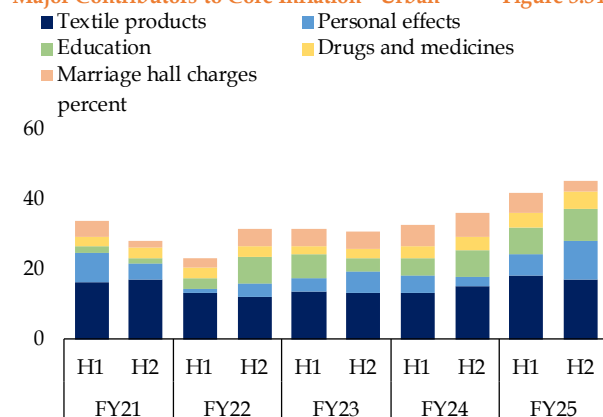


Major Contributors to Core Inflation - Urban

Figure 3.34a



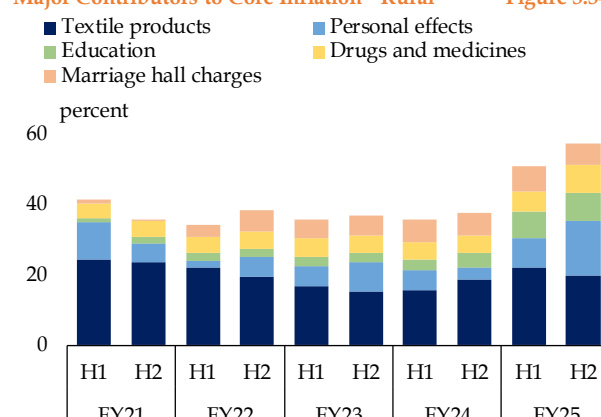
Source: PBS

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

Major Contributors to Core Inflation - Rural

Figure 3.34b



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.

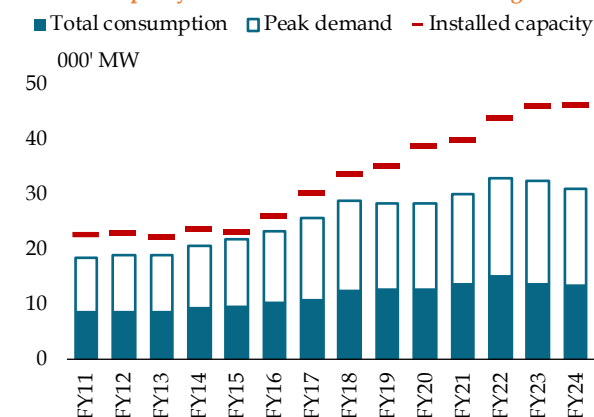
Box 3.1: Policy Measures to Increase Grid Demand and Lower Electricity Prices

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.

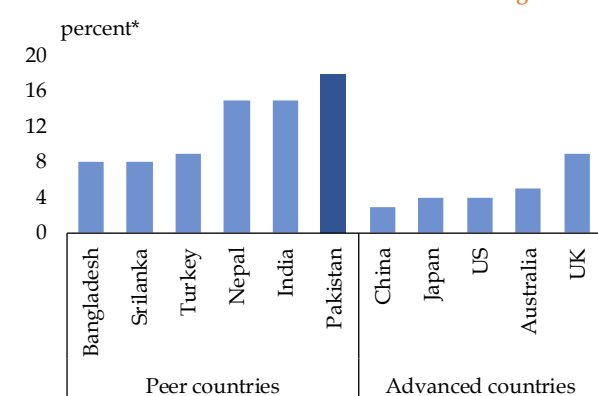
Electricity tariffs are set to recover the total cost of supply—including generation costs, capacity payments, operations and maintenance, and T&D expenses—from paying customers. This means that those who remain connected to the grid carry the combined burden of idle capacity and system losses. This 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.ⁱ 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.

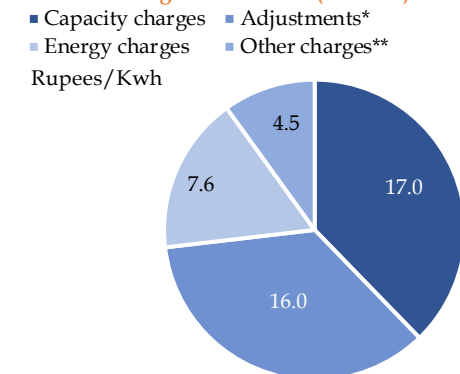
Installed Capacity and Demand Figure 3.1.1

Source: NEPRA

Transmission and Distribution Losses**Figure 3.1.2**

*As a percent of total electricity generation

Sources: WB and NEPRA

National Average Tariff - FY24 (Per Unit)**Figure 3.1.3**

*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 Tariff Slabs

Table 3.1.1

	Usage Slab (Units)	Rate (Rs/kWh)	Percentage increase
Protected	Up to 50 (Lifeline)	3.95	
	51 - 100 (Lifeline)	7.74	95.9
	1 - 100	11.69	51.0
	100 - 200	14.16	21.1
Unprotected	1 - 100	23.59	
	101 - 200	30.07	27.5
	201 - 300	34.26	13.9
	301 - 400	39.15	14.3
	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.ⁱⁱⁱ 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.^v

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 price-setting 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 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 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 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.

