23

FY24

 24 The average rate of return on NSS during FY21 – FY24 was 13.0 percent, while return on the government securities was 13.4 mag 24 The average rate of return on NSS during FY21 – FY24 was 13.0 percent, while return on the government securities was 13.4 mag 24 The average rate of return on NSS during FY21 – FY24 was 13.0 percent, while return on the government securities was 13.4 mag 24 The average rate of return on NSS during FY21 – FY24 was 13.0 percent, while return on the government securities was 13.4 mag 24 The average rate of return on NSS during FY21 – FY24 was 13.0 percent, while return on the government securities was 13.4 mag 24 The average rate of return on NSS during FY21 – FY24 was 13.0 percent, while return on the government securities was 13.4 mag 24 The average rate of return on NSS during FY21 – FY24 was 13.0 percent, while return on the government securities was 13.4 mag 24 The average rate of return on the government securities was 13.4 mag 24 The return of return on the government securities was 13.4 mag 24 The return of return on the government securities was 13.0 mag 24 The return of return on the government securities was 13.0 mag 24 The return of return of return of return on the government securities was 13.0 mag 24 The return of retu

FY22

FY21

Source: SBP

FY25

Public External Debt Table 4.9

	Stock		Flov	W	Sha	re
	FY24	FY25	FY24	FY25	FY24	FY25
Public external debt (1+2)	86,525.1	91,794.6	2,474.9	5,269.6	100.0	100.0
1. Government external debt, of which	78,147.4	82,526.6	1,221.3	4,379.20	90.3	89.9
i) Long term (>1 year), of which	77,387.6	81,787.5	621.8	4,399.8	89.4	89.1
Paris club	6,474.4	6,004.6	-1,426.7	-469.8	7.5	6.5
Multilateral	39,248.0	42,480.1	1,884.8	3,232.1	45.4	46.3
Other bilateral	18,552.4	18,038.9	980.1	-513.5	21.4	19.7
Euro Sukuk global bonds	6,800.0	6,800.0	-1,000.0	-	7.9	7.4
Commercial loans/credits	5,490.3	7,156.3	-73.5	1,665.9	6.3	7.8
Naya Pakistan Certificates, held by non-	783.9	1,225.1	249.6	441.1	0.9	1.3
ii) Short term (<1 year), of which	759.8	739.2	599.5	-20.6	0.9	0.8
Multilateral	250	552.3	89.7	302.3	0.3	0.6
2. From IMF	8,377.6	9,268.0	1,253.7	890.3	9.7	10.1

Source: SBP

million US\$, share in percent

payments on sukuk was due to surge in fixed rate sukuk issued at higher rates in FY24. The interest payment on unfunded debt decreased due to downward revision in profits rates on various NSS instruments in line with falling rates on PIBs.

Public External Debt & Liabilities

The stock of public external debt and liabilities (PEDL) increased by US\$ 5.5 billion during FY25, reaching US\$ 103.7 billion as compared to an accumulation of US\$ 3.4 billion in the previous year. The increase was largely on account of public external debt (PED), which recorded increase of US\$ 5.3 billion during FY25 (Table 4.9 & Figure 4.12).

The rise in public external debt during FY25 is mainly attributed to relatively higher disbursements, followed by revaluation losses due to depreciation of the US dollar against major currencies. Multilateral creditors, Naya Pakistan Certificates (NPCs) - held by non-residents, and commercial loans, together with loans from IMF under the EFF program, recorded net inflows, whereas, there was a net retirement to bilateral creditors, including Paris Club and short-term debt during FY25.

External Disbursements

Total external disbursements amounted to US\$ 12.1 billion during FY25, compared to US\$ 9.8

billion in the previous year (Table 4.10). The increase in overall disbursements can be ascribed to higher inflows from Asian Development Bank (ADB), commercial loans and NPCs, along with US\$ 483.5 million guaranteed loan from China during FY25. Increase in inflows through NPCs and commercial loans reflects improved sovereign credit rating amid macroeconomic stability supported by the IMF's EFF program.

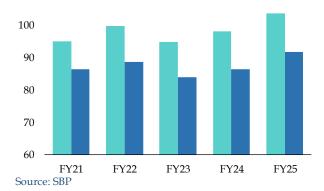
External Debt Servicing

External debt servicing inched up to US\$ 13.7 billion during FY25 from US\$ 13.5 billion in the previous year. This was primarily due to higher principal repayments, while interest payments slightly declined (Figure 4.13). The major

External Debt and Liablities Stock Figure 4.12

■ Public external debt & liabilities ■ Public external debt

110 billion US\$



Disbursements of External Loans and Grants

:1	1:	LISS

Courses	Grants		Loans		Total		
Sources —	FY24	FY25	FY24	FY25	FY24	FY25	
Multilateral	80.3	88.8	4,199.6	4,750.0	4,279.9	4,838.8	
ADB	9.7	5.9	1,318.0	2,124.3	1,327.7	2,130.1	
AIIB	-	-	345.0	110.4	345.0	110.4	
IBRD	15.8	30.3	287.7	362.0	303.5	392.4	
IDA	32.6	51.0	1,882.2	1,325.7	1,914.7	1,376.7	
IsDB - short-term	-	-	250.0	552.3	250.0	552.3	
Bilateral*	114.1	123.1	1,313.7	960.9	1,427.8	1,084.0	
China	3.7	3.4	573.7	580.3	577.5	583.7	
France	1.2	0.7	48.4	116.7	49.6	117.4	
USA	40.2	46.0	-	-	40.2	46.0	
Japan	31.5	34.6	4.9	0.2	36.5	34.9	
Saud Arabia	-	4.3	661.5	216.9	661.5	221.3	
Commercial banks	-	6.9	999.0	4,290.9	999.0	4,297.8	
CHINA DEV BANK	-	-	999.0	2,091.9	999.0	2,091.9	
SCB (LONDON)	-	6.9	-	1,399.0	-	1,405.9	
NPC	-	-	1,104.6	1,918.1	1,104.6	1,918.1	
Bonds	-	-	-	-	-	-	
ECO Trade Bank	-	-	-	-	-	-	
Time deposits	-	-	2,000.0	-	2,000.0	-	
Total	194.4	218.8	9,616.9	11,919.9	9,811.3	12,138.7	

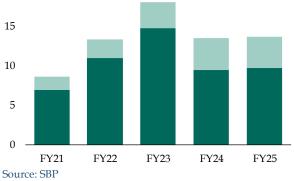
^{*} Bilateral also includes \$483.51 guaranteed loan from China Source: EAD

repayments were to commercial and multilateral creditors, followed by bilateral sources (mainly Paris Club), IMF, and NPCs holders. Moreover, net outflows from short-term local currency

External Debt Servicing - Principal and Interest Figure 4.13

 \blacksquare Principal repayment on PED \blacksquare Interest paid on PEDL

20 billion US\$



securities (T-bills) also contributed to principal repayments during FY25.²⁵

The slight decline in interest payments to US\$ 4.0 billion during FY25 from US\$ 4.1 billion in the previous year was because of fall in Secured Overnight Financing Rate (SOFR) and lower effective interest rate²⁶ on bilateral creditors including Paris Club, commercial loans, Euro/Sukuk bonds, and IMF debts that outweighed the rise in interest payments on foreign exchange liabilities, multilateral sources, and NPCs (Figure 4.14).²⁷

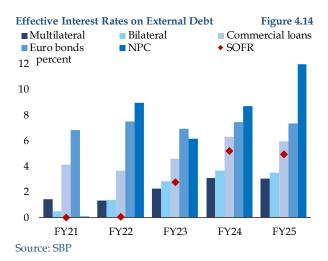
External Debt Sustainability

Increased foreign exchange earnings on the back of continued upward trend in workers' remittances and resilient exports improved the sustainability of public external debt during FY25.

²⁵ External debt in the form of local currencies securities (T-bills) decrease by US\$ 323.0 million during FY25 against US\$ 509.8 million increase in the previous year.

²⁶ Effective interest rate is calculated as the interest payments in the current period divided by debt stock in the previous period.

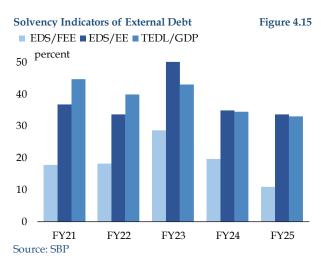
 $^{^{27}}$ The average SOFR declined to 5.0 percent in FY25 from 5.3 percent in the previous year. Source: SOFR Averages and Index Data – Federal Reserve Bank of New York (newyorkfed.org)



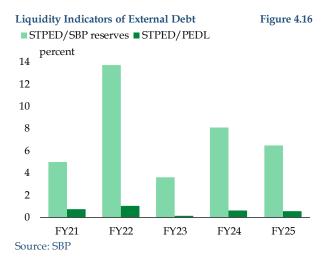
Similarly, build-up of foreign exchange reserves supported by increased financial inflows, SBP's foreign exchange purchases and broadly stable exchange rate, further contributed in enhancing the country's repayment capacity of external debt.

This improvement is manifested in both solvency and liquidity indicators during FY25. The decline in solvency indicators - ratios of external debt service-to-foreign exchange earnings (EDS-to-FEE), EDS-to-exports earnings (EDS-to-EE) and Total external debt & liabilities-to-GDP (TEDL-to-GDP), indicate an improving external debt sustainability (Figure 4.15).

Similarly, fall in liquidity indicators - the ratios of short-term public external debt-to-SBP reserves (STPED-to-SBP reserves) and STPED-to-Public external debt & liabilities (STPED-to-PEDL), indicate improvement in repayment capacity of short-term external debt. The decline in liquidity indicators can be attributed to reduction in short-term debt by US\$ 20.6 million during FY25 (Figure 4.16).



Subsequent to improved external conditions and sustainability indicators, the overall external debt profile remained stable during FY25. However, based on the IMF's risk assessment benchmarks, the ratio of external debt to total public debt at 32.3 percent, still lies in the range of modest risk of 20 to 60 percent.²⁸



Box 4.1 Country Experiences in Public Debt Management: Lessons for Pakistan

Over the past decade, Pakistan's public debt has increased from around Rs 20 trillion (60.1 percent of GDP) in FY16 to around Rs 81 trillion (70.8 percent of GDP) in FY25. During FY25, debt servicing constituted a whopping 70 percent of tax revenue and 41 percent of current expenditure, up from 34 percent and 27 percent in 2016, respectively. Comparative data of 2023 shows interest payments in Pakistan are higher relative to peer economies with similar debt levels (**Figure 4.1.1**). The continuation of current trend poses risk to debt sustainability.

²⁸ With reference to IMF's benchmarks, a country deemed to be at modest risk when the ratio of public debt in foreign currency to total public debt lies between 20 and 60 percent. Below 20 and above 60 percent indicate low and high risk respectively

Public Debt Reduction Episodes in Peer Countries percent of GDP

Table 4.1.1

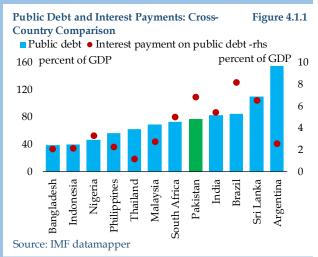
Countries	In	India		Indonesia		Philippines		Brazil		South Africa	
	2003	2010	1999	2012	2003	2016	2002	2008	1999	2008	
Public debt	85.9	67.7	95.9	23.0	71.4	37.4	76.1	61.4	45.9	24.0	

Source: IMF datamapper

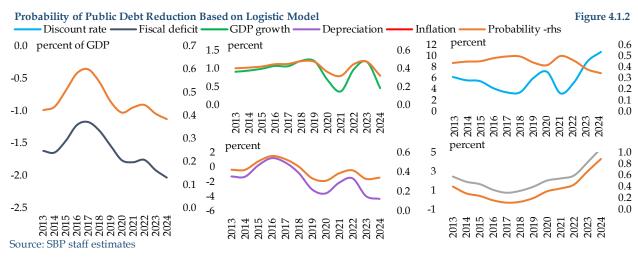
In this backdrop, this Box reviews experiences of five selected countries - India, Indonesia, Philippines, Brazil and South Africa²⁹ - in reducing debt-to-GDP ratio to draw lessons for Pakistan (**Table 4.1.1**). The analysis also include factor decomposition and logit model to identify factors affecting the debt-to-GDP in Pakistan.

Country Experiences

An analysis of underlying dynamics of public debt in Pakistan validates the applicability of approaches used by the countries that successfully reduced public debt-to-GDP. Results from both factor decomposition and logit model over the 11-year period reveal that interest cost and exchange rate have persistently contributed to increasing debt-to-GDP ratio, while real GDP growth, primary balance and inflation lowered the ratio (Figure 4.7 & Figure 4.1.2). While inflation appears to reduce public debt-to-GDP mechanically, reliance on inflation as a debt-reduction strategy is not sustainable. High inflation erodes purchasing power; increases uncertainty; raise interest costs and a feedback loop of increase in debt undermine macroeconomic stability and growth prospects (Akitoby, Binder, and Komatsuzaku 2017).



The country experiences suggest sustained fiscal consolidation characterized by maintaining a primary surplus over a period of 5 – 7 years, alongside reduced reliance on debt monetization, low and stable inflation and robust long-term real economic growth as the major factors helping to successfully reduce debt-to-GDP (**Table 4.1.2**). After achieving price stability, mostly via inflation targeting, these countries pivoted their monetary and exchange rate policies to foster economic growth, which in turn helped in reducing debt-to-GDP. Favorable external environment characterized by subdued commodity prices, steady global economic growth, and easy global financial conditions also facilitated reduction in debt-to-GDP. Some of these countries restructured and changed public debt composition



²⁹ These countries successfully reduced their public debt-to-GDP ratio for more than five consecutive years

Approach	Details	India	Indonesia	Philippines	Brazil	South Africa	Pakistan
Fiscal	a. Legally binding fiscal and budget rules	✓	✓	-	✓	-	✓
	 b. Structural reforms: Stabilization oriented economic policies, tax reforms, budget reforms, trade liberalization, Treasury Single Account, etc. 	-	√	√	Partial	√	Partial
	c. Privatization of loss-making SOEs	-	-	-	✓	-	Partial
Monetary	a. Inflation targeting	✓	✓	✓	✓	✓	✓
	b. Discontinuation of monetization of fiscal deficit	✓	-	-	✓	-	✓
	c. Coordination b/w fiscal & monetary	✓	✓	-	✓	✓	-
	a. Reliance on domestic debt	-	✓	✓	-	-	✓
Debt	b. Early repayments, debt restructuring, buybacks	✓	✓	✓	✓	✓	✓
Strategies	at c. Qualitative measures: Ways & Means Advances, debt management units/cells/frameworks etc.	✓	-	-	✓	√	✓
	d. Building reserves as explicit policy	-	-	-	✓	-	-
	a. Sustained, robust growth led to higher tax revenues	✓	✓	√	✓	✓	Partial
GDP	b. Better external conditions: global economic growth, easy liquidity, external inflows	✓	✓	✓	✓	√	✓

Source: Author's compilation from various country reports

to lower the cost of borrowing and ultimately reduced the debt burden. Pakistan also adopted most of these strategies and lowered its debt-to-GDP for a year or two; however, it could not be sustained for a longer term.

Lessons for Pakistan

The gradual, market-based adjustment in the exchange rate, instead of abrupt and often large one-time adjustment, plays a key role in maintaining investors' confidence, reducing external debt servicing costs, and avoiding speculative capital flight. The empirical results also suggest borrowing-mix in favor of medium and long-term bonds as interest rate shock causes relatively more cost on short-term securities, resultantly increasing GFN and the public debt. The findings also show relatively softening effects of interest rate shock on debt-to-GDP in case of coordinated fiscal and monetary policies. Moreover, legally binding fiscal and budget rules, backed by a medium-term fiscal framework that sets realistic revenue and expenditure targets are also crucial for effective debt reduction.

*The contribution of Almas Karim, Ana Khattak and Shah Hussain is acknowledged in writing this box.

Box 4.2 Determinants of Domestic Original Sin in Pakistan

Pakistan's domestic debt, with a share of 67.8 percent in total public debt, is increasingly concentrated in floating-rate³⁰ and short-term securities; a composition considered risky due to higher interest rate risk and rollover risk (**Figure 4.2.1**).³¹ This inherently risky composition seems to be arising out of domestic original sin (DSIN) - a concept generally defined as country's inability to borrow domestically in local currency at long-term maturities with fixed interest rates.^{32,33} Literature suggests that increasing domestic debt composition in favour of long-term fixed-rate securities can be used to minimize interest cost, rollover risk, and maturity mismatches.

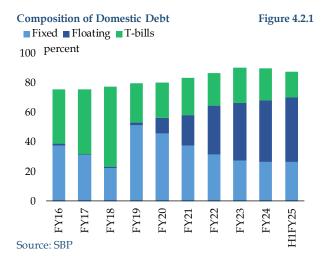
Against this backdrop, this box applies the concept of DSIN in Pakistan. The estimates show that DSIN in Pakistan, on average, stands at 0.67 over the sample spanning from Q4-FY16 to Q2-FY25 (**Table 4.2.1**). The level of DSIN in Pakistan was not only higher; it also remained a permanent phenomenon as reflected from the insignificant and

³⁰ Floating-rate securities are generally indexed to interest rate or inflation.

³¹ Approximately 80 percent of domestic debt consists of either short-term or floating-rate instruments, making it highly exposed to interest rate risk (IMF Country Report No. 25/109).

 $^{^{32}}$ DSIN = 1 - Long term domestic debt in local currency with fixed interest rate/Total public debt

³³ Arnoud, M and Julien, R. (2005).



Descriptive Statistics		Table 4.2.1	
Entire Sample	Mean	Standard Deviation	Correlation with DSIN
DSIN	0.67	0.09	-
Debt service-to-GDP	0.05	0.01	0.07
Primary balance-to-GDP	-0.01	0.01	0.20
Inflation	0.11	0.07	0.07
Slope of the yield curve	-0.32	1.93	-0.02
Investors base	0.06	0.01	-0.08
After FY21			
DSIN	0.71	0.03	-
Debt service-to-GDP	0.06	0.01	0.58
Primary balance-to-GDP	-0.01	0.02	0.47
Inflation	0.18	0.07	0.19
Slope of the yield curve	-1.82	2.00	-0.51

Source: SBP

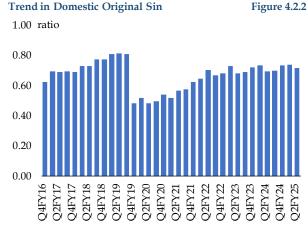
lowest standard deviation.³⁴ The consistent decrease in the share of long-term fixed-rate securities in total domestic debt led to severity in the state of DSIN (Figure 4.2.2).³⁵

The literature identifies several underlying factors contributing to DSIN for both emerging and developing economies (Mehl and Reynaud (2005). Following the existing literature³⁶, the correlation analysis of these factors in the context of Pakistan, is presented in **(Table 4.2.1).** The analysis shows that the debt burden, which is measured by debt service-to-GDP ratio, has a positive correlation with DSIN for the entire sample.

The positive association with debt burden further strengthened when the average debt service-to-GDP ratio increased to 6.0 percent after FY21. Similarly, the state of DSIN also depends on fiscal credibility, which is proxied by primary balance-to-GDP ratio. The influence of primary balance-to-GDP ratio on DSIN has also risen with the passage of time. The positive relationship of both debt burden and primary balance with DSIN reveals that risk premium becomes large for the government to raise funds through long-term papers at fixed interest rates.

The monetary policy credibility measured by inflation, also played critical role in determination of DSIN. The inflation remained positively associated with DSIN, reflected from the increase in correlation coefficient after FY21 when average inflation surged to 20 percent. The results indicate that inflationary pressure increase the creditors' fears that domestic debt could be inflated away and therefore, changing their composition towards short-term and interest rate-indexed securities.

The slope of the yield curve is negatively and significantly associated with DSIN. The slope of the yield curve is not only negative; but also steepened considerably during FY22 to FY24. The increasing slope intensity of the inverted yield curve further strengthened the inverse relationship with DSIN during the last years. The results



Source: SBP

³⁴ The standard deviation of DSIN is 0.03 for the period after FY21.

³⁵ The latest data for domestic debt revealed that DSIN has decreased as the share of fixed rate instruments increased to 28.7 percent during FY25 from 17.8 percent in the previous year.

³⁶ The results in the existing literature are mostly based on graphical and correlation analysis along with empirical estimation. However, the exercise of empirical estimation is beyond the scope of this box.

confirm the creditors' point of view that debt maturity shortens with the increasing steepness of inverted yield curve.

Lastly, investors' base, proxied by national savings-to-GDP ratio,37 and DSIN are weakly but negatively correlated. It may be concluded that DSIN decreases with growing investors' base. It indicates that larger investors' base may deepen the bonds market leading to lessening the severity of DSIN.

The results suggest that fiscal consolidation, low inflation, upward sloping yield curve and larger investors' base are likely to be instrumental in reducing DSIN and optimizing the domestic debt composition in the context of interest cost, rollover risk and terms of maturity.

*The contribution Shah Hussain is acknowledged in writing this box.

References:

Mehl, A. and Reynaud, J. (2005), "The Determinants of Domestic Original Sin in Emerging Market Economies", Working Paper Series No. 560, European Central Bank.

³⁷ The analysis for national savings-to-GDP ratio and DSIN is based on annual data due to unavailability of quarterly data on national savings.



5

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.



5.1 Global Economic Review

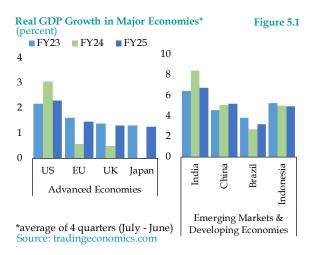
The global economy that stabilized in FY24 after series of adverse shocks, posted a moderate recovery in FY25. This supported a pickup in global trade, which helped improve supply chains and ease pressures on commodity prices. Accordingly, inflation remained close to the targets across most of the advanced 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.1

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.²

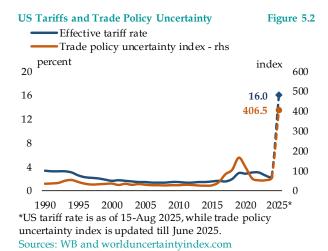
Tense global environment weighed on prices of almost all major commodities, except for precious metals. The prices of both the energy and non-

5 Balance of Payments



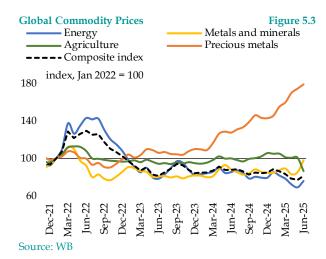
energy items trended downwards in the second half of FY25. However, the trend reversed in June 2025 as geopolitical conflicts disrupted global supply chains, leading to an increase in commodity prices, except for agriculture commodities. The prices of precious metals, given their nature as safe havens,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

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



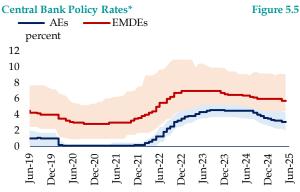
¹ World Economic Outlook, April 2025

² 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.



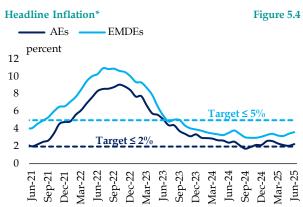
and services sector in the AEs, and higher food inflation and currency depreciation in case of EMDEs. This was reflected by inching up of inflation in both the AEs and EMDEs in the last quarter of FY25 (**Figure 5.4**).

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 characteristics.



*Median inflation of each group. The sample includes $30~\mathrm{AEs}$ and $44~\mathrm{EMDEs}$.

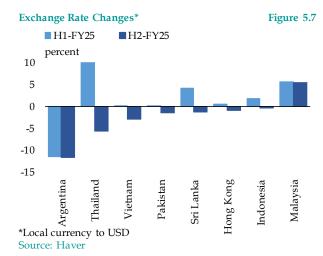
Source: Haver

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

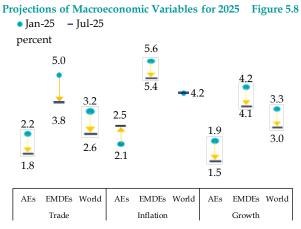


supply and heightened risk aversion among lenders. Hence, the pace of economic growth in the last quarter of FY25 moderated in most of the AEs and EMDEs.³ If sustained, these dynamics may amplify economic slack and increase the risk of a broader downturn, warranting careful calibration of monetary and 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.⁴ 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

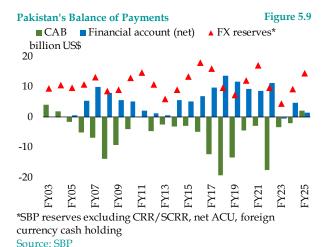
Pakistan's balance of payments position improved further in FY25, with current account balance (CAB) posting the highest surplus in 22 years. The resulting improved market liquidity allowed the SBP to make net purchases of US\$ 7.7 billion during FY25. This, along with the successful first



Source: IMF

review under the IMF's EFF program and higherthan-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.



³ 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. ⁴ World Economic Outlook Update, July 2025 and Global Economic Prospects, June 2025

Pakistan's Balance of Payments*
million US\$

Table 5.1

	FY23	FY24	FY25	Abs. change over FY24
Current account balance	-3,275	-2,072	2,113	4,185
Balance on trade in goods	-24,819	-22,177	-26,786	-4,609
Exports of goods (FOB)	27,876	30,980	32,302	1,322
Imports of goods (FOB)	52,695	53,157	59,088	5,931
Balance on trade in services	-1,042	-3,110	-2,622	488
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
Balance on primary income	-5,765	-8,986	-8,902	84
o/w Interest payments	4,612	5,546	5,313	-233
Profit & dividends	331	2,215	2,220	4
Balance on secondary income	28,351	32,201	40,423	8,222
o/w Workers' remittances	27,333	30,251	38,300	8,049
Capital account balance	375	195	170	-25
Financial account*	468	-5,370	-1,501	3,869
Direct investment (net)*^	-670	-2,126	-2,398	-272
Portfolio investment (net)*^	1,012	376	637	261
Other Investment	135	-3,610	265	3,875
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
General government	-2,085	1,565	2,320	755
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
Other Sector	-255	-50	-1,053	-1,003
Disbursements	398	2,419	675	-1,744
Amortization	1,663	1,905	1,691	-214
Other liabilities (net)	1,010	-564	-37	527
Net errors and omissions	-850	-631	-40	591
Overall balance	4,218	-2,862	-3,744	-882
SBP's liquid FX reserves	4,445	9,390	14,506	5,116
PKR/US\$ app(+)/dep(-) in % (end-period)	-28.4	2.7	-1.9	_

^{*}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.⁵

⁵ 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. 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

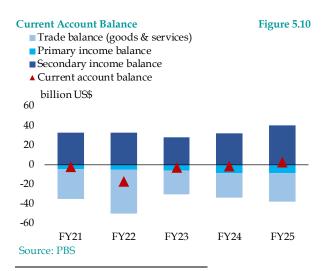
FY24. This significant improvement in the CAB is attributed to the strong growth in workers' remittances, which more than offset the deficits in trade and primary income accounts (**Figure 5.10**). The increase in remittances was driven by various initiatives implemented by the government and the SBP,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

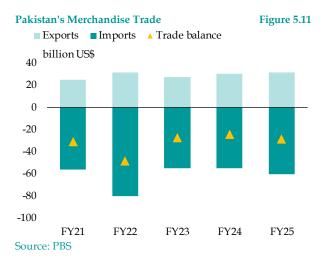
Trade (in goods) Balance⁸

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





⁶ Based on the imports of goods and services projected by IMF.

⁷ SBP and GoP introduced a number of policy measures including; reforms in the exchange companies sector (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); and promotion of home remittances (www.sbp.org.pk/epd/2023/FECL15.htm) to encourage the flow of remittances through formal channels.

⁸ 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)

million US\$

Table 5.2

	Values		Chang	e	M-1 ECC 1	D.: ECC +
	FY24	FY25	Absolute	Percent	Volume Effect	Price Effect
Exports	30,677	32,046	1,369	4.5	-	-
Textile	16,656	17,890	1,234	7.4	-	-
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	-
Non-textile	14,021	14,156	135	0.96	-	-
Food	7,370	7,117	-253	-3.4	-	-
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
Petroleum	398	573	17 5	44.2	-	-
Petroleum products	321	464	143	44.5	157	-14
Other manufactures	4,032	4,228	196	4.9	-	-
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	-	-

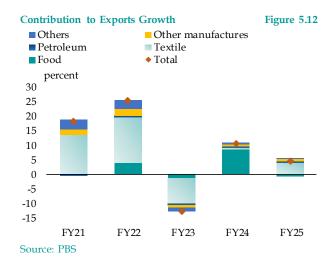
^{*}The apparel category includes hosiery (knitwear) and readymade garments, while the home textile category includes towel and bed wear. Source: PBS

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. 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, lowweight apparels. ¹⁰ The latter also favorably impacted exporters' profitability margins. The volume effect was especially pronounced in



⁹ 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.

¹⁰ 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).

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Table 5.3

Emporto or reomic	1401001		
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	
	Volumo chango	Unit Value	

Exports to EU-27	Volume change (%)	Unit Value (Euro/KG)	
	FY25 over FY24	FY24 FY2	25
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.

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.¹¹ Resilient consumer demand for affordable home decor and fast-fashion, coupled with lower average prices, further boosted EU's import volumes.¹²

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		
	Apparel	Home Textile		
EU-27		(Euro/KG)		
Pakistan	12.5	5.50		

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

retailers such as Walmart, IKEA, and Target have adopted the 'China+1 (or +2 or +3)' ¹³ 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. ¹⁴ 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**).¹⁵ 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.¹⁶

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

Sources: Otexa, Eurostat and SBP staff calculations

Sources: Otexa, Eurostat and SBP staff calculations

¹¹ 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 ¹² 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

¹³ 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.

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

 $^{^{15}}$ In view of these trends, the the relevant trade associations have also advocated for a dedicated 'Apparel Policy', separate from other textile export segments. Source: $\underline{\text{https://texprocil.org/ibtexnewsclipping/1711605950-IBTEX28032024.pdf}}$

¹⁶ 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**).¹⁷

Exports of low value-added textiles fell sharply¹⁸

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.¹⁹ The continuation of the differential General Sales Tax (GST) policy also favored yarn imports over domestic production.²⁰

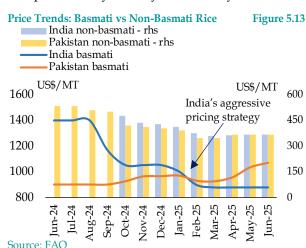
Non-textile exports

Food group exports declined primarily due to lower rice exports²¹

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 2024.²² Besides lower

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

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.²⁵ 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.²⁶ Similarly, Pakistan



¹⁷One 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.

¹⁸ 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.

¹⁹ Textile Commissioner's Organization latest available report mentions the closing of 109 spinning units. Source: TCO website https://www.tco.com.pk/documents/5f144babd2.pdf

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

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

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

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

²⁴Global 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. ²⁵ VIS (2024). Rice Sector Report, VIS Credit Rating Company Limited, Karachi.

²⁶ 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.²⁷ Moreover, export to Indonesia declined as favorable weather supported higher rice production amid the Indonesian government's self-sufficiency policies.²⁸

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.²⁹ 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.³⁰ 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

²⁷ 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

²⁸ 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

²⁹ 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.

³⁰ 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.³¹ The continued phaseout 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. ³² 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.³³ 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.³⁴ 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. ^{35,36,37}

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.³⁸

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

³¹ 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 be resolved in Finance Bill Budget.

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

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

³⁴ 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.

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

³⁶ 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

 $^{^{37}\} Associated\ Press\ of\ Pakistan;\ https://www.app.com.pk/business/commerce-minister-vows-full-support-for-pharma-sector-announces-establishment-of-export-council/$

³⁸ 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)

million US\$

Table 5.5

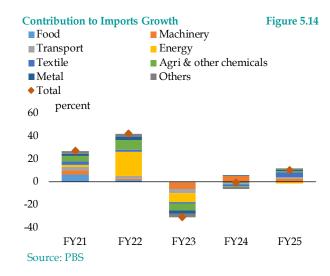
	Values	3	Change	:	V-1 FCC	D.: ECC -
	FY24	FY25	Absolute	Percent	Volume Effect	Price Effect
Imports	54,781	60,344	5,563	10.2	-	-
Food	7,904	8,160	256	3.2	-	-
Wheat	1,032	0	-1,032		-	-
Tea	657	634	-23	-3.4	-31	8
Soybean oil	130	344	214	165.4	217	-3
Palm oil	2,779	3,393	615	22.1	201	414
Pulses	775	1,016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

Source: PBS

markets,³⁹ 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.⁴⁰

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



³⁹ PACRA (2025). Leather - Sector Study

⁴⁰ 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. 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.⁴² 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.⁴³

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.⁴⁴

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

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

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

⁴³ 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.

⁴⁴Statista 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

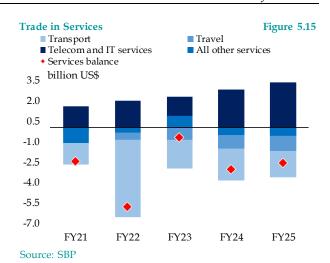
Import of all machinery, except for telecom, increased in FY25. The sustained increase in machinery import indicates investment in textiles, agriculture mechanization;⁴⁵ and green energy, particularly battery chargers and static convertors. The decline in import of telecom machinery is mainly explained 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.

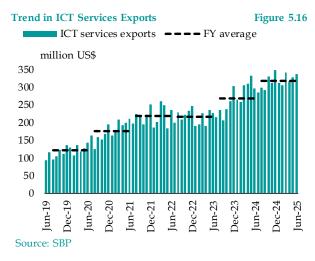
Trade in Services

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. ⁴⁶ The rise in ICT exports can be



attributed to the policy measures and initiatives introduced by the government and the SBP.⁴⁷ 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.⁴⁸

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



⁴⁵ 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.

 $^{^{46}}$ 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/

⁴⁷ URAAN Pakistan project under National Economic Transformation Plan (2024-2029)

⁴⁸ 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	nge	
	F124	F125	Absolute	Percen	
Balance on trade in services	-3,111.6	-2,623.0	489.0	-15.7	
Exports: of which	7,687.3	8,383.7	697.0	9.1	
Transport	767.0	969.0	202.0	26.3	
Sea freight	109.7	146.0	36.3	33.1	
Air passengers	445.2	410.0	-35.2	-7.9	
Travel	758.0	720.0	-38.0	-5.0	
Education related expenditure	21.3	18.9	-2.4	-11.3	
Other (personal)	708.7	677.5	-31.2	-4.4	
ICT Services*: of which	3,223.2	3,811.7	588.4	18.3	
Telecommunications services	563.0	553.4	-9.6	-1.7	
Computer services, of which	2650.9	3237.4	586.5	22.1	
Software consultancy services	870.6	1,107.6	237.0	27.2	
Freelance of computer and information services	408.9	779.2	370.3	90.6	
Imports: of which	10,798.9	11,006.7	207.8	1.9	
Transport	4,676.1	4,635.7	-40.4	-0.9	
Sea freight	2,850.3	2,422.4	-427.9	-15.0	
Air passengers	1,295.1	1,445.3	150.2	11.6	
Travel	2,266.9	2,405.7	138.8	6.1	
Education related expenditure	519.6	622.6	103.0	19.8	
Other (personal)	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.

Source: SBF

industry and freelancers. The Ministry of IT and Telecom's DigiSkills project, launched in 2018, has provided online training in freelancing, ecommerce, 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.⁴⁹ 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.⁵⁰

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.⁵¹

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.⁵² In addition, integration of global payment gateways like Payoneer with domestic financial institutions has made it easier for freelancers to process their

^{*}Telecommunications, Computer, and information services

⁴⁹ Pakistan Telecommunication Authority Annual Report 2024

 $^{^{50}\} https://www.pta.gov.pk/category/pakistan-ranks-among-top-countries-in-global-cybersecurity-index-2024,-marking-significant-progress-1485299784-2024-09-23$

⁵¹ 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. ⁵² 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.53

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 knowledgeintensive 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.⁵⁴

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.

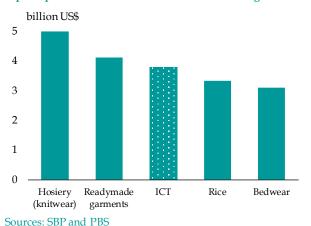
Primary Income Account

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 conditions⁵⁵, 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.⁵⁶

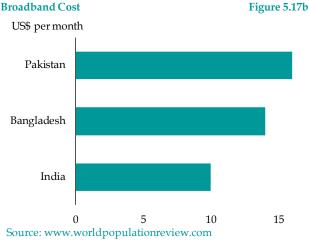
Secondary Income Account

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

Top 5 Exports of Pakistan in FY25



Broadband Cost Figure 5.17a

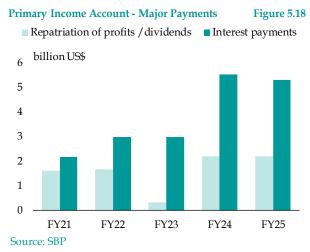


⁵³ Securities and Exchange Commission of Pakistan (SECP) press releases.

^{54 40-}feet 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

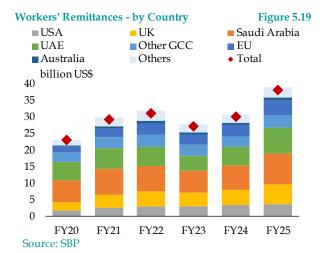
⁵⁵ The 90-day Secured Overnight Financing Rate (SOFR) decreased by 50 bps to 4.8 percent in FY25: https://fred.stlouisfed.org/series/SOFR90DAYAVG

⁵⁶ 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.

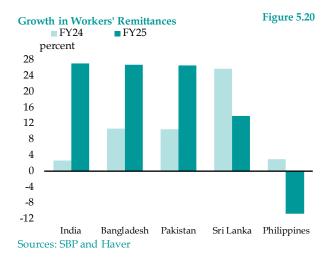


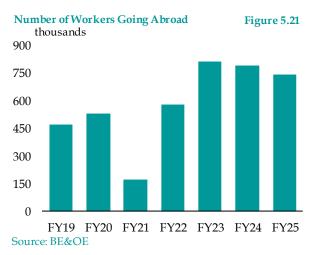
facilitated SBP to build FX reserves. Almost entire improvement in secondary income surplus emanated from workers' remittances, which surged by 26.6 percent to US\$ 38.3 billion in FY25 from US\$ 30.3 billion in FY24 (**Figure 5.19**).

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 region⁵⁷ 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**).



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. 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. Similarly of the same remittances up to five percent was also increased to Rs 1, Rs 2 and Rs 3 per US\$, respectively, for each slab.





⁵⁷ Saudi and UAE economies grew by 3.7 and 3.9 percent in 2025, respectively. Source: IMF/HAVER

⁵⁸ EPD Circular Letter No. 09 of 2024

⁵⁹ 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.⁶⁰ 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.⁶¹

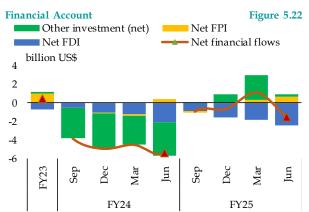
5.4 Financial Account

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 ecommerce. This highlights the lack of diversified Greenfield investment in Pakistan, which is considered vital for exports, productivity and integration into global value chains.

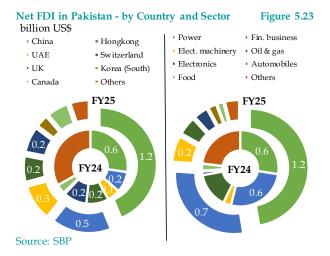
Disaggregated data reveals that around 70 percent of the FDI was sourced from China and Hong Kong, mostly in the power sector (hydel and coal) and financial business (including banks,



Note: as per BPM6, negative sign means net FX inflow into Pakistan and vice versa
Source: SBP

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



⁶⁰ SBP press release on authorization of exchange companies dated February 13, 2024.

⁶¹ 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.

⁶² 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.⁶³ 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.

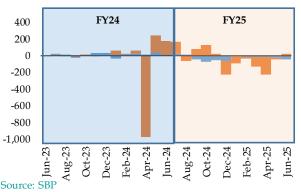
Pakistan's benchmark KSE-100 index posted a gain of around 60 percent during FY25. A number of factors have contributed to this stellar growth such as overall macroeconomic stability, successful completion of IMF review in May 2025, rating upgrade by international agencies,⁶⁴ diversion of flows from 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. ^{65,66}

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



Figure 5.24

Equity and investment fund shares Debt securities million US\$



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 FY25.⁶⁷ 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)

⁶³ 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.

⁶⁴ 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.

⁶⁵ 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

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

⁶⁷ As per Bloomberg, Pakistan's benchmark KSE-100 index was the 8th 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.⁶⁸

FX Loans and Liabilities

Net Repatriable Liability under RDA

Source: SBP

billion from the KSA and China.

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

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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.

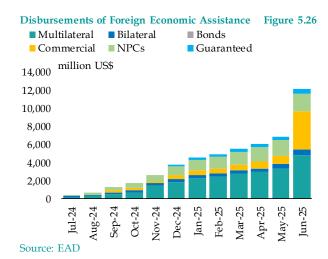
The World Bank disbursed US\$ 1.4 billion, approximately US\$ 400 million lower than the last year, for flood reconstruction and barrages improvement in Sindh, higher education development in Pakistan, strengthening of key institutions to mitigate climate-related shocks, and solar energy and hydropower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

Figure 5.25

⁶⁸ This includes outstanding position in government securities like T-bills, Sukuk, real estate, mutual funds, etc. but excludes NPCs. 69 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

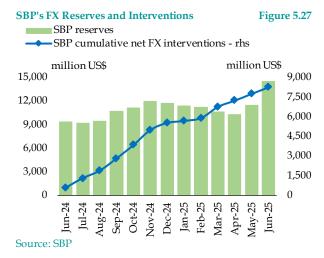


was borrowed from foreign commercial banks with the majority representing refinancing and additional funds underwritten by ADB guarantees.