Inflation Persistence in Pakistan - SARC Approach

Table 3.2.1

	Overall Sample FY01-FY25	High Inflation Periods ¹	Low Inflation 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

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

Source: SBP staff estimates

Information Used for Price Adjustment Decisions
share of firms, percent

Table 3.2.2

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

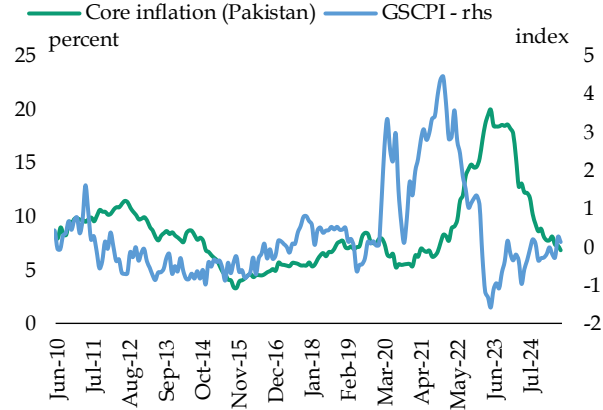
Sources: Choudhary et al. (2016), Naeem and Inayat (2025).

Price Setting Rule
percent share of firms

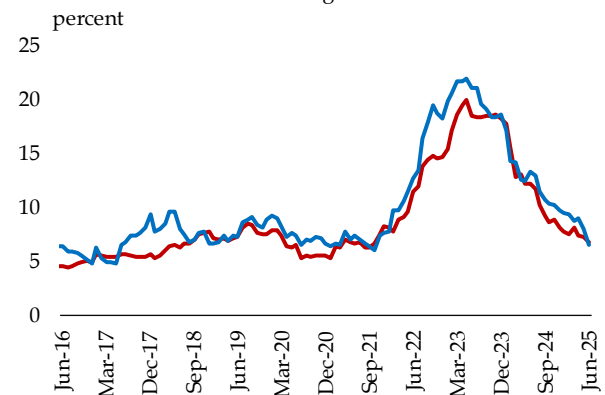
Table 3.2.3

	2011	2019
Mark-up on cost	47	61
Competitor's price	37	33

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

Global Supply Chain Pressure Index (GSCPI) and Core Inflation Figure 3.2.1

Sources: SBP and the Fed

Trends in Core Inflation and Wages Figure 3.2.2

Source: PBS

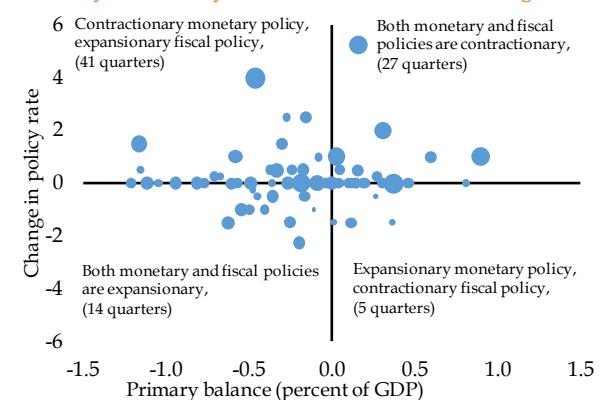
Supply chain disruptions also lead to higher core inflation. Unlike supply shocks that influence core inflation indirectly, supply chain disruptions affect the production and delivery of manufactured goods, raising core inflation directly. Events such as political instability, natural disasters and terrorism 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

Monetary-Fiscal Policy Coordination Figure 3.2.3

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.

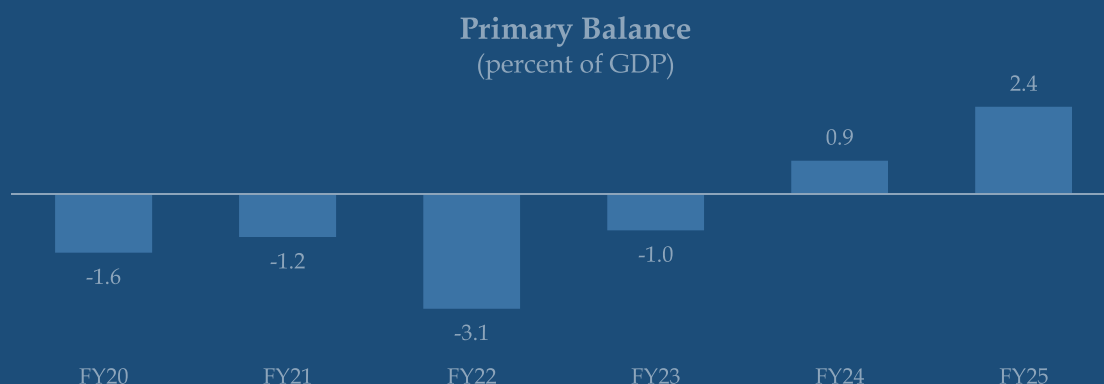
**The contribution of Syed Qamar Hussain and Muhammad Zuhaib is acknowledged in writing this box.*

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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 Fiscal Policy & Public Debt

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,

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**).