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 2024.⁷⁰ 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



obligations.⁷¹ 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.

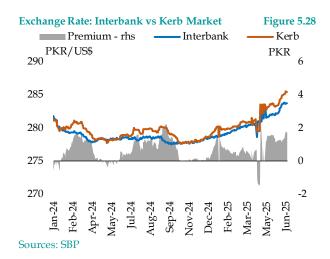
The improvement in CAB and strengthening of reserve position instilled stability in foreign exchange market. Although the uncertainty surrounding financial inflows, as highlighted earlier, caused some volatility in exchange rate during H2-FY25.⁷² However, the successful completion of first review under 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**).

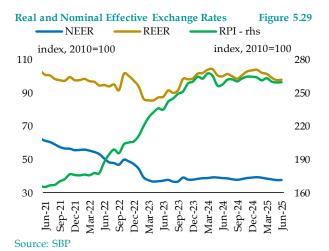
Pakistan's real effective exchange rate (REER) depreciated from 100.1 at end-June 2024 to 98.0 by end-June 2025. The depreciation in REER is largely driven by nominal effective exchange rate (NEER) as domestic inflation fell sharply relative to Pakistan's trading partners (**Figure 5.29**). The relative 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.

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

⁷¹ 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.

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





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.⁷³

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

Source: NTC

⁷³ 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.⁷⁴

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 competiveness. 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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⁷⁴ 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 Retrofitting⁷⁵

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

Share in Global Trade - High Value Added **Figure 5.2.1 Textile Products** ■ Share in 2015 ■ Share in 2024 percent 12 9.8 7.8 7.0 7.0 9 6 2.9 3 Vietnam Vietnam Vietnam Bangladesh Pakistan Bangladesh Pakistan Bangladesh Pakistan Knitted or Not Knitted or Home Textiles crocheted crocheted

industry's competitive landscape. The sustainable fashion market 76 is valued at US\$ 12.5 billion in 2025 and projected to reach US\$ 53.5 billion by 2032, 77 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.

Source: ITC

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.⁷⁸ 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.

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

⁷⁶ Sustainable fashion refers to clothing designed and produced with consideration for environmental impacts.

 $^{^{77}}$ Apparel accounts for 26 percent of this market; Source: Coherent Market Insights (2025). Global Sustainable Fashion Market Size and Trends

⁷⁸ 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.

Estimation of Cost Savings per Annum

Table 5.2.1a

Retrofit Measures	Energy Saved (kWh) (a)	Cost Saving (Rs) 1 textile mill (b)	Cost Saving (Rs) for 100 textile mill 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
Estimated Total Annual Saving	~1.5 million kWh	~31.6 million/mill	~3.16 billion

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 $21/kWh \approx 26.9$ 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 ₂ 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
Total net carbon revenue for 100 mills (e=d*100)	19,000,000
Average export per mill (f)***	12,000,000
Export uplift per mill (g=f*5%)****	600,000
Export uplift for 100 mills in a year (h=g*100)	60,000,000

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

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: a. significant cost savings;

- b. compliance with international eco-standards ensuring access to premium export markets; and,
- c. 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.

^{**} Net carbon revenue assumes carbon credit price of US\$12/tCO2e

^{***}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.

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

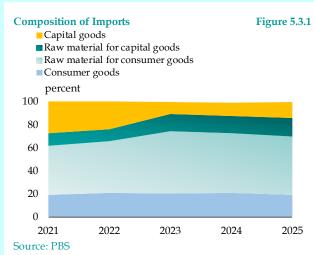
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Box 5.3: Tapping Opportunities in Petrochemicals Sector

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.⁷⁹ 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.

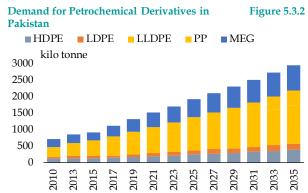
For Pakistan, the sector's importance is underscored by its extensive forward linkages and annual domestic demand of petro-chemicals exceeding US\$ 5.3 billion. Polyester and synthetic fiber for textiles, polypropylene for packaging, butadiene for rubber crude and rubber tyres, and polyvinyl for construction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

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

⁸⁰ 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.⁸¹

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.



HDPE: High-density polyethylene; LDPE: Low-density polyethylene; LLDPE: Linear Low-Density Polyethylene; PP: Polypropylene; MEG: Monoethylene Glycol Source: PBC

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 as complex can save the import bill by US\$ 2.7 billion.⁸²

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 garments⁸³, 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 represent 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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⁸¹ Plastipack Pakistan website: https://plastipackpakistan.com/pakistan-is-on-the-precipice-of-its-first-ever-petrochemical-policy/ 82 Pakistan Business Council website: https://www.pbc.org.pk/wp-content/uploads/Presentation-Integrated-Refinery-Petrochemical-Complex.pdf

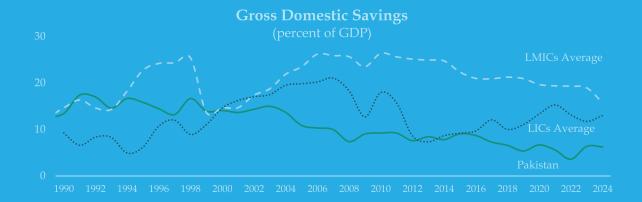
⁸³ Reports have highlighted how absence of cracker plants have constrained Pakistan's industries for instance, the absence of a naphtha cracker plant means strong reliance on imported synthetic fibers and filaments for textile manufacturing. Source: SBP (2018). The State of Economy Report, Third Quarterly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



6

The Challenge of Low Savings in Pakistan

Pakistan's gross domestic savings has been on a consistent decline over the last two decades, and is one of the lowest among a cohort of peer economies. The persistently low and falling savings has undermined the prospects of sustainable economic growth. The analysis in this chapter shows that savings in Pakistan are hampered by an unfavourable macroeconomic environment characterized by low and volatile economic growth, high inflation, elevated youth dependency, and a sizeable informal economy. The analysis also shows that low and negative real returns and relatively weak financial intermediation across various financial institutions and markets — such as banking, capital markets, insurance and postal financial services — are some of the major reasons behind low savings in the country. Amid a variety of policy distortions that incentivise informal savings, the country's low savings is also affected by cultural norms, and low levels of financial literacy.



6.1 Introduction¹

Growth theories highlight Gross Domestic Savings (GDS) as a key driver of sustained economic growth. Cross-country analysis shows a strong association between GDS and GDP growth for both industrial and developing economies. For developing economies, high domestic saving rates typically predates the take-off in GDP growth, and remains vital for maintaining it for longer periods (**Figure 6.1**). The countries with saving rates above 20 percent have been able to sustain economic growth for longer, and large increases in GDS has been linked to economic development. This is because higher domestic savings boosts investment in infrastructure, technology and human capital, enabling capital accumulation and fostering innovation that enhance total factor productivity (Figure 6.2).²

Moreover, higher domestic savings reduces dependence on foreign aid and external borrowing, mitigating risks related to external debt sustainability, and providing domestic

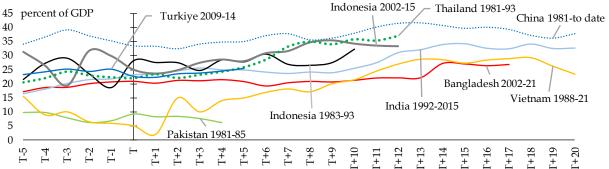
6 The Challenge of Low Savings in Pakistan

resources for growth. While investment is typically financed through a mix of domestic and foreign savings, over reliance on foreign savings carries risks.³ These foreign-origin inflows are volatile, prone to sudden reversals during global financial cycles and can put pressure on the exchange rate and increase vulnerability to external shocks. In contrast, high GDS provides a stable and predictable funding source, fostering self-sustaining growth, as it is less susceptible to external shocks.⁴

The mobilisation of GDS through the financial system can hardly be overemphasized, given its instrumental role in efficiently channeling resources into productive investments. When banks, capital markets and financial institutions (FIs) intermediate savings, they bridge the gap between savers and viable investment opportunities. This not only drives economic growth but also leads to more sophisticated markets that allocate resources efficiently. Indeed,

Gross Domestic Savings in Selected Regional Take-off* Economies

Figure 6.1



* Following IMF (2013), take-off is defined by consecutive 5 years (or more) growth of 3.5 percent (or more) in GDP per capita (constant) PPP terms. On x-axis, T points to the first year of the take-off. The data pertaining to Vietnam's GDS prior to 1995 is fragmented and has been compiled from multiple sources.

Sources: IMF, WDI, Tran-Nam and Pham (2005), Drabek (1990), WB (1983), and SBP staff calculations.

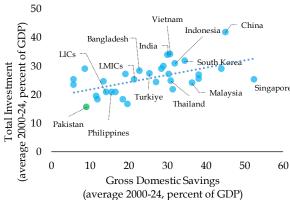
¹ This special chapter draws on background discussions with various public and private sector stakeholders including Securities and Exchange Commission of Pakistan, Pakistan Post Office Department, as well as various real estate and capital market professionals.

² Deaton (1999); Dabla et al. (2013); Lewis (1955); Rodrik (2000); Loayza et al. (2000); SBP (2025a); Levine and Renelt (1992); Solow (1956)

³ In majority of countries with high investment rates, foreign savings account for less than 20 percent of total investments over long period, with most investments financed by resources raised domestically. This is because despite globalization, most savings remain invested domestically. Source: Feldstein and Horioka, (1980); Levine (2005); Rodrik (2000)

⁴ Reinhart and Rogoff (2010); Feldstein and Horioka, (1980); Prasad et al. (2007)





Note: based on 32 regional and other EMDEs Sources: IMF and WB

economies with high financial development and formal saving rates tend to exhibit stronger productivity growth and greater macroeconomic and financial stability.⁵

Pakistan's GDS has remained considerably low in recent years. Over the last two and half decades in particular, domestic savings have consistently fallen short of investment needs, undermining the economy's ability to sustain long-term growth; whereas historically the periods of relatively faster economic growth have coincided with high inflows of foreign savings.⁶

Empirical studies identify several factors that impact GDS.⁷ These can be broadly categorized into economic, demographic, and institutional factors. Key economic drivers include income levels where higher per capita income correlates strongly with increased savings.⁸ Consistently

high inflation is another economic factor that affects GDS, as it erodes purchasing power and inhibits growth prospects, leaving less room for savings at household level. Real interest rate (RiR) is also a key determinant. An increase in RiR has been generally found to incentivise savings due to the substitution effect. 10

Among demographic factors, youth dependency ratio can have significant impact on GDS. A rise in both total dependency and youth dependency tend to lower domestic savings. ¹¹ Two of the most common institutional factors influencing GDS are financial development and the size of informal or undocumented economy. Financial development provides formal means of financial savings, and affects the responsiveness of GDS to changes in interest rates. The informal economy suppresses productivity, economic growth, financial sector development, and public savings; it may also lead to over/under estimation of savings in the economy. ¹²

In light of these determinants,¹³ **Figure 6.3** compares Pakistan's GDS with other economies that have similar characteristics. While Pakistan is categorized as a Lower Middle Income Country (LMIC) according to the per capita income, its GDS has fallen even below the median of Low Income Countries (LICs) since 2008 **(Figure 6.3a)**. Similarly, Pakistan's GDS is substantially lower than that of other high inflation countries that have had an average inflation of 8 to 15 percent in the last ten years **(Figure 6.3b)**. When compared to countries with

⁵ Levine (2005); Beck et al. (2000)

⁶ Ali (2016); MoF (2015-2025)

⁷ Theories on determinants of GDS abound in economic literature and often surveyed in Pakistan as well. There is little need for an exhaustive listing of the same in this section; for study on macro-determinants of GDS in Pakistan see **Box 6.2**

⁸ Goldsmith (1969); Loayza et al. (2000)

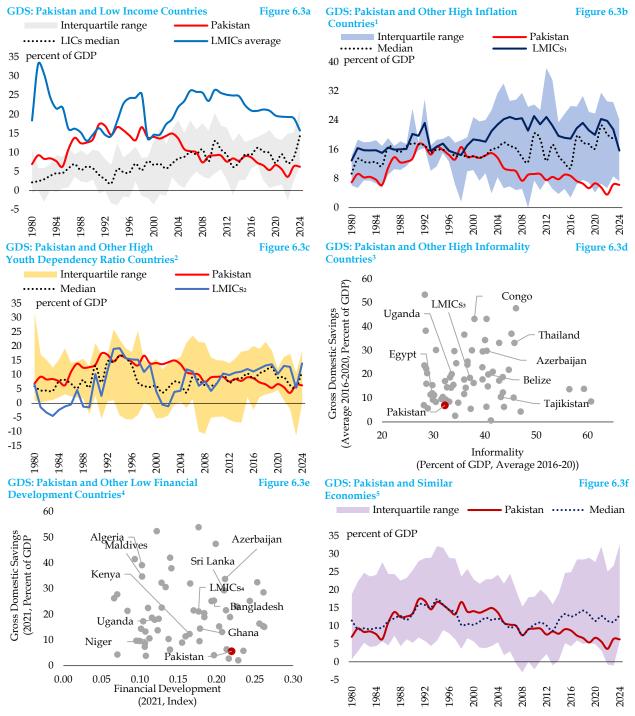
⁹ While inflation can increase savings when central banks raise interest rates, consistently high inflation can squeeze real interest rates and raise economic uncertainty, which has a negative impact on savings. Source: Elbadawi and Mwega (2000); Masson, et al. (1998)

¹⁰ The net effect of RiR on savings is ambiguous theoretically on account of the opposite forces of income and substitution effects. Most studies find a positive relation between RiR and saving when interest rates are not too low; some case studies suggests that RiR above 1.5 percent triggers substitution effect. Source: Khalid (2004); Aizenman et al. (2017)

¹¹ A cross-country study shows that a 7 percent rise in dependency lowers domestic savings by 1 percent of GDP, where total dependency and youth dependency both have similar impact on domestic savings. Masson et al. (1998)

¹² Modigliani and Brumberg (1954); Denizer and Wolf (2000)

¹³ Cross-country analysis of GDS from the lens of RiR is excluded from following analyses on account of limited historical data for RiR. For comparisons based on recent RiR data, see Section 6.2.



 1 For the purpose of these analyses, high inflation countries are defined as countries with average annual inflation of 8-15% during 2015-24. This range draws on Khan and Senhadji (2001), Dornbusch and Fischer (1993), and others. LMIC₁ refers to LMICs with high inflation

Sources: IMF, WB and SBP staff calculations

²LMIC₂ refers to LMICs with high Youth Dependency. The income groups are based on World Bank 2025 classification.

 $^{^3}$ Following Ohnsorge and Yu (2022), 71 economies with above median informality of 27.1% is considered high. LMIC $_3$ refers to LMICs with high Informality. 4 Following Ohnsorge and Yu (2022), 61 countries with financial development index lower than the median of 0.26 are included in this chart. FD index value of 1 means fully developed financial markets and institutions and vice versa. LMIC $_4$ refers to LMICs with low Financial Development.

⁵This chart compares GDS in 33 LMIC, 5 UMIC and 4 LIC countries that share any 3 or 4 of the following 5 characteristics similar to Pakistan: income level, high inflation, low financial development, high youth dependency, and high informality.

high youth dependency ratios —i.e. between 50-70 percent of the working age population¹⁴ Pakistan's average GDS has been below the median during the last ten years (Figure 6.3c). The country's GDS is also low when compared to economies with similar levels of high informality (Figure 6.3d), and low levels of financial development (Figure 6.3e).

Clearly, none of the archetypical determinants of GDS discussed above offer clear identification of a single reason behind Pakistan's consistently low savings. Even when compared to the 42 countries that share any three or four of these five archetypical characteristics that determine savings, Pakistan's GDS comes out to be notably lower than the median (**Figure 6.3f**). This unique confluence of factors — an LMIC with high inflation; high informality; high youth dependency; and low financial development - creates a particularly challenging environment for fostering formal savings.

Another likely reason stems from the notion that savings is a matter of habit and culture, and not necessarily solely influenced by income, inflation, financial development, dependency, and so forth. This is somewhat reflected in the findings of SBP Pulse Survey on Savings 2025, conducted for the purpose of informing this Special Chapter (For details see Annexure 1). The survey finds that most respondents, even those with higher income, 'spend-first-and-save-later'. This is contrary to the 'save-first-and-spend-later' saving habit recommended in personal finance theory (Figure 6.4).^{15,16}

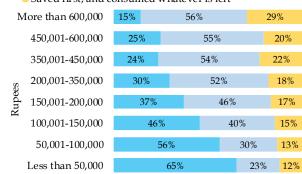
The analysis of economic, demographic, and institutional factors in the subsequent sections of this chapter offers the following stylized insights

on the challenge of low savings in the country. First, the private sector, especially household sector, has been the main driver of GDS in Pakistan. In contrast, Pakistan's public sector has been consistently dissaving, amid persistent fiscal deficits and inefficient spending that constrains long-term economic growth, which in turn affects the prospects of savings. Second, analysis of household savings reinforces that low per capita income and a high consumption rate are major constraints to savings. In addition, high total fertility rate and youth dependency affect savings negatively, albeit large joint families save more than nuclear families due to more breadwinners. These and other macroeconomic and household factors of savings are discussed in (Section 6.2).

Third, a sizeable informal economy and informal savings exist owing to regulatory and policy distortions, low real returns of formal savings, and a low levels of trust and financial literacy among the financially excluded (Section 6.3). The informal economy also presents a challenge to the official measurement of savings (Box 6.1). Lastly, the banking and non-banking financial sector is

Savings Behaviour by Monthly Income

- Figure 6.
- Could not or did not save at all
- Consumed first, and saved whatever is leftSaved first, and consumed whatever is left



Source: SBP Pulse Survey on Savings 2025

¹⁴ Bloom et al. (2003)

¹⁵ Lewis and Messy (2012); MoneySense (n.d.)

¹⁶ Some habitual, psychological, and sociocultural determinants of saving include individualism (vs. collectivism), futureorientation, and uncertainty avoidance. For instance, a strand of economic literature on impact of culture and habits on household
savings suggests that East Asian culture's emphasis on frugality and long term planning drives GDS in East Asian economies.
Anecdotal evidence also suggests that certain ethnicities in Pakistan are more frugal than other ethnicities in the country. However,
research on these factors is scant in both global and Pakistan-specific economic literature. This chapter touches upon some aspects of
culture, and the idea that saving culture can be shaped by strictly implemented government policy. However, given the scope of
this chapter no attempt has been made to cover detailed aspects of culture vis-à-vis saving. Source: Guiso et al. (2006); Essig and
Supan (2005); Anyangwe et al. (2022); Srivisal et al. (2021)

yet to adequately attract savings into the fold of formality, or channel it efficiently (Section 6.4).

6.2 Savings Landscape of Pakistan

This section reviews Pakistan's savings landscape, focusing on key macroeconomic factors and their impact on public and private savings. The section also delves into household and corporate savings trends and factors, where dominance of household savings over corporate savings is rather prominent. And finally, the section draws on Household Integrated Economic Survey (HIES) 2018-19—the latest survey available—to shed light on the factors that impact household savings in Pakistan.

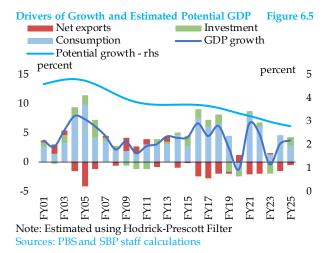
Key Macroeconomic Factors

The relationship between GDP growth, per capita income, and savings is critical to understand Pakistan's savings landscape. Higher GDP growth and rising per capita income typically correlate with higher savings, as greater economic output enables more disposable income for savings (Sajid and Sarfraz, 2008; Vincelette, 2006). However, Pakistan's historically low GDP growth has constrained domestic savings. Potential GDP growth has also been on a declining trajectory over the last two decades.¹⁷

Alongwith declining potential GDP growth, Pakistan's economy remains predominantly consumption-oriented (**Figure 6.5**), with private consumption consistently accounting for nearly 92 percent of GDP over the last four decades. With average poverty at 44 percent in recent history, ¹⁹ and 36 percent of household income being spent on food, saving capacity is severely constrained.

The marginal propensity to save in Pakistan is much lower at 0.18 compared to neighboring countries like India (0.28) and Bangladesh (0.25) (Khalid et al., 2015). Demographic pressures, particularly a high youth dependency ratio, further increases consumption pressures and necessitates higher public spending to support an increasing dependent population (SBP, 2022; Bongaarts and Sathar, 2023).²⁰

Exacerbating the impact of high consumption, a persistent high inflation environment is yet another major challenge to savings in Pakistan. Ilyas (2014) shows a negative relationship between inflation and savings in Pakistan, supporting the view that inflation affects savings by reducing real incomes. Considering that inflation in Pakistan has been higher than the threshold (SBP, 2024)²¹ for two-thirds of the period between 1970 and 2023,²² the purchasing power of households has been suppressed leaving them with less disposable income to save. While the central bank raises interest rates to counter inflation, this has not consistently translated into increased savings.