Fiscal Balance

■ Fiscal balance ■ Budget estimate
percent of GDP

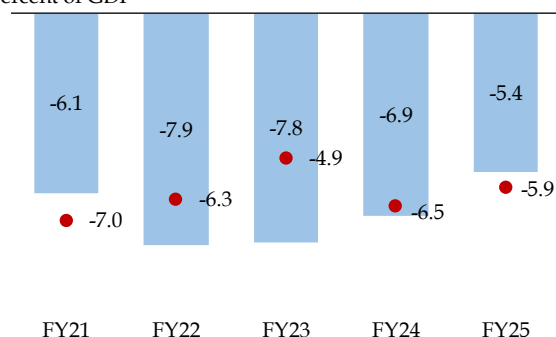


Figure 4.1a Primary Balance

■ Primary balance ■ Budget estimate
percent of GDP

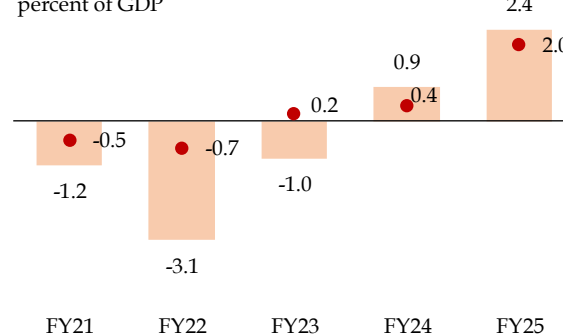


Figure 4.1b

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.

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

Consolidated Fiscal Position

Table 4.1

	Value (billion Rupees)			Growth (percent)		
	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	-	-	-
				Percent of GDP		
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**).

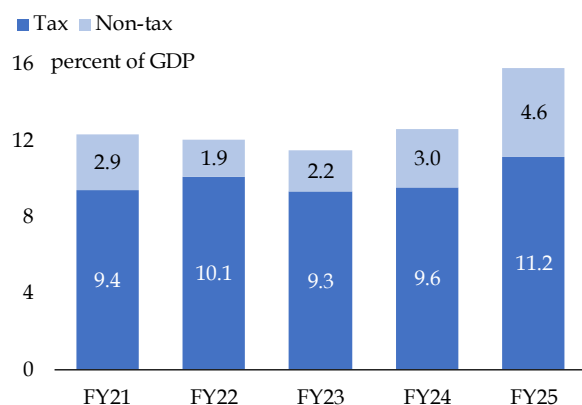
Direct Taxes

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

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

Breakdown of Total Revenue

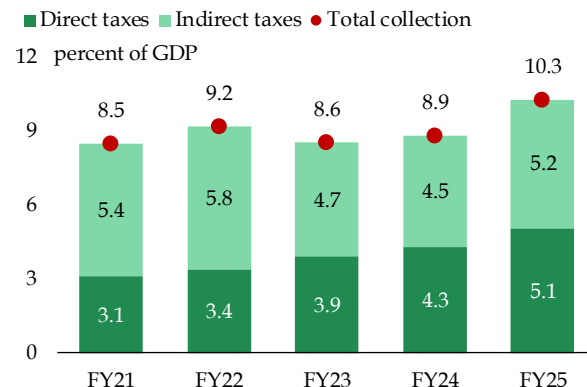
Figure 4.2



Source: MoF

Breakdown of Federal Tax Revenue

Figure 4.3



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

Source: MoF

State Bank of Pakistan

Breakup of Consolidated Revenue

Table 4.2

	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
<i>Memorandum Items</i>									
Nominal GDP*	71,775	105,190	113,748	-	-	-	-	-	-

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 zero-ratings 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 previous year.⁷

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

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.¹⁰ However, overall provincial tax collection continues to remain less than 1 percent of GDP, partially

FBR Evidence Based Forecasts vs Actual

Table 4.3

growth in percent

	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.