¹⁹ Afzal and Ahsan (2021) estimates a poverty line using the Cost of Basic Need (CBN) method adjusted for CPI inflation from 1998-99 to 2018-19.

¹⁷ SBP staff calculations

¹⁸ WB (n.d.)

 $^{^{\}rm 20}$ SBP (2025a); Khan et al. (2015); Bongaarts and Sathar (2023)

²¹ Threshold inflation is the level of inflation beyond which there exists a negative relationship between inflation and economic growth. For Pakistan, it is around 7 percent, which is line with the upper bound of the government's medium term target of 5-7 percent. (SBP, 2024)

²² Shocks to money supply and fiscal policy stance have significantly contributed to inflation in last two decades. Similarly, inflation expectations, exchange rate depreciation, checkered political and economic environment, and climate shocks are other major drivers of high inflation (Hussain et al., 2025b).

savings is insufficient to offset inflationary losses

(Vincelette, 2006; Khan and Qayyum, 2006).

Low inflation and positive RiR play a crucial role in shaping savings behaviour, as higher returns typically incentivise individuals to save more. In the case of Pakistan, several studies — such as Awan et al. (2010); Raza et al. (2017) — have found a positive association between RiR and savings. However, Pakistan's low level of financial development confounds this relationship. When the financial system is underdeveloped, savers are less responsive to interest rate signals (Ito and Chinn, 2007). This structural weakness combined with negative average RiR contributes to persistently weak GDS (Figure 6.7).

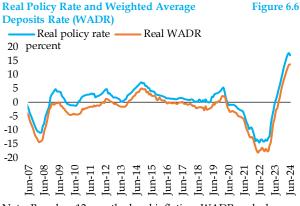
Studies on determinants of savings in Pakistan are somewhat dated with limited covrage of variables. In this context, **Box 6.2** attempts to fill that gap and empirically investigate the major determinants of savings in Pakistan. Six key findings emerge from this empirical analysis. First, there is a strong positive relationship

between gross national income and GDS as percent of GDP, supporting the life-cycle hypothesis. Second, increase in fiscal deficits is found to reduce GDS in the long run, implying that the Ricardian Equivalence does not hold in Pakistan.²³ Third, the increase in real interest rates improves GDS in the long run, suggesting that the substitution effect outweighs the income effect. Fourth, increase in the size of informal economy causes a decline in GDS in the long run. Fifth, improving secondary education strengthens domestic savings. Lastly, contrary to earlier studies on Pakistan and other economies, Pakistan's GDS has not been found to decrease with high youth dependency. This inconsistency with earlier empirical studies may be mainly because of the downward co-movement of dependency ratios and GDS in Pakistan,24 which creates a confounding effect on empirical estimations.

Public and Private Savings

Disaggregated data on savings in Pakistan suggests that public savings has been considerably negative over the last three decades (Figure 6.8). Public dissaving (i.e. negative public savings) in Pakistan exceeds and diverges from that in its peer economies (Figure 6.9). This mainly stems

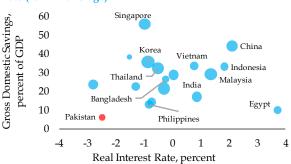
Figure 6.7



Note: Based on 12-month ahead inflation; WADR excludes zero markup and interbank

Sources: SBP, PBS and SBP staff calculations





Note: The size of the bubble show Financial Development Index 2021. Real interest rates are calculated on forward looking basis (12-month ahead inflation).

Sources: WB, IMF and SBP staff calculations

²³ Ricardian Equivalence suggests that government borrowing increases household savings. This is because households anticipate higher future taxes, and resultantly increase precautionary savings to pay for future taxes. (Zahid, 2018)

²⁴ Pakistan's youth dependency ratio, currently at 62 percent in 2024, is classified as "high" as per Bloom et al. (2003); however, it has been reducing since the year 2000 prior to which it averaged 83 percent during the preceding two decades.



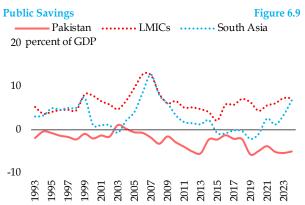
Note: Whereas private savings are the difference between gross national savings, and public savings, the latter is the sum of public GFCF and fiscal balance

Sources: WDI, IMF and SBP staff calculations

from the persistent fiscal deficit that, until recently, has been growing over the last two decades. This has also been weighing on public and private investment, and as a result on long-term economic growth.²⁵ In the context of domestic savings, two related concerns are worth highlighting.

First, large government borrowing and misaligned tax policies hinder household and corporate savings. Contrary to Ricardian Equivalence, Pakistani households do not save more in response to government deficits. Instead, studies find that government deficits crowd out private savings in Pakistan (Waqas and Awan, 2012; Saeed and Khan, 2012; Kazmi, 2001). It does so by eroding disposable income via higher anticipated tax burdens, and by soaking up bank deposits, diverting loanable funds away from households and firms. This reduction in available credit lowers the prospects of credit-led income growth, which in turn affects the prospects of savings.²⁶

The second concern relates to the idea that efficient channelisation of savings in investment is an important determinant of savings in long-run.



Note: Public savings is derived from the sum of public GFCF and fiscal balance as per commodity balance methodology Sources: WDI, IMF and SBP staff calculations

Literature on the nexus of financial development, economic growth and savings suggests that (a) formal financial savings are critical for economic growth, which in turn also stimulates domestic savings;²⁷ and (b) that the efficient allocation of financial savings in productive investments is as important as the quantum of it.²⁸ In consideration of this, the fact that a substantial portion of financial savings is channelled to government treasuries (Table 6.1), mostly via government bonds and other saving instruments, presents a concern.

This is because of the inefficiency of public expenditure, which is a major obstacle to fostering long-term economic growth.²⁹ Indeed, a large share of spending is rigid — such as interest payments, salaries, pensions, and running of the government — contributing to persistent fiscal deficit, whereas public spending on drivers of long-term economic growth and productivity — such as education, research and development, and institutional development — remains wanting.³⁰

In light of this, inefficient public spending in Pakistan is not only depressing public savings but

²⁵ WB (2023)

²⁶ Waqas and Awan (2012); Saeed and Khan (2012); Kazmi (2001); Barro (1974)

²⁷ This concept also motivates the discussion on informal savings in Section 6.3

²⁸ Gregorio and Guidottim (1995); Estrada et al. (2010); Honohan (1999)

²⁹ Waliullah and Ahmad (2025). AGP (2025) points to recurring lapses in budget management, with significant procurement-related irregularities and unspent allocations. Weak public financial management diverts funds from productive investment, leaving development projects idle and reinforcing a pattern of inefficient, tick-box budgeting that hampers public savings.

³⁰ SBP (2025a)

Financial Savings Avenue	Description
National savings schemes ^a	The stock of household investment in NSS instruments stood at Rs 3.3 trillion as of March 2025. This is equivalent to 5.5 percent of domestic debt and 21 percent of banking sector's saving deposits as of March 2025.
Mutual funds ^b	The mutual funds industry's asset allocation to government securities averaged 34 percent of total assets (excluding cash) between FY20 to FY25, with the share of government securities standing at 53.3 percent in FY25.
Bank deposits ^c	Average sovereign exposure between December 2015 and March 2025 exceeded 85 percent of banking sector deposits in the last decade.
Insuranced	Non-life insurance companies, the larger segment of the industry, allocated an average of 80 percent of their assets to government securities over the past five years, while life insurance companies maintained an average exposure of nearly 20 percent.
Employee Old-age Benefits Institution (EOBI)e	Latest numbers on EOBI's investment allocation is not available but various reports from FY99 to FY06 and FY16 suggest that EOBI's exposure to government securities was between 68 to 92 percent of its total investments during these periods.

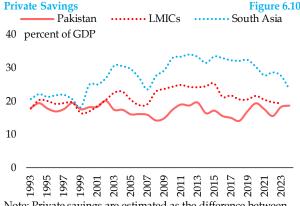
Note: Different periods have been used in this table due to data limitations. Based on discussions with industry experts, there is sufficient reasons to believe that while numbers may change over the years, varying with interest rate cycle, the overall narrative remains unchanged. Sources: aMoF and SBP; bMUFAP AUM Data; SBP Statistical Bulletins (Dec 2015 to Mar 2025); dSBP, 2020-24; SBP, 2003 and FoP, 2016

also affecting the saving capacity of the private sector — comprising corporates and households — perpetuating the country's cycle of low aggregate savings. Private savings are also negatively affected by a high, complex and inconsistent tax structure that encourages both informal economy and informal savings (See Section 6.3). In addition, household savings are impacted by several socio-economic factors, including misaligned tax policies that also affect corporate savings. Corporate savings are also impacted by lack of structured management practices that constrain its earnings growth. (SBP, 2025; Bilgrami and Nisha, 1990).

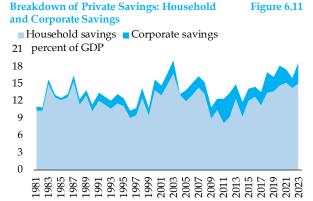
Private savings in Pakistan have remained somewhat stagnant over the last two decades, and notably lower compared to the average of regional and income group peer economies during the same period (Figure 6.10). The sectoral breakdown of private savings shows that household savings form the bulk of the country's private savings, whereas corporate savings remains neglible (Figure 6.11). The share of corporate savings in Pakistan is in line with several slow-growth developing economies. However, it is much lower when compared to the fast-growing economies of East Asia, and especially to China and South Korea (Athukorala, 2025; Vincelette, 2006).

Household savings

In light of the central role of household savings in driving private savings in Pakistan, this subsection relies on HIES 2018-19 to analyse

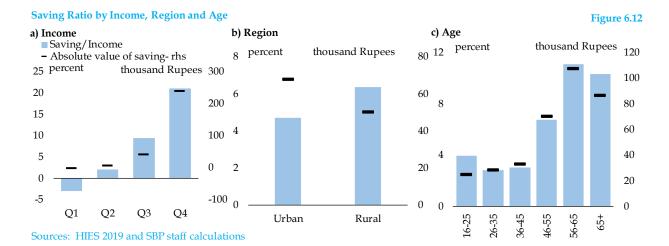


Note: Private savings are estimated as the difference between gross national savings and public savings Sources: WDI, IMF and SBP staff calculations



Note: Household and corporate savings are SBP staff estimates in the absence of official disaggregated savings data.

Source: SBP, PBS, and SBP staff calculations



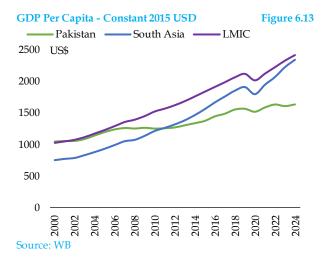
household saving behaviour.³¹ The analysis shows that household savings are positively related to income and education levels, and negatively related to dependency ratio. These stylised facts suggest that transition to higher GDS in Pakistan requires deliberate and sustained policy interventions, given the slow-moving nature of these drivers of household savings.

Analysis of HIES 2018-19 shows that income is a major driver of savings growth (**Figure 6.12a**). Households in the fourth income quartile save substantially more, with a 12-percentage point difference from the third quartile. This echoes the findings of earlier research (Khalid, 2023) that shows household income as the major determinant of household savings in both urban and rural areas. The country's GDP per capita has lagged behind peer economies for the last two decades (**Figure 6.13**), whereas wage growth has not kept pace with inflation in recent years.³² Without turning this situation around, the prospects of household savings remain dim.

As a percentage of income, rural households manage to save more when compared to urban households (**Figure 6.12b**), which could be due to lower costs associated with rural areas.³³ However, in absolute terms, urban households

save significantly higher amounts on average when compared to rural households due to their higher income level.

The relationship of savings and age follows established theory on the ability of the middle-aged working population to save more.³⁴ The younger population is unable to save substantially due to lower incomes and higher propensity to consume. In light of this, Pakistan's current age structure and slow pace of decline in total fertility rate (TFR) does not augur well for household savings. About 79 percent of the country's



³¹ Given the structure of HIES 2018-19, analysis for household savings has been conducted at the level of household head.

³² SBP (2025a)

³³ Khan et al. (2016)

³⁴ SBP (2024)

working age population is currently between the ages of 16 to 45 years—i.e. age cohorts that save the least (**Figure 6.12c**)—and is currently projected to remain at more than 60 percent until the turn of the century.³⁵ This requires urgent measures to reduce TFR to grow household savings.

The need for policy interventions to control high population growth and reduce dependency is also evident from the differences in saving rates of different household sizes. There is clear evidence that savings rates decline with an increase in household size within nuclear family sizes (Figure 6.14), albeit household sizes with more than 10 members save more due to more breadwinners in joint family systems that typically have higher saving rate compared to nuclear families.³⁶ For median income households, 5 children seem to be the tipping point after which a household becomes a dis-saver. For low-income households, even having one child may move them towards dissaving (Figure 6.15). This, and the fact that Pakistan's youth dependency is not projected to fall below 50 percent until 2048,³⁷ also underscores the urgency and importance of reducing the pace of population growth.

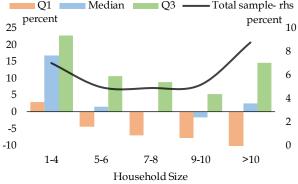
Lastly, the impact of education on savings is also evident across households. A household head with a postgraduate degree has the highest saving ratio, with a 5-percentage point difference from undergraduate degree holders (Figure 6.16a). Similarly, a household head with an undergraduate degree has a saving ratio that is 4 percentage points higher than the household head with intermediate degree. The saving returns to investing in human capital are thus evident with a clear upward trajectory. This relationship also holds when household size is taken into account. At both higher and lower household sizes, household heads with high levels of education tend to save more in comparison to household heads with relatively less education (Figure **6.16b).** This reinforces the need to invest in education. Current education levels do not bode well for savings, as Pakistan's primary, secondary and tertiary education rates are closer to LICs rather than peers.38

6.3 Informal Savings³⁹

The size of informal savings in Pakistan is widely understood to be large. Although precise

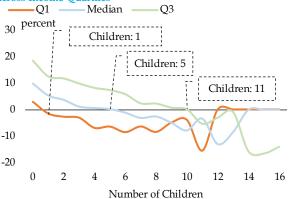
Figure 6.15





*Simple average of saving ratios Sources: HIES 2019 and SBP staff calculations

Point of Dissavings by Number of Children across Income Quartiles



Sources: HIES 2019 and SBP staff calculations

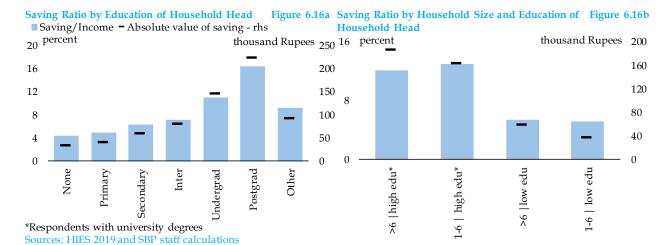
³⁵ SBP staff calculations based on UN Population Division, medium fertility projections 2024-2100.

³⁶ Khan et al. (2016)

³⁷ SBP staff calculations based on UN Population Division, medium fertility projections 2024-2100.

³⁸ SBP (2025a)

³⁹ It is difficult to provide an exact definition of informal savings, so for the purposes of this section, informal savings refer to savings in undocumented or largely under-documented channels of saving. For example, Qadir (2005) and Afghan (2023) show that undocumented savings include cash and the largely under-documented savings into real estate and gold.



estimates of informal savings are not available, a crude sense of the size may be obtained from various surveys, estimates and anecdotal evidence. 40 SBP staff estimates show that depending on the methodology used, informal savings could be between 3-11 percent of formal real GDP, and 2-7 percent of estimated real GDP, inclusive of estimated informal GDP (**Box 6.3**). This finding is consistent with past surveys that suggest a strong preference for informal savings. 41

Informal savings are detrimental to an economy in several ways. First, undocumented savings reduce the potential collection of tax revenue, thereby reducing public income. Second, informal savings deprive the banking system of loanable funds, inhibiting credit creation and investment. Third, these are often channelled towards non-productive assets, creating speculative bubbles. Fourth, these weaken the effectiveness of monetary policy, and increases interest rate

insensitivity. Fifth, informal savings can directly impact households with lower real returns (when kept in cash). Finally, lack of regulations and recourse in case of fraud or theft create greater risks for vulnerable groups. 42 This can be further exacerbated by the possibility of group-wide shocks in localized modes of savings. 43

Economic literature suggests a number of reasons why informal savings seem to thrive in Pakistan. One major reason that compounds the issue of informal savings in the country is its large informal economy. Although, as **Section 6.1** shows, Pakistan's GDS is lower even when compared to economies that have similar levels of informality, the underlying nature of the informal economy — rather than its size — may be the driving force behind informal savings. To understand this, a brief review of the informal economy and its linkages with informal savings is warranted.

⁴⁰ Estimating informal economy and savings is challenging due to sparse data, and undocumented nature of the informal economy. ⁴¹ SBP's Household Saving Behaviour in Pakistan 2021 survey reported that the most used modes of savings were 'Savings at home or with family members' (55 percent) and 'Participation in an informal saving club i.e., Committee' (37 percent), compared to 18 percent of savers who reported using an FI or mobile wallet. Similarly, SBP's Access to Finance Survey 2015 found that only 12 percent of the population used formal saving and investment avenues, as opposed to 58 percent that reported saving at home. ⁴² For example, there have been instances where false real estate listings; ghost housing societies; sham real estate firms; and illicit trade of plot files have defrauded individuals of their savings. Source: Hassan and Qaiser (2025).

⁴³ Qadir (2005); SBP (2019); Asad (2023); Carpenter and Jensen (2002)

⁴⁴ Various studies estimate informality in Pakistan to be roughly between 20 to 30 percent in the 2000s. Source: Arby et al. (2010); Ahmed and Hussain (2008); Vincelette (2006)

⁴⁵ Informal productive activities are defined as all productive activities carried out by persons or economic units that are – in law or in practice – not covered by formal arrangements as established by regulations and laws. This lack of formal coverage includes various aspects such as regulations, commercial laws, fiscal obligations, labour laws and access to institutional infrastructure including financial institutions. Source: UNSD

Informal economies typically stem from the presence of micro-sized firms or a strategic navigation by firms to stay partially or fully outside the documented economy. Micro or very small firms are typically unregistered businesses having informal workers with low skills and low wages. As a result, such businesses and their workers do not have substantial savings due to their low income and because forced saving mechanisms like pension and insurance schemes are often not applicable. On the other hand, enterprises above a certain size and income, which have workers with relatively higher wages and skills, maintain a certain level of informality to evade high taxes and avoid regulations deemed to be burdensome. This contributes to low public savings and suppresses overall economic competitiveness, which in turn impairs growth in per capita income.46

In Pakistan, both micro/small enterprises with constrained income, and bigger enterprises that evade taxes and remain undocumented are common. Past surveys have revealed that small enterprises with an employment size between 1 to 4 employees make up 94 percent of economic establishments in Pakistan.⁴⁷ Relatively bigger and profitable industries also have substantial informality, as evidenced by the size of informal employment in manufacturing and wholesale/retail trade, which was estimated to be 20 and 31 percent of employed people in 2021.48 Savings from these enterprises are thus likely to be invested in undocumented channels in order to mask actual incomes from business activities. This leads to savings in informal or non-financial avenues, such as real estate, gold and foreign currency.

Regulatory and policy related distortions also encourage informal savings. The real estate sector has often been used as a means of tax avoidance, benefiting from incentives such as tax amnesty schemes. The inflows into the sector have been speculative in nature, rather than productive. A lack of regulation, transparency and an undervaluation of property by the government leads to under documented/undocumented transactions. This is in contrast to well-functioning real estate markets where there are centralized land registries, regulatory authorities and formal disclosures.⁴⁹

The gold market similarly suffers from policy-related distortions. Stringent limits on formal imports leads to smuggling of gold into informal local markets. This also inhibits the growth of formal gold and jewellery markets and structures e.g. standards and certifications. Moreover, withholding tax (WHT) on banking transactions has encouraged cash holdings, promoting informality and savings outside the banking system. Earlier research also posits that some economic agents may have permanently moved away from using banking channels after the imposition of WHT, leading to financial exclusion.⁵⁰

Another key reason why private sector savings is channelled into non-financial avenues is that they seem to offer higher real returns. Gold and real estate yielded better returns compared to financial savings between 2015 and 2025 (Figure 6.17a and **6.17b**).⁵¹ Whilst the USD is popularly perceived as a lucrative mode of saving, in reality it has not yielded positive returns in real terms during this period. Considering that high returns and safety are rated as the most important attributes by households,⁵² the preference for saving in USD and cash might be driven by short-term motives of speculation, hoarding, and tax evasion. In comparison to gold and real estate, real return on bank deposits remained negative during 2015-2025, with small positive returns in some years

 $^{^{\}rm 46}$ WB (2022a); Dabla-Norris et al. (2019)

⁴⁷ Source: Economic Census (2005); SBP (2025a)

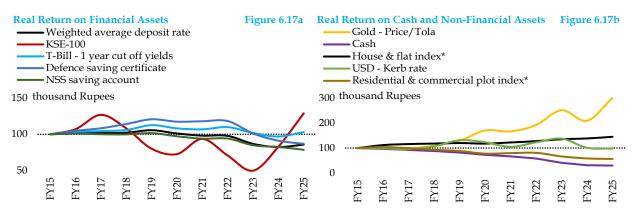
⁴⁸ Source: Labour Force Survey 2021

⁴⁹ CCP (2019)

⁵⁰ Afghan (2023); SBP (2019); SBP (2025a); SBP (2017)

⁵¹ Real returns are calculated using end of period values for each asset.