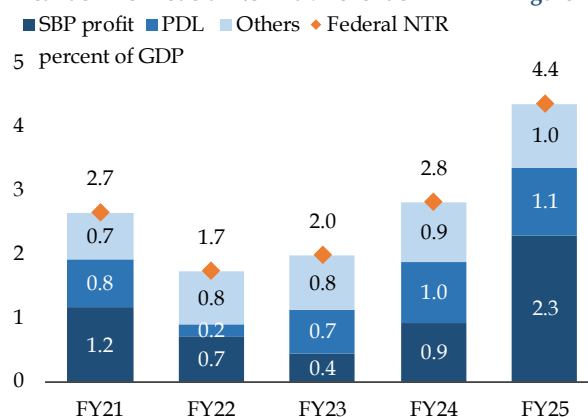
Non-Tax Revenue

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 rate¹² and increase in POL

Breakdown of Federal Non-Tax Revenue

Figure 4.4



Source: MoF

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 Consolidated Expenditure

Table 4.4

	Values (billion Rupees)			Percent of GDP			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
<i>Memorandum items</i>									
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

* This excludes statistical discrepancy

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

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		Growth
	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 (PSO)	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 untargated 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 percent of major fiscal heads 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
GDP	6.0	7.8	7.8

* FBR tax revenue adjusted for NFC transfers to provinces

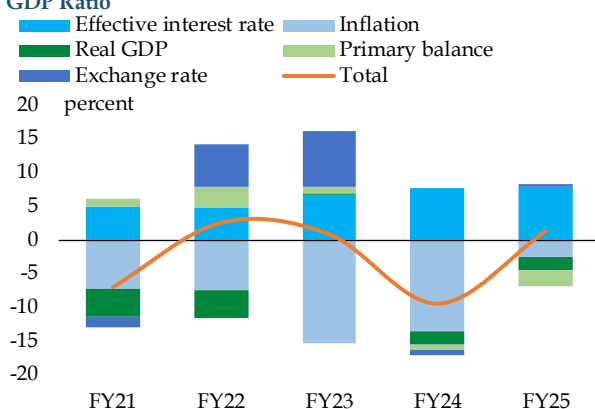
Sources: MoF, SBP staff calculations

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

Decomposition of Change in Public Debt to GDP Ratio

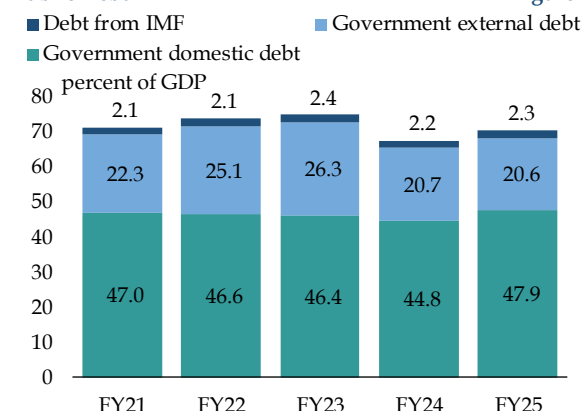
Figure 4.6



Sources: SBP and MoF

Public Debt

Figure 4.5



Source: SBP

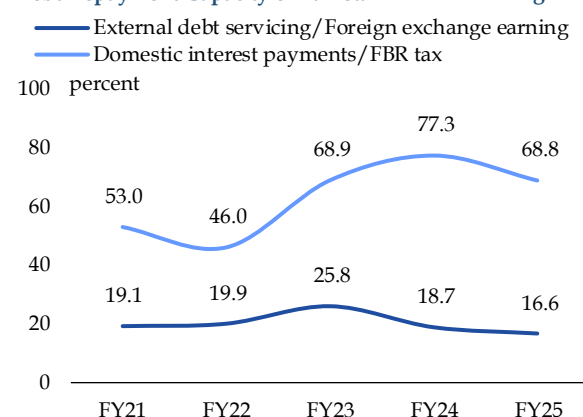
lengthening the average time to maturity (ATM) in FY25 (**Figure 4.8**). However, from the debt sustainability standpoint, besides managing the debt profile, the government also needs to focus on reducing the public debt-to-GDP ratio (**Box 4.1**).

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

Debt Repayment Capacity of Pakistan

Figure 4.7



Sources: SBP and MoF

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.

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

Summary of Pakistan's Debt and Liabilities

Table 4.7

stock and flows in billion Rupees, growth in percent

	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.

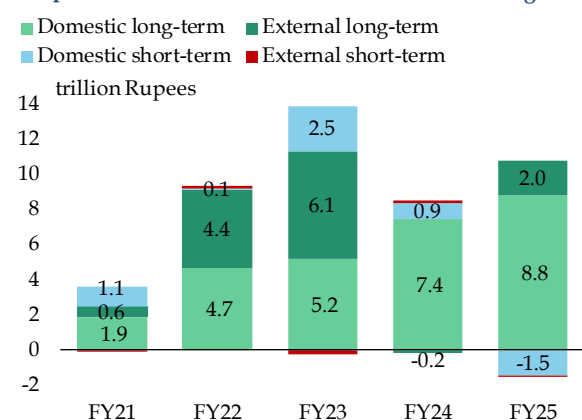
Similar to previous year, major chunk of the domestic debt was raised through variable coupon rate instruments.²³ While it reduced the cost of borrowing amid falling interest rates, it increased the interest rate risk as around 70 percent of the domestic debt stock is on floating rate. This indicates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