⁵² SBP Household Saving Behaviour in Pakistan 2021; Mohammed and Burki (2008)

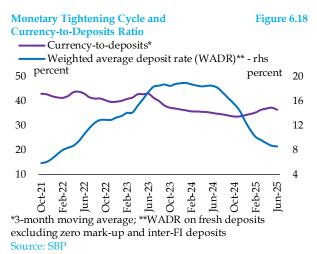


Note: Real (pre-tax) returns assuming initial saving of Rs 100,000 with returns (where applicable) reinvested every year. *Zameen Index for Karachi, Lahore and Islamabad; 4.5% rental yield assumed for houses & flats.

Sources: Haver Analytics, PBS, SBP, MoF, Zameen.com and SBP staff calculations

during this period. However, despite this trend, higher returns on bank deposits have attracted savings into the banking system, and led to a decline in currency-in-circulation (Figure 6.18). This echoes past research, which shows a strong positive relationship between domestic savings, and low inflation and positive RiR.⁵³

Similarly, challenges in financial inclusion, such as difficulty of access and gender gaps, are major concerns. The SBP's Pulse Survey 2025 on Savings shows that 45 percent of non-financial savers found it easier to save in cash, gold or property



and found the charges associated with FIs too burdensome.⁵⁴ These issues are compounded by low levels of financial literacy that impact the level of trust in financial institutions and markets among those who are financially excluded.

The SBP's Pulse Survey on Savings 2025 shows that around 34 percent of respondents, who majorly save in non-financial avenues, cited low trust in the financial system as a major reason for saving mostly in non-financial avenues.⁵⁵ Literature suggests that financial illiteracy perpetuates people's weak trust over formal institutions,⁵⁶ leading them to channel their savings in informal non-financial avenues instead. Furthermore, the SBP Pulse Survey 2025 shows that the respondents with lower education (below matric) have stronger preferences to save in cash and Rotating Savings and Credit Association (ROSCAs) compared to those with higher education (matric or above). This signals a need to step up efforts towards access and literacy to further financial inclusion (Figure 6.19a and 6.19b).

Lastly, there are complex and multidimensional reasons, such as cultural and gendered factors, behind preferences of informal saving avenues like gold, ROSCAs, and real estate.⁵⁷ Purchasing

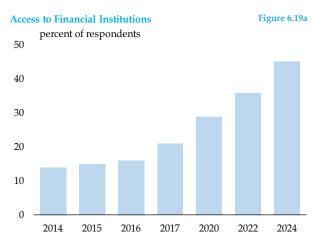
⁵³ Vincelette (2006)

 $^{^{54}\,}SBP$ Pulse Survey on Savings, 2025

⁵⁵ SBP Pulse Survey on Savings, 2025

⁵⁶ Di Giannatale Menegalli and Roa (2016); Mohammed and Burki (2008)

⁵⁷ ROSCAs are informal saving mechanisms through which a group of individuals pool money in regular intervals and assign turns for each member to receive a lump sum; it is colloquially known as 'Committees' or 'Beesees'.

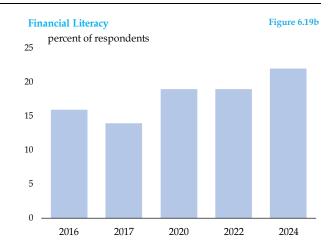




gold has deep cultural connections to marriage and female social security, especially in times of emergency. This security stems from greater autonomy and control over gold and jewellery, increasing its value in the context of social relations. Similarly, ROSCAs provide accessibility to women due to its use of social networks and reduced need for mobility. Informal savings function as safety nets, insurance products, and pension schemes in the absence of formal developed institutions for the same. For instance, research suggests that real estate may also be used as a means of securing an implicit assurance that children will stay and take care of parents in exchange for intergenerational transfer of property.⁵⁸ Liquidity at a short notice during emergencies are also a key motivation, which may drive demand for savings in livestock, cash, and ROSCAs, acting as informal substitutes for insurance products.59

6.4 Weak Financial Intermediation

Financial sector development is critical for sustained macroeconomic growth through enhanced formal financial savings, as it transforms dormant capital into productive investments. Developed financial systems reduce transaction costs, offer diversified saving



instruments (deposits, bonds, insurance, etc.) and mitigate financial risks through regulatory oversight and deposit insurance, which further incentivises households and firms to save formally. Moreover, different financial institutions cater to a variety of needs and preferences of savers and investors and offer a number of financial services and products.⁶⁰

Literature suggests that different types of financial institutions and financial markets complement each other. For instance, while savings through postal financial institutions help develop saving habit and culture, the banking sector provides foundational liquidity by attracting risk-averse savers through insured deposits and saving accounts. Banks then intermediate these funds into loans, fostering capital formation. Similarly, bond markets can enable long-term savings mobilisation for even up to 30 years. This funds necessary infrastructure and largescale industrial capacity enhancement while offering investment avenues for insurance and pension sector that has to plan for long-term payoffs. Finally, stock markets cater to high return seeking savers willing to absorb volatility. Together, these institutions and markets create a resilient and diverse system from which savers and investors of varying needs can benefit.61

⁵⁸ Kanth and Joubert (2025)

⁵⁹ Zulfiqar (2022); Mohammed and Burki (2008)

⁶⁰ Zhuang et al. (2009)

⁶¹ Haini (2019); Levine (2005)

This section highlights the structural weaknesses in Pakistan's financial sector that hampers its intermediation role. The banking sector struggles with low savings mobilisation due to a number of economic constraints, whereas its credit function is affected by crowding out by government borrowing and an overall unfavourable macroeconomic and policy environment. Capital markets have a shallow base, limited investor participation, and governance issues, constraining long-term financing. The penetration of insurance and pension funds remains low mainly due to historical lack of policy focus, whereas the discontinuation of Pakistan Postal Savings Bank despite its vast rural outreach reflects missed opportunities for inclusion, unlike successful postal models in peer countries.

Banking Industry: Facing Barriers to Mobilising Savings

The banking industry dominates Pakistan's financial sector in terms of assets and liabilities, which makes it the largest mobiliser of domestic savings. It is also the most preferred financial institution for formal savings across income levels (Figure 6.20). Over the last 40 years, the country's banking sector has seen significant infrastructural, policy and regulatory developments as well as

Saving Avenue Preferences - Low to High
Monthly Rupee Income Categories

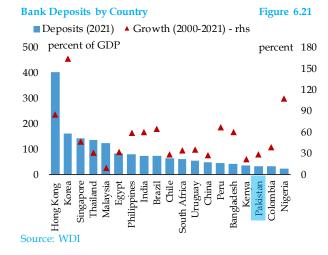
\$\bigsim <50,000 \bigsim 50,001-100,000 \bigsim 100,001-150,000 \bigsim >600,000 \bigsim >600,

Source: SBP Pulse Survey on Savings 2025

digitization efforts that took place in the early 2000s.⁶² However, there is still substantial room for improvement in the sector to become a vibrant conduit of financial intermediation.

On the deposit side, the number of bank accounts have more than doubled over the last ten years.⁶³ However, this growth has not notably increased the country's bank deposit-to-GDP ratio, which remains the lowest among peer economies (Figure 6.21). In fact, bank deposits to GDP has been declining since FY21, which suggests that the growth in banking deposits does not commensurate with economic growth, and that the newly opened accounts may be for transactional purposes rather than savings.

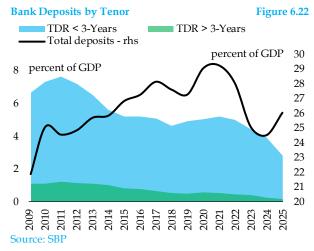
Moreover, the shifts in bank deposits' tenor composition reveal underlying changes in saving preferences and perceived economic risks. Recent data indicates a concerning decline in the proportion of term liabilities with tenures exceeding three years within the banking system's deposit mix (Figure 6.22).⁶⁴ This signals a shortening of savings horizon, likely driven by economic uncertainty and unattractive returns. This trend has negative implications for the availability of stable, long-term funding necessary for fixed investment loans and gross fixed capital



⁶² Pakistan underwent interest rate liberalization, removed quantitative controls, privatized public financial institutions and introduced market-based securities in early 1990s and began its digitization journey in the early 2000s.

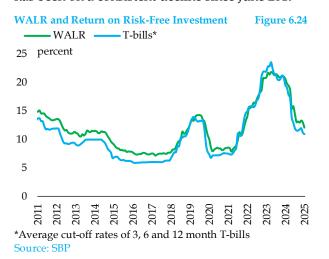
⁶³ The share of adult population with bank account rose from 16 percent in 2015 to 64 percent in 2023. Source: SBP (2025b)

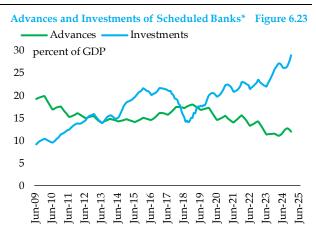
⁶⁴ The proportion of longer-term savings within the overall GDS structure serves as an indicator of household and business commitment to long-term savings goals and reflects confidence in future economic stability. Source: Husain (2005)



formation, potentially constraining future productive capacity, limiting growth in income and savings.⁶⁵

From the perspective of use of funds, it is clear that banks' asset allocation is overwhelmingly skewed towards risk free and high-yielding government securities (Figure 6.23).⁶⁶ The risk-free returns on government securities have fundamentally altered bank incentives. This is evident from disappearing spread between weighted average lending rate (WALR) and the rate on treasury bills in recent years (Figure 6.24). On the other hand, banks' advances-to-GDP ratio has been on a consistent decline since June 2019

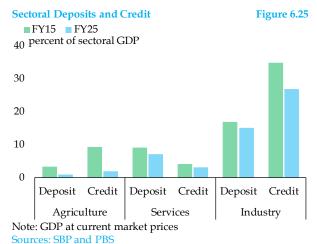




* 6-month moving average Source: Haver Analytics

and remains one of the lowest among peer economies.⁶⁷ On the whole, the banking sector has a significant intermediation gap, visible across agriculture, services and industrial sectors (**Figure 6.25**). This lends credence to the view that whilst the banking industry's problems may be driven by sector-specific issues, they are also rather structural in nature.

From the perspective of demand side of funds, the government's budgetary borrowing to finance its frequently large budget deficits crowds out the private sector. Sovereign exposure between December 2015 and March 2025 averaged at 85 percent of scheduled banks' total investments.⁶⁸



65 SBP (2023); Khan and Qayyum (2006)

⁶⁶ Share of government securities averaged about 85 percent of total banks' investments between 2015-2025.

⁶⁷ Pakistan's private sector credit to GDP ratio has averaged around 14 percent in last 10 years compared to LMICs' average of 44 percent and LICs' 12 percent.

⁶⁸ SBP Statistical Bulletins (Dec 2015 to Mar 2025)

However, that is only one side of the picture. Historical data of loan applications suggest that the loan amount demanded by would-be borrowers is not substantially higher than the amount actually loaned.⁶⁹

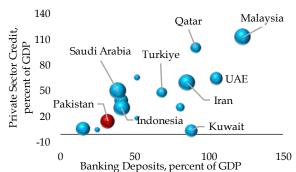
Credit demand for long-term investment is also constrained by an unfavourable macroeconomic environment amid declining potential GDP growth, uncertainty, and overall governance inefficiencies. In addition, there are some sectoral issues, such as those related to agriculture and housing loans that are affected by various supplyside concerns, including issues related to collateral, land titles /registry, land management, etc.⁷⁰

On the deposit side, as **Section 6.2 & 6.3** showed, consistently low or negative real returns have disincentivised savings and eroded the real value of financial savings. As a result, households and businesses shift savings towards inflation-hedging assets like gold and real estate. In addition, the imposition of WHT on non-cash banking transactions between 2015-2020, and on cash withdrawals since 2023, penalizes the usage of the banking channel, especially for lower-income individuals and small cash-based businesses that are already sensitive to banking fees and charges.⁷¹

Lastly, a host of surveys suggest that religious reservations about conventional interest-based banking affect both credit and deposits of a sizeable segment of the population. For instance, the Knowledge, Attitude and Practices (KAP) survey conducted in 2015 found that around 7.5 percent of respondents had reservations about conventional banking products on religious



Figure 6.26



Note: Based in 2021 data; size of the bubble reflects Islamic Finance Country Index with 1 being the lowest and 100 being the highest score.

Sources: Edbiz Consultancy and WB

grounds. Similarly, the Household Saving Behaviour in Pakistan (2021) found that 13 percent of respondents quoted religious concerns for voluntary exclusion from the banking system. Moreover, the SBP Pulse Survey on Savings 2025 showed that 35 percent of respondents saved informally due to religious concerns.⁷² The country's Islamic banking has gained significant grounds in terms of its share in total assets and deposits of the banking industry, and is expected to continue doing so in the wake of the ongoing transition to a Riba-free banking system. However, Pakistan's low bank deposits to GDP ratio among Muslim majority countries with varying degrees of financial sector development suggests (Figure 6.26),73 that habit formation may also be key to further financial inclusion in Pakistan.

Underdeveloped Capital Markets

A well-developed capital market plays a vital role in mobilising public and private savings, raising capital for non-financial and financial firms, and

⁶⁹ The difference between loan amounts demanded and accepted averaged about 0.26 percent of GDP during the last seven years. Even if one assumes that 50 percent of that were from technically sound loan applications (with acceptable credit risk profile) but were rejected in favour of government securities, the country's credit to GDP ratio would still have remained substantially lower than peer economies.

⁷⁰ SBP (2025a); SBP (2021a)

⁷¹ Husain (2023); Kemal (2022); SBP (2025a); and SBP Survey (2021)

⁷²Among other factors Lack of Awareness contributed 4 percent, 1.5 percent quoted Cost of Commuting to Banks, Cultural reasons were identified by 3 percent and Other reasons had a 2 percent share (Saleemullah et al. (2015); Zaman et al. (2017); Awan and Bukhari (2011); Household Saving Behaviour in Pakistan 2021; SBP Pulse Survey on Savings 2025

⁷³ The Islamic Finance Country Index incorporates number of institutions in Islamic finance industry, outstanding Sukuks, central Shari'a supervisory regime, regulatory and legal infrastructure.

channelling savings into productive uses. Capital market development can contribute to economic growth, with the primary channel being the efficient allocation of investment, enabling higher economy-wide productivity. It also complements the banking and insurance industries by enabling them to raise capital, allocate funds, and diversify risks. Moreover, a developed bond market for government securities can help reduce debt-service costs over the medium to long term.⁷⁴

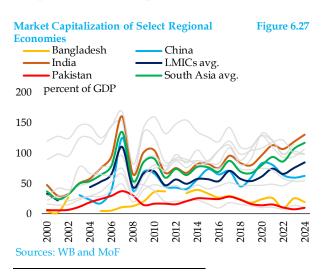
Pakistan's capital markets remain underdeveloped, and face a host of structural, regulatory and policy challenges amid concerning trends in market depth and access.⁷⁵ The capital markets' depth has declined, reaching levels on par with LICs average and falling below EM average.⁷⁶ For instance, the total market capitalization of Pakistan Stock Exchange (PSX) is significantly lower than that of regional and peer economies (Figure 6.27).

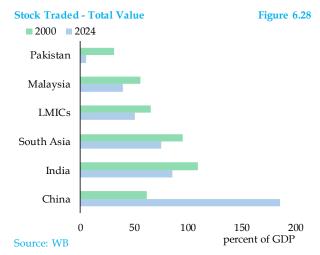
Similarly, stock trading in Pakistan is significantly lower compared to regional peers and countries with similar income levels (Figure 6.28). While market access — the ability of individuals and companies to access capital market services — has

improved over time, it remains limited compared to EMs and LICs, suggesting high barriers to entry for investors, businesses and foreign entities.⁷⁷

The primary markets for equities remain resource-constrained due to fewer yearly Initial Public Offerings (IPOs). The number of listed companies has declined from 725 in 2002 to 525 as of December 2024 (SBP, 2003; PSX, n.d.). Furthermore, from 2014–2023, only 43 companies raised capital at the PSX, compared to 76 IPOs last year alone in India (KPMG, 2024). Chaudhry (2019) notes that firms are averse to public listing due to fears of taxation, audits and disclosure requirements. This aversion, coupled with the cost of IPOs, has hampered the number of IPOs and the growth in amount of capital raised (Figure 6.29).

In the case of bonds, government-issued papers dominate the bond issuances, with corporate bond issuances remaining limited in comparison to peer economies (Figure 6.30) (ADB, 2022). Owing to lack of a vibrant bond exchange, the government is also unable to finance its budget deficit through the market, and instead mainly relies on banks.⁷⁸



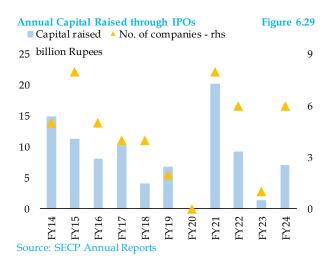


⁷⁴ Gregorio and Guidottim (1995); Estrada et al. (2010); IMF (2001)

⁷⁵ PIDE (2020)

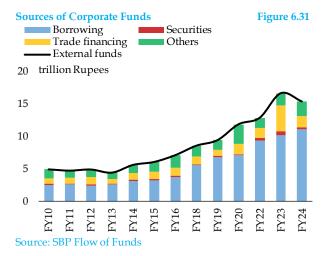
⁷⁶ Market depth is assessed through market size and liquidity indicators such as stock market capitalization, stocks traded, international public debt securities, total debt securities of financial and nonfinancial corporations to government as percent of GDP. ⁷⁷ Capital market access is composed of the percent of market capitalization outside of top 10 largest companies; and total number of issuers of debt.

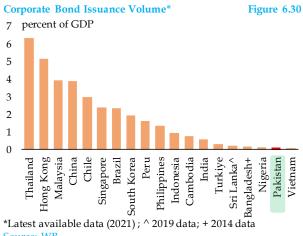
⁷⁸ WB (2023); WB (2022b); Uppal (2011)



Firm level data also suggests that the bond market remains shallow, as companies predominantly prefer bank borrowing over the issuance of corporate debt securities, such as Term Finance Certificates (TFCs) and commercial papers (Figure **6.31).** This preference is primarily driven by the high transaction cost associated with the primary issuance of corporate debt and the availability of funds from banks at favourable rates, particularly for firms maintaining long-term banking relationships. Additionally, the secondary bond market of TFCs is shallow due to a small number of issues; hesitancy among investors due to a lack of experience in trading bonds; and an absence of competition (Rehman and Khilji, 2017).

Moreover, in high-interest rate environment the preference for corporate debt as well as equities wanes in favour of government securities. Recent

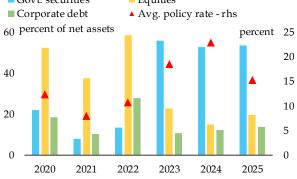




data on mutual funds' assets-under-management indicates that during periods of elevated interest rates, investments in government debt significantly overshadow those in corporate debt and equities (Figure 6.32). The pronounced responsiveness of corporate bond and equities to interest rate movement underscores the critical role of macroeconomic stability in fostering capital market development.

The capital market is also underdeveloped due to narrow investor base that hinders market liquidity. Low capital market penetration is striking, with only 5 retail investors per 1000 adults in Pakistan compared to Malaysia's 105, Thailand's 48, India's 33, and Bangladesh's 25 (SECP, 2020). While the mutual funds industry has seen notable growth in active unique investors, it still represents a relatively small





Note: Allocation ratio excludes cash from net assets Sources: MUFAP and SBP

segment of the country's overall financial sector. Institutional investors, such as mutual funds and insurance companies, dominate the investor base. They exhibit a buy-and-hold strategy, stifling liquidity in the secondary market.⁷⁹

Moreover, the investor base is thin amidst low levels of awareness and capital market literacy.⁸⁰ Pakistan's capital markets lack independent financial advisors who can guide investors effectively and impartially. Globally, independent advisors play an important role in expanding outreach and enhancing investor awareness.⁸¹

Governance and transparency issues have also dampened investor confidence in capital markets, further undermining its effectiveness and inclusivity (Khan and Rehman, 2021). Institutional investors and high net worth individuals have low trust in the market due to the legacy reputation issues, stemming from fraudulent broker activities, including defaults during 2000-2010. The stock market is dominated by a few large brokerage houses and their actions have substantial effect on the performance of the capital market. There is a perception that despite the demutualization of the stock exchange, a few big brokers still have significant influence. Moreover, insider trading is not properly regulated, leading to retail investors being at a disadvantage.82

Low Uptake of Insurance and Pension

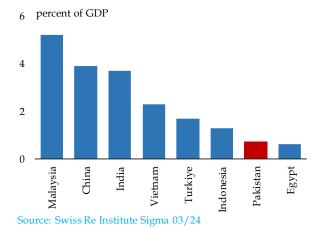
The insurance and pension industry is an integral part of the formal financial system given its strong links with banks, capital markets, public and private sector borrowers, as well as individuals and corporations. Their large and often long-term

investments make them a source of stability for the financial system, and a source of deficit financing for governments. They are also important for banks as sources of equity and long-term debt capital. For individuals and corporations, the insurance and pension industry act as a means of forced savings, protection against business/operational risks, personal health shocks, and income support for post-retirement years. 83,84

In Pakistan, the insurance industry has low penetration. The country's insurance premium as percentage of GDP, at around 0.7 percent, is one of the lowest among peer economies (**Figure 6.33**). Insurance density also presents a similar picture, at around US\$ 14 per capita in 2022, compared to US\$ 82 in India and US\$ 134 in Turkiye. The percentage of insured vehicles is also very low at 3 percent, compared to 89 percent in Uganda, 73 percent in Sri Lanka, 43 percent in India and 36 percent in Bangladesh.⁸⁵ Because of this underperformance, a vital source of long-term

Insurance Premium in 2023

Figure 6.33



 $^{^{79}}$ Abbas and Badshah (2017)

⁸⁰ Despite the SECP's Jamapunji awareness program and the establishment of PSX Knowledge Center, which provides investment courses, awareness webinar, and invaluable insights from market experts, the number of unique investor remains small.

⁸¹ SECP (2020)

⁸² PIDE (2020)

⁸³ ECB (2009)

⁸⁴ For most of human history, support of elderly was through intergenerational family assistance as well as joint and extended family systems. However, owing to economic and social transformation, the support for elderly is gradually waning even in countries like Pakistan, having collapsed in Europe, and other highly developed economies much earlier. Longer life span and fewer children is also contributing to this trend, thus furthering the importance of insurance and pension schemes. Source: Mamun and Hossain (2022)

⁸⁵ CCP (2025); SECP (2025)

savings is negligible, impairing the growth of investments at a macro level, and leaving households susceptible to shocks.

There are several reasons behind the current state of insurance and pension in Pakistan, the foremost of which relates to the regulatory environment. Countries that have succeeded in insurance reforms have done so by making insurance and pension mandatory.86 For instance, in several countries around the world, driving a vehicle is not possible without motor insurance. In Pakistan, the law on third party motor insurance exists but is not adequately implemented, owing to which the percentage of insured vehicles is negligible.87

Similarly, labour insurance is only compulsory for relatively larger businesses, whereas literature suggests that a bulk of businesses that are liable to insure labour through EOBI or provincial Employees' Social Security Institutions (ESSIs) evade that responsibility due to ineffective implementation. The coverage of mandatory health insurance is also not sufficiently wide, nor implemented across the board.88 With the exception of some recent state level programmes, such as the Sehat Sahulat Program, insurance and pension has lacked government focus, and is still not sufficiently embedded in macroeconomic policy. For instance, policy to curb informality is primarily seen from the lens of

taxation, rather than insurance or social security i.e. protecting millions of workers that remain susceptible to a variety of shocks such as health and income shocks, accidents of moveable or immovable property, etc.89,90

From an institutional perspective, the industry lacked government policy focus in the past. Until 2000, the industry was governed by the Controller of Insurance at the Ministry of Commerce, leading to fragmentation, and operational inefficiencies. In 2000, regulatory authority of insurance was transferred to SECP, which has since issued various rules, regulations, guidelines and directives.91

Another reason for the low penetration of insurance and pension is a lack of awareness. For instance, a majority of vehicle owners consider motor vehicle insurance as an unnecessary expense and have disregard for financial and legal consequences, especially if they have never been in an accident.92 Moreover, fatalistic mind-set prevails in large segments of society, which along with religious concerns, is major constraint to the take up of insurance and pension.⁹³

Insurance and pension is not necessarily a product that people desire. It is something that they need.94 The state will eventually have to provide for those needs. It should do that by developing a

⁸⁶ The bulk of non-life insurance in Pakistan is driven by banks (which require borrowers to insure their cars, plants, etc.) and exporting companies whose foreign buyers often demand labour insurance under fair purchase policies. Therefore, since bank lending is concentrated in large enterprises, small scale enterprises are not forced to seek insurance.

⁸⁷ Mahmood and Nasir (2008); SECP (2023a); Mamun and Hossain (2022)

⁸⁸ Ibid.

⁸⁹ According to LFS 2021, 72.5 percent of non-agricultural workers employed in the country are in the informal sector, with informality of labour in urban areas standing at 68.5 percent. Source: PBS (2021)

⁹⁰ An important evidence for low embeddedness of insurance in public policy is in the case of disaster management and agriinsurance. The cost of largest natural disasters is retained on government books and only negligible disaster risk insurance instruments has been set up. The limited insurance is not even inclusive with most of the premiums coming from corporate sectors, which remain the largest beneficiary of disaster risk insurance coverage (UNDP, 2024). Moreover, high level of unpredictability of disasters creates unwillingness on insurers' part, while the lack of certainty around insurance pay-out particularly in agri-insurance remains to be the key challenge in the development of disaster insurance market.

⁹¹ CCP (2024); This transfer of regulatory authority to non-banking financial regulatory authority is in line with institutional practises in Asia. However, some economies, such as India, Bangladesh and Sri Lanka have created independent insurance development and regulatory authorities. Source: NRF (2024)

⁹² SECP (2023a)

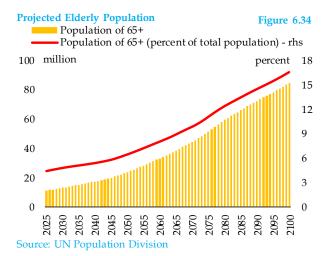
⁹³ Waheed (2009)

⁹⁴ According to SBP Pulse Survey 2025, 67 percent of respondents who saved said their main purpose of saving was precautionary for income/health shocks, and 42 percent said they were saving for retirement. This suggests a latent demand for insurance and pension products.

A host of legal and regulatory reforms are required, foremost of which is the expansion and enforcement of compulsory insurance and pension. Country experiences show that such measures require close coordination with provincial governments, because of their key role in implementation. For example, India, which had relatively low motor vehicle insurance in 2018, saw a significant rise when State and Union territories started periodical checks for insurance cover, and detained non-compliant vehicles. ⁹⁷ Similar reforms are needed in other insurance and pension markets, such as the EOBI and provincial ESSIs.

These reforms need to be complemented with a vibrant bond market for both government and private sector debt securities of longer tenors. This is important because insurance and pension industries have lifetime pay-outs, which require investments in bonds with long time horizons. This may also be a good opportunity for the government's debt office, as around 85 percent of the insurance industry's investments were in government paper as of 2023.98

The industry's development also requires awareness campaigns to address cultural and



religious misconceptions and raise public knowledge about the benefits of insurance and pension products. In this regard, Takaful's growth in the last 19 years appears to be promising. Having started in 2006, general Takaful already has an 11 percent share in the non-life insurance industry, and following the Federal Shariah Court Decision and Economic Transformation by 2027, the SECP is making efforts to further expand Takaful's share in the market.⁹⁹

Postal Financial Services: Missed Potential in Financial Inclusion

Postal networks continue to play a vital role in enhancing financial inclusion and mobilising household savings globally, particularly among rural, low-income, and traditionally underserved population. The effectiveness of postal banks lies in several common traits: government-backed security, widespread accessibility, low-cost entry, and public trust. Even when their contribution to a country's total financial savings is low, postal financial services play a key role in promoting the habit and culture of saving. In countries like Japan, India, China, and France, postal savings institutions do not only mobilise large-scale public

⁹⁵ SBP staff calculations based on UN Population Division.

⁹⁶ For context sake, the old age population in 30 years is expected to be more than entire current population of Sri Lanka, and around thrice the current number of BISP beneficiaries (9.87 million beneficiaries up to 31st March, 2025). Source: UN Population Division; MoF (2025).

⁹⁷ SECP (2023a)

⁹⁸ SECP (2023b)

⁹⁹ SECP (2025)

Japan, Korea,

(after PSBC)

Germany, China

state Bank of Pakistan	
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Table 6.2

Name of PSB Model	Banking Powers	Ownership/oversight	Role of Post Office (PO)	Credit Function	Example Countries
Postal Savings department/ Bureau	No	Postal Dept.	Full operational base	No	China (pre-PSBC)
National Savings Org + PO Savings Bank	Partial	Govt. & Postal Dept.	PO provides operational base and outreach to National saving organization	No	Pakistan (till 2021- 22), India
National Savings Bank Model	Yes	Independent from Post office	PO works as agent for PSB	Yes	Sri Lanka
New Postal Start-ups in	Limited	Transitional (various arrangements are being made under government or Post	Currently evolving	Rare	Mongolia, Laos

under government or Post

Banking corporation with an

independent board under the

central bank regulations

offices)

Source: Scher and Yoshino (2004)

Transition

Post Bank Model

Postal Saving Bank (PSB) Models in the World

savings but also supports economic development in rural and underserved areas.¹⁰⁰

Yes

For instance, Japan Post Bank (JPB), one of the world's largest postal savings institutions, holds about 20 percent of Japan's household deposits through a combination of liquid and term saving products backed by government guarantees. In China, the Postal Savings Bank of China (PSBC) – institutionalized in 2007 but rooted in a legacy of postal savings since 1919 - manages an estimated 10.7 percent of household personal deposits. In France, La Banque Postale – Postal Saving Bank operating under La Poste – had 10.8 percent of its household saving deposits in the country in 2024. India Post Payments Bank mobilised an estimated 2 percent of India's household savings deposits held with all scheduled commercial banks in 2023, despite having an upper cap restriction on one of its Regular/Premium savings account. Nevertheless, it has played a key role in habit formation.¹⁰¹

Globally, various postal financial service models have been adopted, and have evolved over time. For instance, Japan and China initially operated under postal service departments with limited mandates – primarily collecting deposits without offering credit. However, both countries restructured their postal financial models in 2007, transitioning their postal organizations into fully licensed banks under central bank regulation, enabling them to provide both savings and credit services (Table 6.2).

Yes

Provides full banking

services

In Pakistan, the Pakistan Post Savings Bank (PPSB) worked as a department of the Pakistan Post prior to its closure in 2021–22. The PPSB played a significant role in advancing financial inclusion and mobilising national savings, particularly for underserved populations. At the time of its closure, PPSB had around 1.9 million individual savings accounts, compared to the average of 5.7 million (savings accounts) of 35 scheduled banks. 102 It held around Rs 108 billion in deposits, and an additional Rs 12 billion in savings certificates. 103 While this was below the scheduled banks' average savings deposit of Rs 234 billion, it still reflects sizeable resource mobilisation, considering that PPSB was able to garner this amount from diverse and underserved segments and geographies.

In 2021, PPSB was offering both account-based and certificate-based saving products only through its 2,783 main branches/sub-offices—in

¹⁰⁰ Ahmed et al. (2020); UPU (2023); WB (2021); WB (2006); ADB (2018)

¹⁰¹ JPB (2024); PSBC (2024); La Poste Group (2024) and BdF (2024); RBI (2023); MoF (2024)

¹⁰² PP (2022); SBP (2021b)

¹⁰³ Pakistan Post managed Rs 108 billion in savings bank deposits for the Government of Pakistan, while Rs 12 billion in savings certificates were held on behalf of CDNS.

mainly urban clusters — of Pakistan Post. These main branches/sub-offices were more than the branch network of any scheduled bank in 2021, or even today. This extensive reach positioned PPSB as a key instrument for promoting savings. These main branches/sub-offices are a part of Pakistan Post's large physical infrastructure comprising of 13,419 branches, 87 percent of which are located in rural and semi-urban areas. This gives Pakistan Post the most extensive geographic footprints in the country. The size of its entire branch network was equivalent to the combined branch network of Pakistan's 15 largest banks in 2021.

With adequate policy support, targeted investment, and institutional restructuring to transform PPSB into the Postbank Model, this vast branch network could have been strategically leveraged to offer savings products all across the country. However, it was unable to evolve to that stage, due to concerns by the Financial Action Task Force (FATF) regarding AML/CFT compliance, citing the lack of digitised financial transactions within the PPSB. In response, and to mitigate the risk of remaining on the grey list, the Government of Pakistan decided to phase out PPSB and directed Pakistan Post to transfer depositors' savings to the Central Directorate of National Savings (CDNS). 104

Building on PPSB's historical role and extensive outreach, its operational discontinuation underscores critical institutional and regulatory gaps that demand targeted reform. Chief among these is the digitalization of Pakistan Post's vast branch network. This will help address the long-standing compliance concern by FATF. For this, Pakistan Post (in 2015) had initiated a project for its automation with the support from a loan provided by the EXIM Bank of Korea obtained in 2022. ¹⁰⁵ In this regard, it might be worthwhile to consider complementing Pakistan Post's digitalization with a shared KYC portal to help

streamline processes and offer greater ease to consumers across all financial sector touchpoints.

However, digitalization efforts need to be complemented by structural governance reforms. This may include restructuring of the PPSB itself, such that it leverages Pakistan Post's physical infrastructure, but reports to the Ministry of Finance instead of Ministry of Communications. The latter may help anchor PPSB within a more relevant and credible policy and regulatory framework. Over time, with focused efforts, such as digitalization and improved governance, PPSB may also be transformed as a dedicated banking or non-banking financial institution under respective regulations.

6.5 Final Remarks

Pakistan's low domestic savings has been a consequence of an unfavourable macroeconomic environment, market and policy distortions, and inadequate focus on development of financial markets. Pakistan's per capita income has not grown consistently, with frequent episodes of high inflation eroding existing savings. This has been exacerbated by market distortions and an underdevelopment of the formal financial sector, which have inhibited the growth of financial savings, leading to mushrooming informal markets that have been largely speculative and unproductive. In the absence of strong domestic savings, Pakistan has been over-reliant on foreign savings, fuelling periods of high but unsustainable consumption-led growth.

Pakistan's domestic savings is the lowest among the cohort of countries with similar macroeconomic characteristics — such as low middle income, low levels of financial development, and high inflation, youth dependency and informal economy. This reflects both an interplay of these macroeconomic

¹⁰⁴ Pakistan was placed on the FATF grey list in June 2018, with over 40 recommendations – 14 of which concerned Pakistan Post. To avoid FATF grey list, the Government of Pakistan in November 2020, decided to close the Savings Bank operated by Pakistan Post and initiated its transfer to the Central Directorate of National Savings (CDNS).

¹⁰⁵ MoF (2023)

characteristics as well as a weak culture and habit of savings. Either way, it is important that the state takes holistic and urgent policy measures to increase savings. The growth in savings can be driven by a consistent rise in per capita income, stable prices, and greater public sector savings. These must be complemented with key structural measures, such as slowing the pace of population growth, reducing youth dependency and investing in human capital.

In addition to these socio-economic factors, a policy focus toward formalising the economy, and savings is paramount. Anecdotal evidence and estimates indicate the presence of a sizable informal economy, with a commensurate pool of informal savings. These are the result of various perverse incentives and policy distortions that drain the formal economy of key drivers of growth, such as loanable funds to the private and public sector. To channelize these funds into the formal sector many interventions are needed, chief of which are enhancing the presence and penetration of financial sector.

Policy focus is needed to improve the attractiveness of financial savings in terms of returns, accessibility and ability to adapt to the needs and motivations of diverse working age population. As things stand, a lack of agility and innovation is illustrated through a low and falling bank deposit to GDP ratio that has not kept pace with peer economies. Similarly, capital markets remain shallow with a small investor base and a limited number of equity and debt financing activities. Likewise, low insurance premium to GDP, compared to peer economies, also showcases the lack of penetration of formal financial saving institutions.

Formal financial savings can be increased through systematic reforms and innovations in each of these financial markets. For example, postal banking illustrates great potential in tapping into underserved areas for formal saving. The past record of PPSB, along with successful models of postal saving institutions in many countries should provide the impetus to accelerate GDS

growth, and develop a habit of savings. Cross-country examples also show the importance of forced savings — such as compulsory insurance and pension schemes — to promote a culture of savings in the economy.

Moreover, there is a need to develop a market for financial advisors and planners who consult on financial planning decisions across asset classes. Additionally, the banking sector must move away from lazy banking, and instead work towards credit, and deposit mobilisation. Both of these areas require greater real returns offered by the banking sector and an expansion of banking services/products. Tax policy distortions, such as WHT on the banking sector, also have to be rolled back to accelerate financial inclusion.

Ensuring a consistent growth in savings requires a concerted policy effort, underpinned by deeper understanding about saving behaviours. In addition to resolving the multiple distortions that combine to hamper savings in Pakistan, attention should also be paid to qualitative factors that underlie saving culture and behaviours. In the context of Pakistan's informal economy, there is a need to reconsider the policy mind set. Instead of mainly focusing on punitive measures, market distortions and disincentives to formal economy must be removed.

It is equally crucial that facilitative steps are taken to incentivise formal savings, rather than increasing the appeal to save or speculate in informal non-financial markets. To this end, key policy and regulatory reforms in real estate and gold markets can reap dividends. This can be aided by innovations, such as fractionalised instruments for gold and real estate (e.g. Real Estate Investment Trust (REIT) and gold funds). In this regard, it is important that a holistic savings roadmap is created which details key long-term steps to grow domestic savings. This must be supported by micro-interventions to raise financial literacy, create saving culture, improve accessibility, and trust in formal financial services, to be able to consistently enhance domestic saving in Pakistan.

Box 6.1: Official Measurement of Savings in Pakistan: Methods, Challenges and Peer Practices 106

Measuring savings is conceptually straightforward but empirically challenging. The difference in institutional capacity; data limitations; and classification practice across countries make cross-country comparison difficult. For this reason, this Box compares various methodologies to compute savings, while identifying the challenges to its measurement. It also identifies best practices in peer economies, consideration of which can improve the data generating process.

There are two main methods of computing national savings in any economy. The first, is called Commodity Balance Methodology (CBM), which measures aggregate savings based on national and current accounts; and the second method is Capital and Financial Balance Methodology (CFBM) which, as the name suggests, computes savings as the change in net wealth derived from the Flow of Funds Account (FFA). Theoretically, final estimates from both methods ought to reconcile. However, in practice, in several economies, the estimates from both methods differ — sometimes by wide margins—as capital transfers and capital gains and losses from inflation and exchange rate remain unaccounted for in CFBM method in many cases.

Commodity Balance Methodology: The CBM method relies on two saving identities. As per the first identity, gross savings is measured as per the System of National Accounts (SNA 2008), which defines gross national savings as the proportion of disposable income not spent on final consumption. ¹⁰⁷ As per the second identity, gross national savings are measured as gross capital formation minus foreign savings (the reverse of current account balance), ¹⁰⁸ with the latter taken from balance of payments data. The domestic savings are then calculated by subtracting net factor income from abroad (NFI) from national savings. Public savings is the addition of public investment (i.e. GCF minus gross private capital formation) and overall fiscal balance. ¹⁰⁹ Finally, private savings is just the residual between gross domestic savings and public savings. Therefore, the way in which public savings is estimated is of crucial importance.

<u>Capital and Financial Balance Methodology:</u> This method is based on the notion that any sector's net savings must be reflected in the accumulation of some capital and financial assets; thus the aggregate savings can be computed by tracking the sectoral accumulation of the assets. Relying on FFA, this method imposes significant data requirements and costs, including detailed information on balance sheets of households, the non-financial sector, financial corporations, the general government, and the rest of the world.¹¹⁰

The FFA presents each sector's accumulated financial assets and liabilities, the balance of which is the sector's net lending and borrowing. The capital account presents the accumulation of non-financial assets that makes up the difference between a sector's net lending and borrowing and its savings. Thus net lending based on financial account coupled with data from the capital account, provides an independent estimate of sectoral savings.

Key challenges to measuring savings in Pakistan: The measurement of macro variables such as national income, consumption and investment is beset with various challenges, which cause underestimation of income and, as a result, underestimation of national savings. This is despite recent improvement in compilation and estimation techniques of national income accounts. ¹¹² In practice, Pakistan measures production directly, and then estimates final consumption as a residual. Because total consumption is a large item, the residual approach to measure

 $^{^{106}}$ The box draws heavily on Schmidt-Hebbel, K., & Servén, L. (1999). Developing detail methodology for measuring savings, it discusses both conceptual and practical challenges in estimating savings in typical developing economies such as Pakistan. 107 UN (2009)

¹⁰⁸ The current account balance reflects the saving-investment gap in an economy. When investment exceeds national savings, the shortfall is financed through foreign savings. Thus, the current account balance is equal in size but opposite in sign to foreign savings: a deficit signals a net outflow of resources matched by foreign financing inflows, while a surplus indicates the reverse.