Composition of Public Debt - Flows

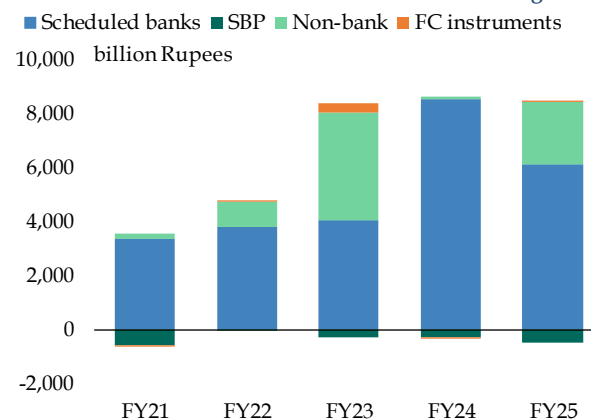
Figure 4.8



Source: SBP staff calculations

Institution-Wise Domestic Debt - Flows

Figure 4.9



Source: SBP

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**Table 4.8**

billion Rupees; share in percent

	Stock		Flows		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

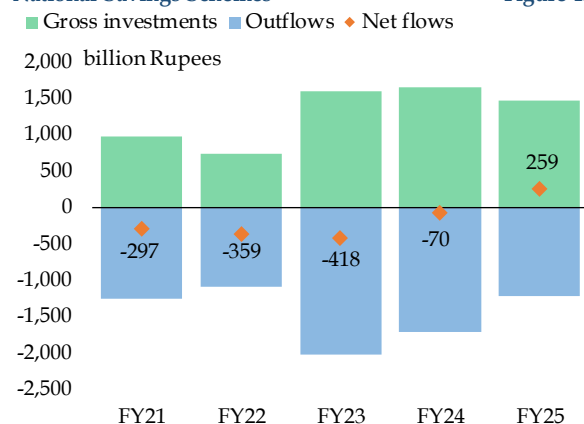
and financial institutions shifted their funds from deposits to investment in government securities. Unlike previous year, National Saving Schemes (NSS), including prize bonds, recorded net inflows; reversing the trend of net outflows observed for the past four years (**Figure 4.10**). Though contributing 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

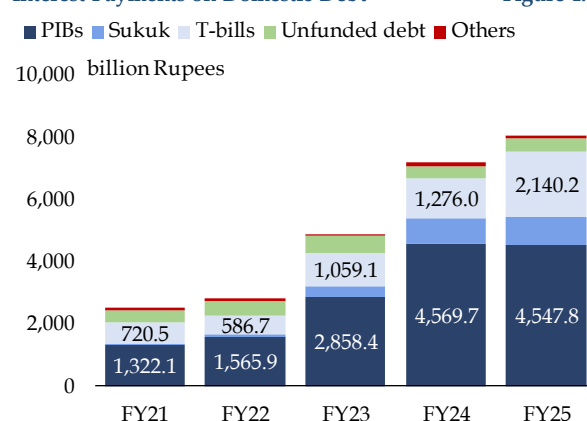
through these instruments during FY25. The government's move to generate funds through a diversified base, for relatively longer tenor and fixed instruments was in-line with its Annual Borrowing Plan of FY25; and is likely to lower GFN for the next year due to improved ATM.

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

National Savings Schemes**Figure 4.10**

Sources: SBP and CDNS

Interest Payments on Domestic Debt**Figure 4.11**

Source: SBP

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

Public External Debt

Table 4.9

million US\$, share in percent

	Stock		Flow		Share	
	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

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

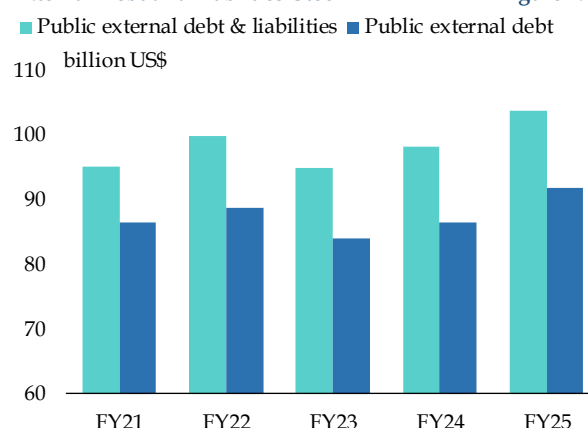
billion in the previous year (Table 4.10). The increase in overall disbursements can be ascribed to higher inflows from Asian Development Bank (ADB), commercial loans and NPCs, along with US\$ 483.5 million guaranteed loan from China during FY25. Increase in inflows through NPCs and commercial loans 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 Liabilities Stock

Figure 4.12



Source: SBP

Disbursements of External Loans and Grants
million US\$

Table 4.10

Sources	Grants		Loans		Total	
	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

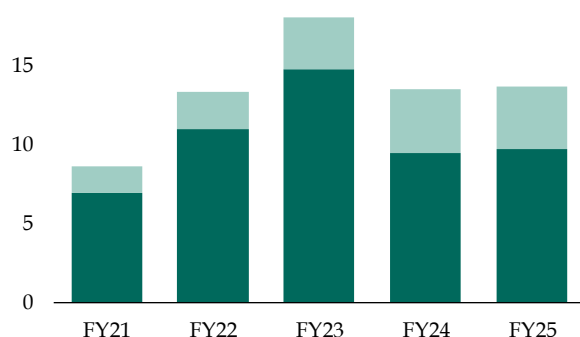
securities (T-bills) also contributed to principal repayments during FY25.²⁵

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 Servicing - Principal and Interest Figure 4.13

■ Principal repayment on PED ■ Interest paid on PEDL

20 billion US\$



Source: SBP

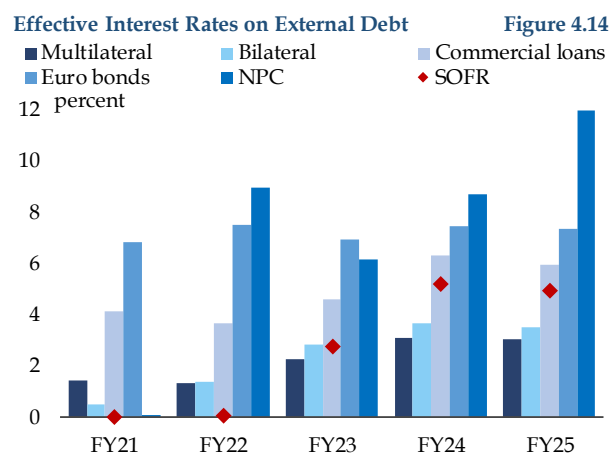
External Debt Sustainability

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)

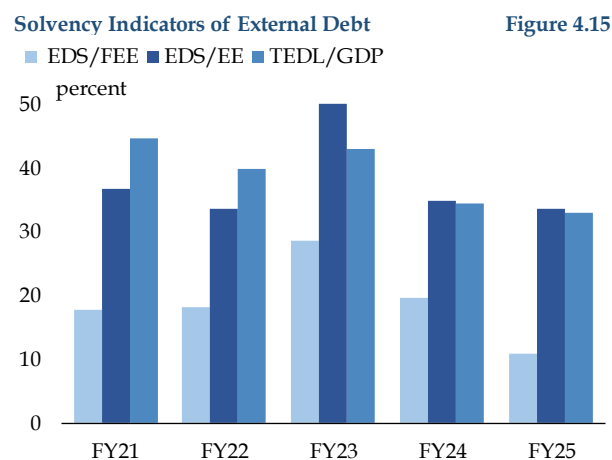


Source: SBP

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.

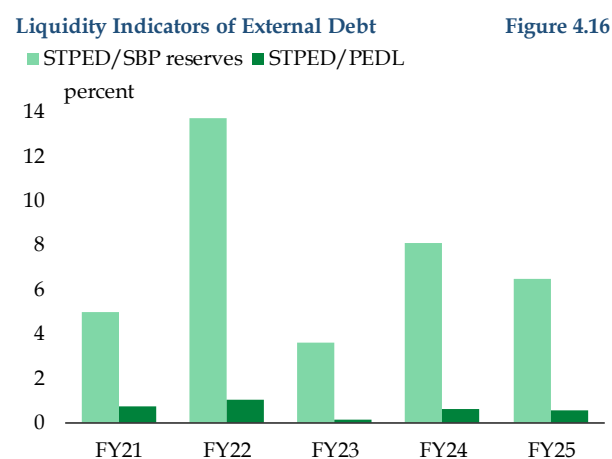
This improvement is manifested in both solvency and liquidity indicators during FY25. The decline in solvency indicators - ratios of external debt service-to-foreign exchange earnings (EDS-to-FEE), EDS-to-exports earnings (EDS-to-EE) and Total external debt & liabilities-to-GDP (TEDL-to-GDP), indicate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