¹⁰⁹ The implication of public savings identity is if the levels of public investment or gross public capital formation remains the same, the increase in fiscal deficit will erode the savings; in some peer economies, public savings are directly computed using current government receipts minus current outlays. MoSPI (2007)

¹¹⁰ Schmidt-Hebbel, K., & Servén, L. (1999)

 $^{^{111}}$ Flow-of-Funds accounts (FFA), as typically produced by central banks, distribute savings (estimated by PBS) across sectors. The FFA has two accounts: financial and capital.

¹¹² PBS (2023)

consumption materially affects measured savings. Moreover, since direct estimates of savings are lacking in Pakistan, unlike in India, a double residual approach is employed for gross national savings. First, national savings is estimated as a residual (using CBM) after subtracting final consumption from disposable income. Subsequently, another residual is calculated to arrive at private and household savings by subtracting public savings (which is a known number) from national savings.

There are also various limitations to practicing the CFBM in Pakistan. In the financial account, corporate and government savings are estimated from banking sector and data of public listed companies, and fiscal data, whereas household savings — which forms the largest share of Pakistan's GDS—continue to be measured indirectly as a residual between gross national savings estimates and corporate and government savings estimates from financial accounts, highlighting the limitations of the current statistical infrastructure. Additionally, the capital account is made to be consistent with the savings data from the commodity balance accounts, due to the absence of independent estimation of non-financial assets flows.¹¹³

Beyond statistical limitation, the measurement of savings is further complicated by deep-rooted structural challenges. The presence of large informal economy in Pakistan; inadequate public sector coverage; tax-evasion; and illegal activities cumulatively lead to substantial under-estimation of income and, thus, savings. Moreover, the unreported large-scale outflow of private capital adds to measurement problems of private and national savings, as does the misinvoicing¹¹⁴ of imports and exports (Kazmi, 2001). In some periods, the official statistics on corporate savings have also relied on fixed assumption, such as setting corporate savings at 2 percent of GDP, constraining accuracy. ¹¹⁵

Comparative insights from peer countries: Experience from peer countries offer useful lessons for improving Pakistan's approach. India, with a more robust framework, splits the responsibility for estimating savings between India's National Statistical Office (NSO) and the Reserve Bank of India. The division of responsibility across agencies reduces administrative burden on any single institution. Moreover, Indian agencies track sectoral transactions to directly estimate savings as against the indirect method used in Pakistan. For instance, household savings are independently estimated as the sum of financial savings. 116,117

Similarly, New Zealand's approach to measurement of savings relies heavily on the regular use of surveys that complement national income accounts. This includes the triannual Household Economic Survey that provides detailed micro-level data on income, expenditure, assets, and liabilities, which help refine and validate national saving estimates. In addition, New Zealand's Annual Enterprise Survey, and Population Census (conducted every 5 years) gauges sectoral corporate performance and household physical assets respectively, which translates into more accurate corporate and household savings estimates (Gorman et al., 2013).

Despite the limitations of Pakistan's approach, savings estimates remain indispensable. They provide the only official measure to capture the capacity to mobilise domestic resources and savings-investment gap. These statistics are central to policy analysis and offer crucial insights into determining how much of national investment is financed domestically as against foreign capital inflows.

* The contribution of Abdul Jabbar is acknowledged in writing this box.

¹¹³ Schmidt-Hebbel, K., & Servén, L. (1999)

¹¹⁴ Qureshi & Mahmood (2015) finds that under-invoicing of imports is mainly motivated by the desire to evade import tariffs, whereas over-invoicing is mainly for the purpose of flight of capital. Similarly, under-invoicing of exports is mainly to shift taxable income out of the country, whereas over-invoicing of exports is mainly for the purpose of availing export subsidies and tax credits from the government.

¹¹⁵ SBP (2013)

¹¹⁶ The investment in financial savings comprises currency, net deposits, shares and debentures (including mutual funds), net claims on the government in the form of small savings, investment in central and state government securities, life insurance funds and provident & pension funds.

¹¹⁷ MoSPI (2007)

Box 6.2: Drivers of Savings in Pakistan

Several past studies¹¹⁸ identify gross national income – growth or income per capita – real interest rate, dependency ratio, financial intermediation, fiscal stance, etc. as the major determinants of domestic savings in Pakistan.¹¹⁹ Some studies have also examined the roles of terms of trade, trade openness, uncertainty, income inequality, and remittances. However, most of these studies were based on static analysis, exploring a limited number of variables as determinants of savings in Pakistan. Furthermore, almost all the studies are dated; the latest study – Akram and Akram, (2016) – relied on data until 2020.

Long-Run Resul	ts		Tal	ole 6.2.1
Variable	Coefficient	Std. Error	t-Statistic	Prob
LGDS	0.05	0.15	0.31	0.76
LGNI	0.49	0.28	1.73	0.10
M2GDP	-0.04	0.01	-4.97	0.00
YDPR1	0.06	0.02	3.60	0.00
RINT	0.03	0.01	2.24	0.03
FDGDP	-0.06	0.02	-2.69	0.01
LSST	1.77	0.57	3.10	0.01
LUNCTY	0.10	0.03	3.01	0.01
GINI	0.04	0.03	1.46	0.16
CCM2	-0.03	0.01	-2.36	0.03
C	-18.67	4.24	-4.40	0.00
Adj R-squared	0.71			

Source: SBP staff estimates

In this backdrop, this Box attempts to explore the determinants of gross domestic savings (GDS) in Pakistan using the Auto-Regressive Distributed Lag (ARDL) approach on annual data spanning from 1980 to 2024. 120 The estimation model also attempts to control for the impact of literacy – number of students in secondary education (SST), income inequality (GINI), and informality measured by currency-in-circulation to M2 ratio (CCM2), besides examining standard macro determinants of savings. The macro factors include gross national income (GNI), real interest rate (RINT), fiscal policy stance (FDGDP), financial development is proxied through broad money to GDP ratio (M2GDP), Young Dependency Ratio (YDPR) and uncertainty measured by Uncertainty Index (UNCTY).

The long run and short-run estimates are presented in **Table 6.2.1** and **Table 6.2.2**, respectively.¹²¹ The estimated results covering macroeconomic environment, demographic factors, and financial development along with informality are broadly in line with the literature. As shown in **Table 6.2.1**, the lagged savings to GDP ratio has positive but insignificant coefficient, which indicates the absence of inertia and persistence in domestic savings in Pakistan.

The positive and statistically significant results for GNI both in the long and in short-run reveal that the behaviour of domestic savings is pro-cyclical and thus confirms the existence of life cycle hypothesis. In line with the findings of Loayza et al. (2000) and Ferrucci and Mirralles (2007), the estimation shows that 1 percent increase in income may

raise domestic savings by 0.49 percent and 3.66 percent in the long run and short run, respectively.¹²²

As expected, the estimated coefficients for fiscal stance are negative, statistically significant in the long-run but insignificant in short-run. The estimates show that a 1 percent increase in the fiscal deficit to GDP reduces domestic savings by 0.06 percent in the long run. The estimate is close to 0.077 percent found by Hafeez and Sajid (2021). Similar results are reported in Edwards (1996) for 36 countries;¹²³ Simliet et al. (2011) and Loayza et al. (2000) for South Africa; and Ozcan et al. (2010) for Turkiye. These results suggest that fiscal consolidation is expected to raise savings in the long run.

Short-Run Resul	ts		Ta	able 6.2.2
Variable	Coefficient	Std. Error	t-Statistic	Prob.
ECT*	-0.95	0.09	-11.22	0.00
LGNI	3.66	0.29	12.85	0.00
M2GDP	0.04	0.01	5.79	0.00
FDGDP	-0.02	0.01	-1.41	0.17
LSST	0.97	0.37	2.64	0.01
LUNCTY	0.04	0.01	4.19	0.00
LUNCTY(-1)	-0.04	0.01	-3.68	0.00
CCM2	0.07	0.01	6.47	0.00
CCM2(-1)	0.06	0.01	4.02	0.00
Adj R-squared	0.80			

* error-correction term Source: SBP staff estimates

¹¹⁸ Khan (1993); Nasir and Khalid (2004); Ahmad et al. (2006); Asghar and Nadeem (2016); Akram and Akram (2016); and Hafeez and Sajid (2021).

¹¹⁹ Hafeez and Sajid (2021) also found a significant impact of agriculture output on national savings in Pakistan.

¹²⁰ The ARDL approach help estimate the short-run and long-run relationships between variables.

¹²¹ Assumptions of both Homoskedasticity and normality are confirmed through Breusch-Pagan-Godfrey and Jarque-Bera tests, respectively. Lastly, stability is also ensured by using the CUSUM of Square test.

¹²² The estimated Marginal Propensity to Save (MPS) based on these elasticities are 0.05 and 0.26 for long and short run, respectively.

¹²³ Consisting of Latin American, Asian, African and industrialized economies.

Moreover, as outlined in theory, real interest rate has positive and statistically significant impact on savings, which is in line with Ahmad et al. (2006). These findings suggest that the substitution effect outweighs the income effect in the long run. This implies that the substitution effect causes households to respond to an increase in real interest rates by increasing personal savings instead of raising consumption expenditure.

Unlike the real interest rate, financial development, measured by money supply to GDP ratio, negatively affects gross domestic savings in the long run. These are in contrast to past studies but consistent with the estimates for emerging market economies (Ferrucci and Mirralles, 2007), suggesting that relaxation of credit constraints through the process of deregulation and innovation may reduce savings in the long run. However, as shown in **Table 6.2.2**, financial development significantly increases domestic savings in the short-run, which are in line with the results in Ozcan et al. (2010).

Contrary to theory and findings of earlier studies on Pakistan as well as for other economies, the domestic savings are found to rise with the increase in youth dependency ratio. Pakistan's youth dependency ratio is currently at 62 percent (2024) is currently classified as "high" as per Bloom et al. (2003); however, it has been reducing since the year 2000, prior to which it averaged 83 percent during the preceding two decades. This downward co-movement between savings to GDP and dependency ratio could be the confounding factor in this regard. Among other social variables, domestic savings are found to be positively associated with literacy and income inequality. The results suggest that domestic savings increase by 1.77 percent in response to a 1 percent increase in the number of students in secondary education. Similarly, increase in income inequality is associated with higher savings. This is because usually low-income households have a high propensity to consume and redistribution tends to increase overall consumption in the economy. Prinsloo (2000), based on various household expenditure surveys, also concludes that uneven income distribution is likely to raise savings in the economy.

The impact of informal economy in the context of saving behaviour cannot be over emphasized especially for developing countries. Measured by currency to M2 ratio, an increase in the size of informal economy in Pakistan may increase savings temporarily; nevertheless, it causes reduction in savings in the long run. The findings indicate that an expansion in the size of informal economy persuades households to reduce their bank deposits and therefore savings in the long run. Lastly, the uncertainty is found to be positively associated with savings both in the long and short run. The estimated results reveal that higher uncertainty induces people to save for precautionary motives. The results are consistent with Loayza et al. (2000) however; they measure uncertainty by using inflation rate.

*The contribution of Shah Hussain is acknowledged in writing this box.

Box 6.3: Approximating Informal Savings in Pakistan

Both economic literature and anecdotal evidence suggest strong preference for informal savings in Pakistan, compounded by the economy's large informal sector. However, estimates of informal savings are scant and in some cases rather dated. This Box attempts to fill that gap by providing updated estimates for the informal economy, along with approximating the potential of informal savings in Pakistan's economy.

A host of research on household saving behaviours in Pakistan has found a sizable prevalence of informal savings, with multiple surveys indicating a strong preference among respondents towards informal channels. For instance, the SBP Saving Behaviour Survey in 2021 found that 55 percent of respondents saved at home and 37 percent saved in an informal committee (ROSCA).¹²⁴ Similarly, in a study conducted on young urban savers, 33.5 percent of respondents used gold and real estate as a means of saving.¹²⁵ Likewise, the latest SBP Pulse Survey on Savings in 2025 —with a majorly urban educated population—found that 29 percent of respondents, who saved, allocated half or more of their savings was in cash, moveable/immoveable property, or committees. These surveys on individual and household preferences complement earlier studies on the estimated size of informal savings. For example, Hook (1997) postulated that it is possible that informal savings could be 4-5 percent of GNP in Pakistan. Vincelette (2006)

 $^{^{124}}$ This question allowed multiple selections so this represents percent of respondents who make use of this mode of saving; it is not an indication of exclusive use.

¹²⁵ Ghaffar and Sheikh (2025)

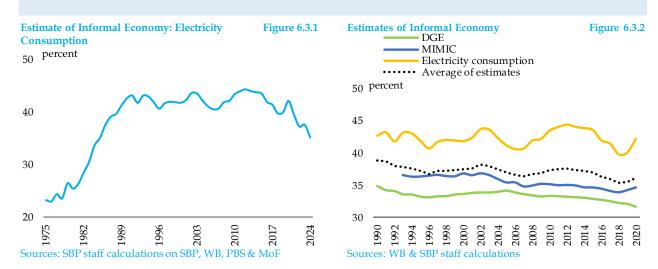
found that investment financed from informal sources in Pakistan could be around 2.8 percent of GDP, while Shah and Sohail (2020) approximated that Rs1,583 billion (4 percent of GDP) may not have been captured by financial institutions in 2019.

Estimation of informal economy and informal savings:

Informal savings by its nature is difficult to capture, due to the hidden and obscured channels through which it operates. Moreover, the informal economy exacerbates the difficulty of these estimations, as it further serves to mask actual savings in the economy. This complicates estimating informal savings because informal economy itself can be estimated through a variety of methods, creating variability. As a result, estimates can range widely depending on the technique and assumptions used. For instance, estimates from various studies for informal economy in 2010 ranged from 18.2 percent to 47.6 percent. 126

<u>Informal economy</u>: Following Arby et al. (2008),¹²⁷ the informal economy is estimated at 38 percent in 2023 and 35 percent in 2024, using the electricity consumption approach (**Figure 6.3.1**). In consideration of the fact that there are multiple ways to estimate the size of informal economy,¹²⁸ these estimates have been compared to those based on other approaches: Multiple Indicators Multiple Causes (MIMIC) and Dynamic General Equilibrium (DGE). Existing MIMIC and DGE based estimates have been taken from the World Bank.¹²⁹ The average of all these estimates for the informal economy from 1990 to 2020 is around 37 percent of formal GDP (**Figure 6.3.2**), which is in line with the latest estimates for 2023 and 2024 mentioned above.

<u>Informal saving:</u> Two methods have been employed to arrive at a crude number for informal savings. The first method employs estimates for the informal economy and applies the economy's private saving rate to find informal savings. ¹³⁰ For the sake of simplicity, it is assumed that the saving rate of the informal economy mirrors the formal sector and that all savings in this market are saved informally. ¹³¹



¹²⁶ Source: Kemal and Qasim (2012)

 $^{^{127}}$ The electricity consumption approach has been amended to augment the base year with an initial estimate of the informal economy.

¹²⁸ Established methods for estimating the informal economy include Multiple Indicators Multiple Causes (MIMIC), Monetary Method, Dynamic General Equilibrium (DGE) and Electricity Consumption. Each of these methods has distinct advantages and shortcomings, which is why an average has been taken of each estimate. Source: World Bank ¹²⁹ Elgin et al. (2021).

 $^{^{130}}$ The rate of private saving (as against GDS) is applied on the assumption that informal GDP is almost entirely in the private sector.

¹³¹ This assumption partly stems from definition since informal economy means and includes income from economic activities outside the taxation and formal financial system, and partly from economic literature and anecdotal evidence which suggests that income from informal sources are mostly saved informally e.g. in gold, real estate, etc.

State Bank of Pakistan

Approximating Info	Table 6.3.1			
Calculation	Indicator	Value		
	Method 1: Private Savings			
	1. Assuming all private savings are saved informally			
A	Informal Economy Estimates – 2023	24,635 billion Rupees		
$A \times 18.3\% = B$	Assuming saving rate of 18.3 percent	4,508 billion Rupees		
B/GDP	% of Real GDP - National Accounts	11 percent		
B/Estimated GDP	% of Real GDP - Estimated	7 percent		
2. Private savings after subtracting worker remittances				
A	Informal Economy Estimates – 2023	24,635 billion Rupees		
$A \times (18.3-8.1\%) = B$	Assuming saving rate of 10.2 percent by removing worker remittances (8.1 percent) from private savings	2,513 billion Rupees		
B/GDP	% of Real GDP - National Accounts	6 percent		
B/Estimated GDP	% of Real GDP - Estimated	4 percent		
Method 2: Household Savings				
A	Household Saving per capita -2023	26,983 Rupees		
A/84.8% = B	Saving per capita (assuming 15.2 percent informal savings)	31,819 Rupees		
A - B = C	Informal Saving per capita	4,836 Rupees		
$C \times Population = D$	Informal Saving in economy	1,168 billion Rupees		
D/GDP	% of Real GDP – National Accounts	3 percent		
F/Estimated GDP	% of Real GDP - Estimated	2 percent		

Source: SBP staff calculations

Applying the private saving rate of 18.3 percent (in 2023) for the informal economy (assumed at 38 percent of GDP as per estimates above), informal savings are approximated to be Rs 4,508 billion in 2023. This equals to about 11 percent of formal real GDP and 7 percent of the estimated total real GDP, inclusive of estimated informal economy.

Moreover, since private savings include workers' remittances, which according to some studies are mostly channelled towards consumption, ¹³² it is instructive to subtract workers' remittances from private savings to estimate informal domestic private savings. Accordingly, after subtracting workers' remittances of 8.1 percent of GDP (2023) from the private saving rate of 18.3 percent, the private saving rate may be adjusted downward to 10.2 percent. Applying this rate to the estimates of informal economy (38 percent) yields informal domestic private savings estimates at Rs 2,513 billion in 2023. This equals about 6 percent of formal real GDP and 4 percent of estimated total real GDP, inclusive of estimated informal economy (**Table 6.3.1**).

The second method relies on household savings taken from the SBP's flow of funds tables, which is the major portion of savings in Pakistan, along with survey evidence to find informal household savings. To this end, household savings is taken as a proxy to arrive at a value of savings per capita. This is then increased by a factor of 15.2 percent to arrive at total savings, ¹³³ inclusive of informal holdings. This translates to Rs 4,836 per capita of unrecorded savings, which is 18 percent of recorded household savings (**Table 6.3.1**). This equals 3 percent of formal real GDP and 2 percent of the estimated total real GDP.

These estimates suggest that informal savings in Pakistan range between 3 to 11 percent of formal real GDP; and 2 to 7 percent of the estimated real GDP, inclusive of informal GDP.

Limitations:

These results are meant to be indicative in nature and a means to illustrate the importance of formalising informal savings, rather than its accurate measurement. The two methods employed illustrate the potential of informal savings in Pakistan and the need to channelize it into the formal sector. These findings reinforce the analysis in **Section 3**, which emphasised the key role of policy to facilitate formalisation and reduce distortions, which encourage informal savings.

*The contribution of Ali Ahmed Shah is acknowledged in writing this box.

¹³² Chand and Singh (2025); Tung and Thanh (2015); Iqbal et al. (2013)

¹³³ This is the average value of savings kept in largely informal modes for the past 5 years by respondents as per the SBP Saving Behaviour Survey of 2021, which is a nationally representative survey.

Annexure 1: SBP Pulse Survey on Savings 2025

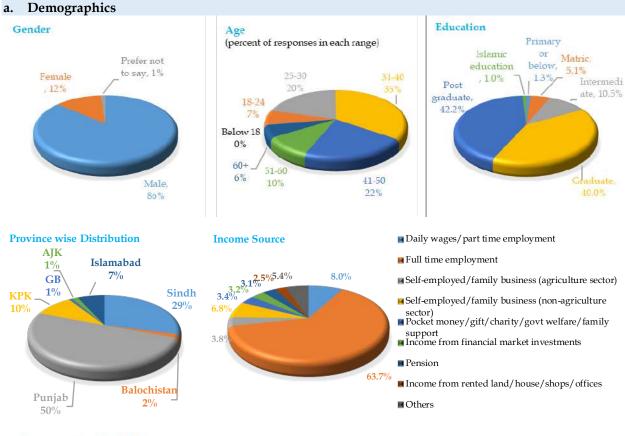
- 1) Motivation behind the survey: The State Bank of Pakistan (SBP) has previously conducted two major surveys on household savings. The first is the Access to Finance Survey, carried out in 2008 and 2015, which assessed the use of formal financial channels such as banks, development finance institutions (DFIs), and mutual funds; however, it was not primarily focused on saving behaviour. The second was the Saving Behavior Survey (2020), a nationwide field survey of 4,000 respondents, which specifically examined saving preferences, reasons for low savings, and reliance on informal mechanisms. Since then, the global and domestic macroeconomic environment has changed significantly, characterized by persistent inflation, currency volatility, rapid digitalization of financial services, and post-COVID socioeconomic shifts, rendering earlier findings outdated. While the Karandaaz Financial Inclusion Survey (2024) provides useful insights into financial access and digital adoption, its coverage of saving behaviour is limited. To address these gaps, SBP launched a fresh targeted pulse survey to capture updated household saving patterns, preferences for saving avenues, and the usage and drivers of informal saving methods.
- 2) **Survey objective:** The State Bank of Pakistan undertook this short pulse survey to understand the behavioural drivers of personal savings across diverse population segments. The survey was designed to provide insights into individuals' saving behaviour, their preferred saving avenues, and the factors/motives influencing their saving decisions.
- 3) **Questionnaire design:** The questionnaire was jointly developed by the SBP's Economic Policy and Review Department (EPRD) and the Research Department. It was translated into Urdu by the EPRD team and subsequently reviewed by the SBP's External Communications Department.
- 4) **Survey methodology and duration:** The survey was conducted in collaboration with SBP's External Communications Department, and was launched primarily through social media channels such as WhatsApp, and X (formerly Twitter). Targeted emails were also sent to different chambers of commerce, business associations, and industry clusters, encouraging both direct participation and onward circulation among their member firms and their employees.