Source: SBP

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



Source: SBP

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

Table 4.1.1

percent of GDP

Countries	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

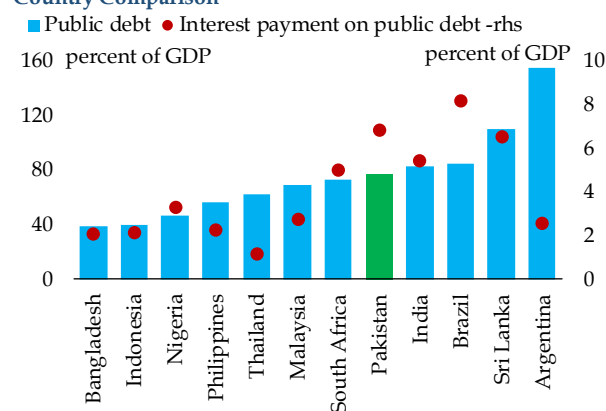
In this backdrop, this Box reviews experiences of five selected countries - India, Indonesia, Philippines, Brazil and South Africa²⁹ - in reducing debt-to-GDP ratio to draw lessons for Pakistan (Table 4.1.1). The analysis also include factor decomposition and logit model to identify factors affecting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

Public Debt and Interest Payments: Cross-Country Comparison

Figure 4.1.1

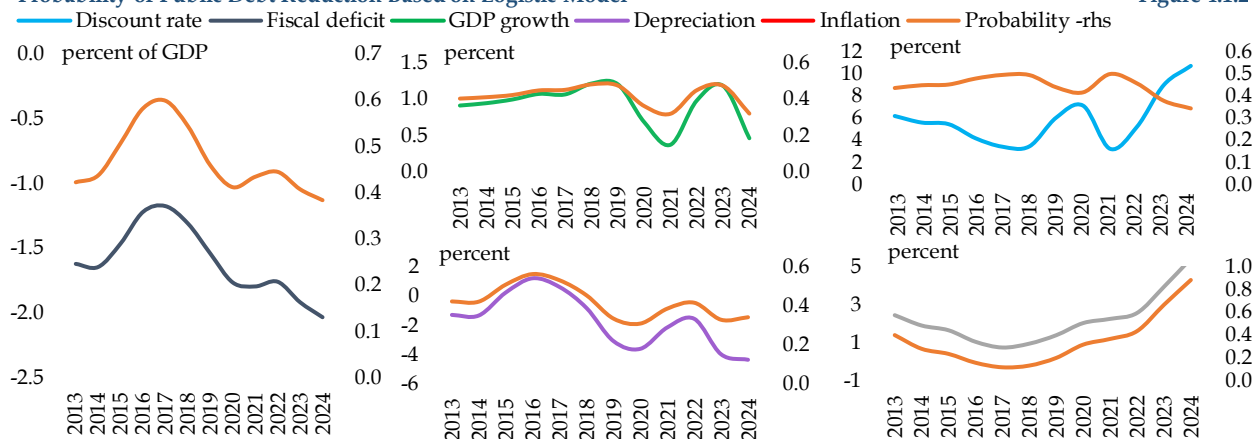


Source: IMF datamapper

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

Probability of Public Debt Reduction Based on Logistic Model

Figure 4.1.2



Source: SBP staff estimates

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

Reduction in Public Debt-to-GDP Ratio: Country Approaches

Table 4.1.2

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	✓	✓	-	✓	✓	-
Debt Management Strategies	a. Reliance on domestic debt	-	✓	✓	-	-	✓
	b. Early repayments, debt restructuring, buybacks	✓	✓	✓	✓	✓	✓
	c. Qualitative measures: Ways & Means Advances, debt management units/cells/frameworks etc.	✓	-	-	✓	✓	✓
	d. Building reserves as explicit policy	-	-	-	✓	-	-
GDP	a. Sustained, robust growth led to higher tax revenues	✓	✓	✓	✓	✓	Partial
	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

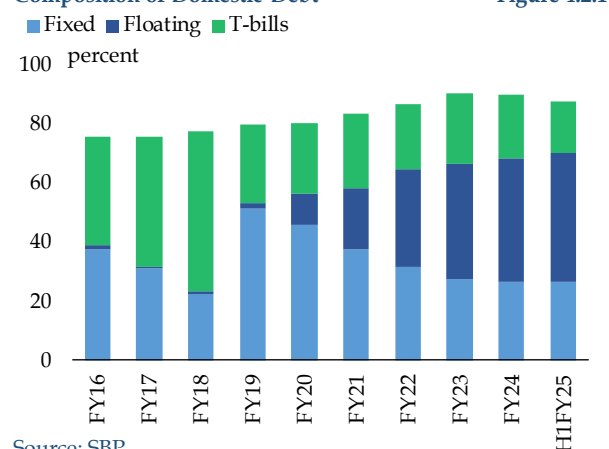
³⁰ Floating-rate securities are generally indexed to interest rate or inflation.

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

³³ Arnoud, M and Julien, R. (2005).

Composition of Domestic Debt



Source: SBP

Figure 4.2.1

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.