The survey was carried out from July 25 to August 4, 2025, during which 10,486 responses were collected from across Pakistan.

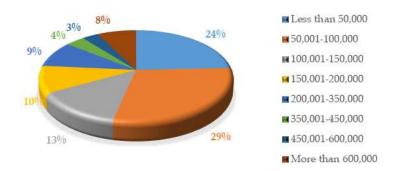
5) **Limitation:** The online and email-based mode of the survey meant that most respondents were comparatively literate. Survey results confirmed this, with over 80 percent of participants reporting education at the graduate level or higher. Consequently, the findings primarily reflect the saving behaviour of Pakistan's literate population. Unlike field surveys, which cover all geographic areas and include interviews with both literate and illiterate respondents, this approach had limited demographic reach.

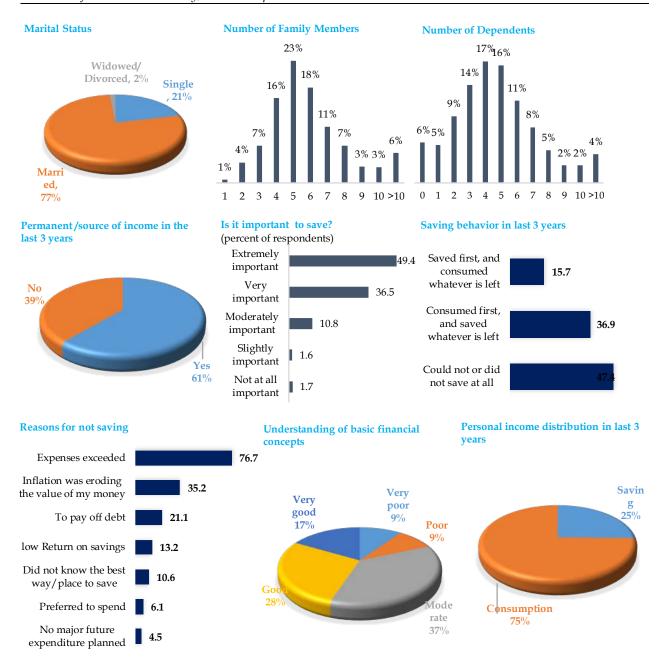
Additionally, to maintain engagement in the online format, the questionnaire was intentionally kept concise. As a result, it did not cover a wide range of dimensions as explored in SBP's 2020 Saving Behaviour Survey, which was conducted as a field-based study.

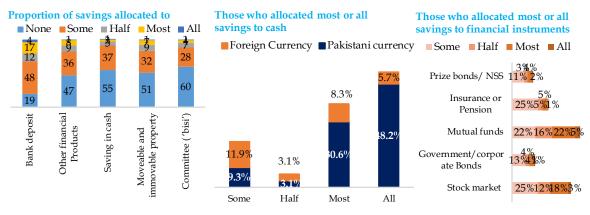
- 6) **Survey results:** While key insights from this survey are discussed in relevant sub-sections of the Special Chapter, this section produces the following two types of survey results:
 - a. Demographics
 - b. Major summary insights not discussed in the Chapter



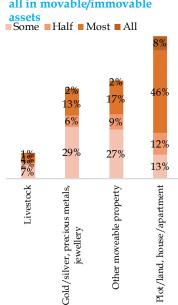




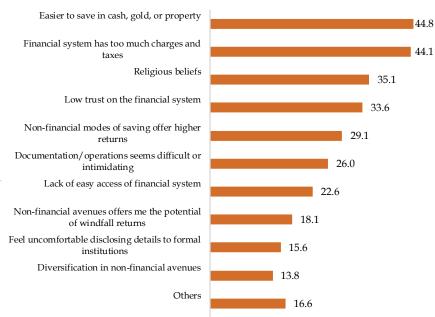




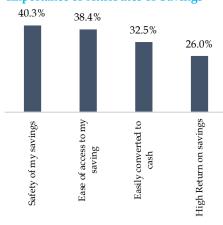
Those who allocated most or all in movable/immovable



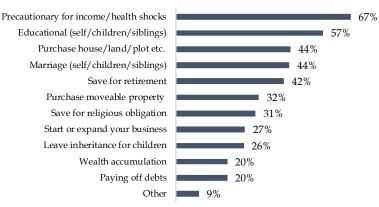
Reasons why saving was mostly in non-financial saving avenues

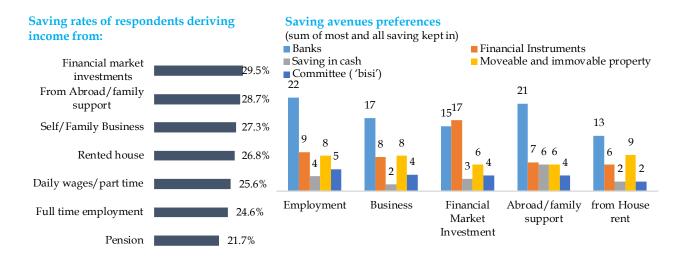


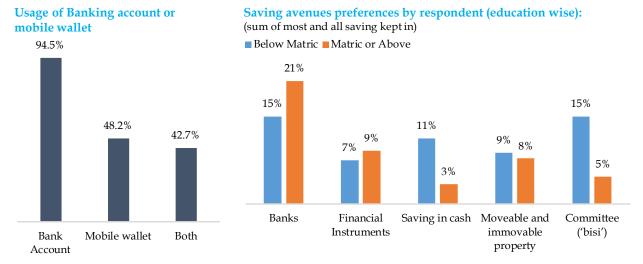
Importance of Attributes of Savings



Main Purposes of Savings







*The contribution of Muhammad Naeem Shah is acknowledged in conducting the survey and writing this box.

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Annexure A: Data Explanatory Notes

- 1) GDP: In case of an ongoing year, for which the actual GDP data for full fiscal year is yet not available, SBP uses the GDP target given in the Annual Plan by the Planning Commission in order to calculate the ratios of different variables with GDP, e.g., fiscal deficit, public debt, current account balance, trade balance, etc. SBP uses its own projections in outlook section of the Chapter 1 of the report.
- **2) Inflation:** There are three numbers that are usually used for measuring inflation: (i) period average inflation; (ii) YoY or *yearly* inflation; and (iii) MoM or *monthly* inflation. Period average inflation refers to the percent change of the *average* CPI (national, urban, or rural) from July to a given month of the year over the corresponding period last year. YoY inflation is percent change in the CPI of a given month over the same month last year; and monthly inflation is percent change of CPI of a given month over the previous month. The formulae for these definitions of inflation are given below:

Period average inflation =
$$\left(\frac{\sum_{i=0}^{t-1} I_{t-i}}{\sum_{i=0}^{t-1} I_{t-12-i}} - 1 \right) \times 100$$

YoY inflation =
$$\left(\frac{I_t}{I_{t-12}} - 1\right) \times 100$$

Monthly inflation =
$$\left(\frac{I_t}{I_{t-1}} - 1\right) \times 100$$

Where I_t is consumer price index in tth month of a year. The CPI can be national, urban or rural.

For detailed information on the methodology, please see: www.pbs.gov.pk/sites/default/files/price_statistics/methodology_price.pdf

- 3) Change in debt stock vs financing of fiscal deficit: The change in stock of gross public debt does not correspond with the fiscal financing data provided by the Ministry of Finance. This is because of multiple factors, including: (i) the stock of debt takes into account the gross value of government borrowing, whereas financing is calculated by adjusting the government borrowing with its deposits held with the banking system; (ii) changes in the stock of debt also occur due to movements in exchange rates, both PKR and other currencies against US Dollar.
- **4) Government borrowing:** Government borrowing from the banking system has different forms and every form has its own features and implications, as discussed here:
 - (a) Government borrowing for budgetary support:

Borrowing from State Bank: According to Section 9C (1) of the SBP Act (as amended up to 28 January, 2022), the SBP "shall not extend any direct credits to or guarantee any

obligations of the Government, or any government owned entity or any other public entity." According to this amendment, borrowing from State Bank shows the stock of government securities held by SBP, after the re-profiling of stock of Market Related Treasury Bills (MRTBs) into PIBs since June 2019. The change in net borrowings from SBP mainly reflects change in stock of government securities, changes in government (central and provincial) deposits with the SBP, and accrued profits on government securities, etc.

Borrowing from scheduled banks: This is mainly through (i) fortnightly auction of 3, 6 and 12-month Market Treasury Bills (MTBs); (ii) monthly auction of 2, 3, 5, 10, 15, 20 and 30 year fixed rate Pakistan Investment Bonds (PIBs); (iii) fortnightly auctions of 2, 3, 5, 10 year floating rate PIBs; (iv) Sukuk and (v) Bai Muajjal of Sukuk (on deferred payment basis). However, provincial governments are not allowed to borrow directly from scheduled banks for deficit financing.

- (b) *Commodity finance:* Both federal and provincial governments borrow from scheduled banks through respective institutions to finance their purchases of commodities e.g., wheat, sugar, etc.
- 5) Differences in different data sources: SBP data for a number of variables, such as government borrowing, foreign trade, etc. often do not match with the information provided by MoF and PBS. This is because of differences in data definitions, coverage, etc. Some of the typical cases are discussed below.
 - (a) **Financing of budget deficit (numbers reported by MoF vs SBP):** There is often a discrepancy in the financing numbers provided by MoF in its quarterly tables of fiscal operations and those reported by the SBP in its monetary survey. This is because MoF reports government bank borrowing on a cash basis, while SBP's monetary survey is compiled on an accrual basis, i.e., by taking into account accrued interest payments on T-bills.
 - (b) **Foreign trade (SBP vs PBS):** The trade figures reported by SBP in the *balance of payments* do not match with the data published by Pakistan Bureau of Statistics. This is because the trade statistics compiled by the SBP are based on actual receipts and payments of foreign exchange by banks, whereas the PBS records data on the physical movement of goods (customs record).

List of Abbreviations

ACD

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1	7				

TICE	Traditional Custom Buty
ADB	Asian Development Bank
ADC	Annual Dependable Capacity
ADR	Advances to Deposit Ratio
ADS	Alternate Development Services
AEs	Advanced Economies
AGP	Auditor General of Pakistan
AIIB	Asian Infrastructure Investment Bank
AJK	Azad Jammu & Kashmir
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
APCMA	All Pakistan Cement Manufacturers Association
API	Active Pharmaceutical Ingredients
APTMA	All Pakistan Textile Mills Association
ARDL	Auto-Regressive Distributed Lag
AUM	Assets Under Management
BCS	Business Confidence Survey
BISP	Benazir Income Support Program
BOI	Board of Investment
bpd	Barrels per day
bps	Basis points
BPRD	Banking Policy & Regulations Department
BULOG	Indonesian National Logistics Agency
CAB	Current Account Balance
CAD	Current Account Deficit

Additional Custom Duty

 \mathbf{C}

В

CBM Commodity Balance Methodology

CBU Completely Built Unit

CCP Competition Commission of Pakistan

CD **Customs Duty**

Central Directorate of National Savings **CDNS CFBM** Capital and Financial Balance Methodology

CiC Currency in Circulation CKD Completely Knocked Down CPI Consumer Price Index

CRS Crop Reporting Services

 \mathbf{D}

Diammonium Phosphate DAP

DCO Digital Cooperation Organization DFDI Digital Foreign Direct Investment
DFIs Development Finance Institutions
DGE Dynamic General Equilibrium
DRM Domestic Resource Mobilization

DSIN Domestic Original Sin

E

EAD Economic Affairs Division

EBOPS Extended Balance of Payments Services Classification

ECB European Central Bank

ECO Economic Cooperation Organization

EDS External Debt Servicing
EE Exports Earnings

EE&D Energy Efficiency and Decarbonisation

EFF Extended Fund Facility

EMDEs Emerging Market and Developing Economies

EOBI Employee Old-age Benefits Institution

EPD Exchange Policy Department

EPRD Economic Policy Review Department ESSI Employees Social Security Institution

EU European Union EV Electric Vehicle

F

FAO Food and Agriculture Organization

FATF Financial Action Task Force FBR Federal Board of Revenue FCA Fuel Charge Adjustment

FCA Federal Committee on Agriculture

FDI Foreign Direct Investment

FE Foreign Exchange
FED Federal Excise Duty
FED U.S. Federal Reserve

FEE Foreign Exchange Earnings
FFA Flow of Funds Account

FFBL Fauji Fertilizer bin Qasim Ltd.

FFC Fauji Fertilizer Co FI(s) Financial Institution(s)

FOB Free On Board

FoP Federal Ombudsman of Pakistan FPI Foreign Portfolio Investment

FRDL Fiscal Responsibility and Debt Limitation

FTSE Financial Times Stock Exchange

FX Foreign Exchange

C	FY	Fiscal Year
G	GB	Cilcit Politician
	GCC	Gilgit Baltistan
	GDP	Gulf Cooperation Council Gross Domestic Product
	GDS	
	GE GE	Gross Domestic Savings
	GFN	Genetically Engineered Gross Financing Need
	GI	<u> </u>
	GM	Geographical Indication Genetically Modified
	GNI	Gross National Income
	GNP	Gross National Product
	GNF	Gross National Froduct
	Govt.	Government
	GST	General Sales Tax
	GSTS	General Sales Tax on Services
	GTAP	Global Trade Analysis Project
	GVA	Gross Value Added
	GVC	Global Value Chain
H		
	H1	First Half
	H2	Second Half
	HIES	Household Integrated Economic Survey
	HS	Harmonized System
	HSD	High Speed Diesel
	HVA	High Value Added
I		
	IBIS	Indus Basin Irrigation System
	IBIs	Islamic Banking Institutions
	IBRD	International Bank for Reconstruction and Development
	ICT	Information Communication Technology
	IDA	International Development Association
	IEA	International Energy Agency
	IEP	Integrated Energy Planning
	ILO	International Labor Organization
	IMF	International Monetary Fund
	IPO	Initial Public Offering
	IPP	Independent Power Producer
	IRSA	Indus River System Authority
	IsDB	Islamic Development Bank
	IT	Information Technology
	ITC	International Trade Centre

J JPB Japan Post Bank K KAP Knowledge, Attitude and Practices K-FIS Karandaaz Financial Inclusion Survey **KIBOR** Karachi Interbank Offer Rate **KPK** Khyber Pakhtunkhwa KSE Karachi Stock Exchange kWh Kilowatt-hour **KYC** Know Your Customer L **LCV** Light Commercial Vehicle LFS Labor Force Survey LHS Left Hand Side LIC Low Income Country **LMIC** Lower Middle Income Country **LNG** Liquefied Natural Gas LPG Liquefied Petroleum Gas LSM Large Scale Manufacturing M M2 **Broad Money** MAF Million Acre-Feet **MDPI** Molecular Diversity Preservation International Minimum Deposit Rate **MDR MIMIC** Multiple Indicators Multiple Causes MJ Megajoule MMT Million Metric Ton **MNFSR** Ministry of National Food Security & Research National Mineral Policy **MNP** Ministry of Climate Change and Environmental Coordination MoCC&EC MoF Ministry of Finance MoSPI Ministry of Statistics and Programme Implementation **MPC** Monetary Policy Committee MSCI FM Morgan Stanley Capital International Frontier Markets Manual on Statistics of International Trade in Services Classification **MSITS** Minimum Support Price **MSP** MT Metric Ton **MUFAP** Mutual Funds Association of Pakistan MW Megawatt N **NBER** National Bureau of Economic Research

NBFIs Non-Bank Financial Institutions

NCCPL National Clearing Company of Pakistan Limited

NCPI National Consumer Price Index

NDA Net Domestic Assets

NEER Nominal Effective Exchange Rate

NEPRA National Electric Power Regulatory Authority

NFA Net Foreign Assets

NFDC National Fertilizer Development Center NFIS National Financial Inclusion Strategy

NFNE Non Food Non Energy NIE Non-Interest Expenditure NPC Naya Pakistan Certificate

NPPMCL National Power Parks Management Company Limited

NRF Norton Rose Fulbright
NRL Net Repatriable Liability
NSO National Statistical Office
NSS National Savings Scheme
NTBs Non-Tariff Barriers

NTDC National Transmission & Despatch Company

NTP National Tariff Policy NTR Non-Tax Revenues

O

o/w Of which

OCAC Oil Companies Advisory Council

OECD Organisation for Economic Co-operation and Development

OGRA Oil and Gas Regulatory Authority

OICCI Overseas Investors Chamber of Commerce and Industry

OMCs Oil Marketing Companies
OMOs Open Market Operations

P

PACRA Pakistan Credit Rating Agency

PAMA Pakistan Automotive Manufacturers Association

PARCO Pak Arab Refinery Company
PBC Pakistan Business Council
PBS Pakistan Bureau of Statistics
PDL Petroleum Development Levy

PED Public External Debt

PEDL Public External Debt and Liabilities
PFLs Pakistan Investment Bonds - Floating

PIBs Pakistan Investment Bonds

PIDE Pakistan Institute of Development Economics

PKR Pakistani Rupee

PMD Pakistan Meteorological Department

PMYB&ALS Prime Minister's Youth Business and Agriculture Loan Scheme

PO Post Office

POL Petroleum, Oil, & Lubricants POL Pakistan Oilfields Limited

PP Pakistan Post

PPP Purchasing Power Parity
PPSB Pakistan Postal Savings Bank
PRI Pakistan Remittance Initiative
PRL Pakistan Refinery Limited
PSB Postal Saving Bank

PSBC Postal Services Bank of China PSBs Private Sector Businesses PSC Private Sector Credit

PSDP Public Sector Development Program
PSEB Pakistan Software Export Board

PSEs Public Sector Enterprises

PSX Pakistan Stock Exchange

PTA Pakistan Telecommunication Authority

Q

QTA Quarterly Tariff Adjustment

R

RBI Reserve Bank of India
RD Regulatory Duty
RDA Roshan Digital Account

REER Real Effective Exchange Rate
REIT Real Estate Investment Trust

REUP Refinery Expansion and Upgradation Project

RHS Right Hand Side RiR Real Interest Rate

RLNG Re-gasified Liquefied Natural Gas ROSCA Rotating Savings and Credit Association

RPI Relative Price Index

RSF Resilience and Sustainability Facility

 \mathbf{S}

SAAF SME Asaan Finance

SAR Saudi Riyal

SARC Sum of Autoregressive Coefficients

SBP State Bank of Pakistan

	SCB	Standard Chartered Bank
	SECP	Securities and Exchange Commission of Pakistan
	SIFC	Special Investment Facilitation Council
	SKD	Semi Knocked Down
	SMEs	Small and Medium Enterprises
	SNA	System of National Accounts
	SNGPL	Sui Northern Gas Pipelines Limited
	SOFR	Secured Overnight Financing Rate
	SPS	Sanitary and Phytosanitary
	SRO	Statutory Regulatory Order
	SSGC	Sui Southern Gas Company
	SSM	Small Scale Manufacturing
	STPED	Short-term Public External Debt
T		
	T&D	Transmission and Distribution
	T-bills	Treasury Bills
	TCO	Textile Commissioner's Organization
	TDAP	Trade Development Authority of Pakistan
	TDR	Term Deposit Receipt
	TEDL	Total External Debt and Liabilities
	TFC	Term Finance Certificate
	TFR	Total Fertility Rate
	ToU	Time-of-Use
U		
	UAE	United Arab Emirates
	UCT	Unconditional Cash Transfers
	UMIC	Upper Middle Income Country
	UN	United Nations
	UNCTAD	United Nations Conference on Trade and Development
	UNDP	United Nations Development Programme
	UNEP	United Nations Environment Programme
	UNWTO	The United Nations World Tourism Organization
	UPU	Universal Postal Union
	US\$/USD	United States Dollar
	US/USA	United States of America
	USDA	United States Department of Agriculture
\mathbf{V}		
	VIS	Vital Information Services
W	WADR	Weighted Average Deposit Rate

WALR Weighted Average Lending	Rate
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WAONR Weighted Average Overnight Repo Rate

WB World Bank

WDI World Bank Development Indicators

WEO World Economic Outlook

WHT Withholding Tax
WPI Wholesale Price Index

WTTC World Travel & Tourism Council

Y

YoY Year-on-Year