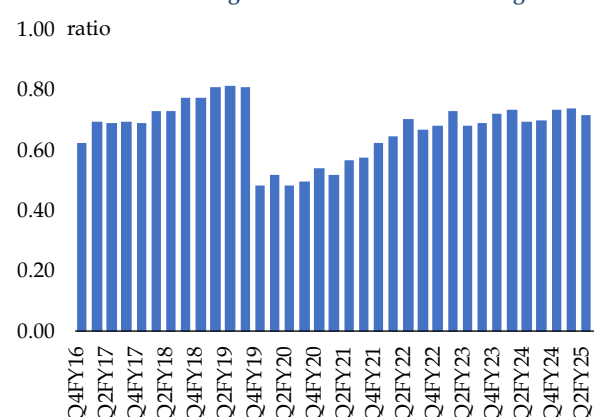
The positive association with debt burden further strengthened when the average debt service-to-GDP ratio increased to 6.0 percent after FY21. Similarly, the state of DSIN also depends on fiscal credibility, which is proxied by primary balance-to-GDP ratio. The influence of primary balance-to-GDP ratio 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

Trend in Domestic Original Sin

Figure 4.2.2



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.*

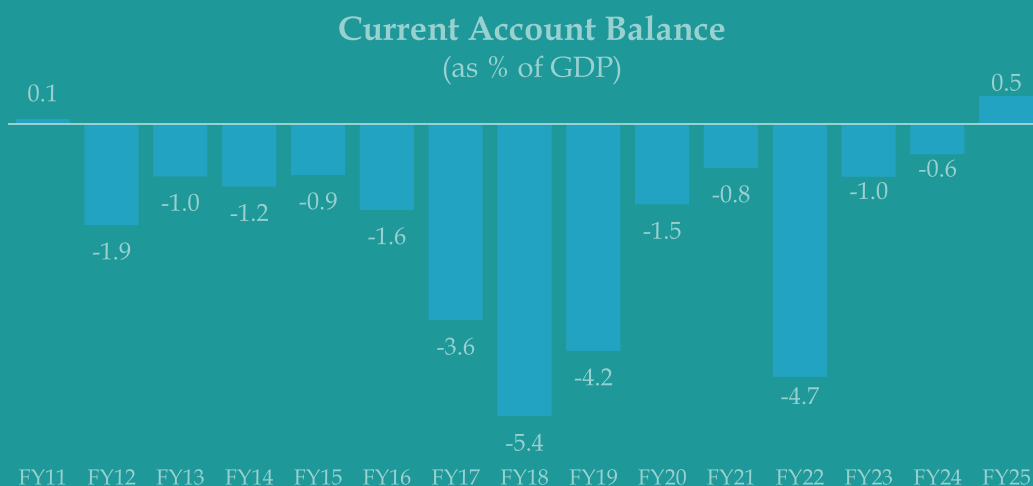
References:

- i. 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.

Balance of Payments

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



5 Balance of Payments

5.1 Global Economic Review

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

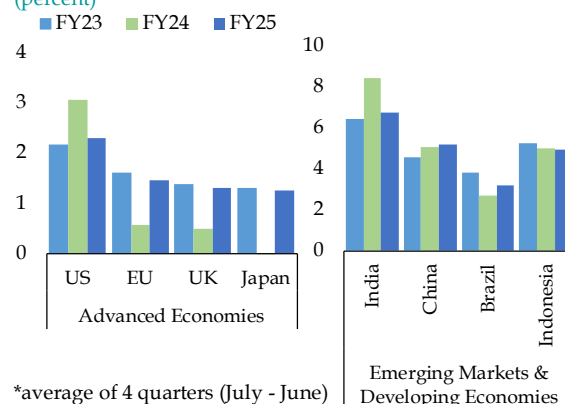
However, economic recovery remained uneven, as AEs witnessed relatively robust growth, while the expansion in EMDEs was modest compared to FY24 (**Figure 5.1**). The global economy also faced additional headwinds towards the end of FY25, arising from heightened uncertainty linked to steep tariff hikes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

Real GDP Growth in Major Economies*
(percent)

Figure 5.1

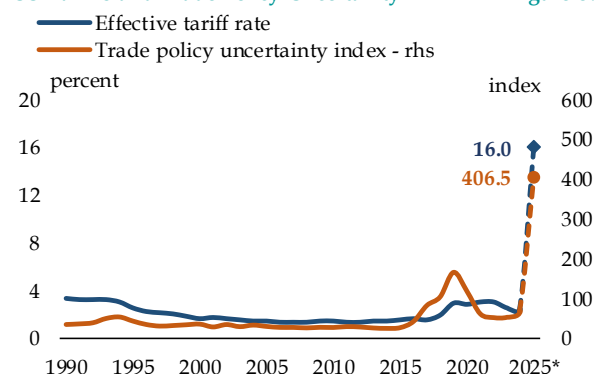


energy items trended downwards in the second half of FY25. However, the trend reversed in June 2025 as geopolitical conflicts disrupted global supply chains, leading to an increase in commodity prices, except for agriculture commodities. The prices of precious metals, given their nature as safe havens,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

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

US Tariffs and Trade Policy Uncertainty

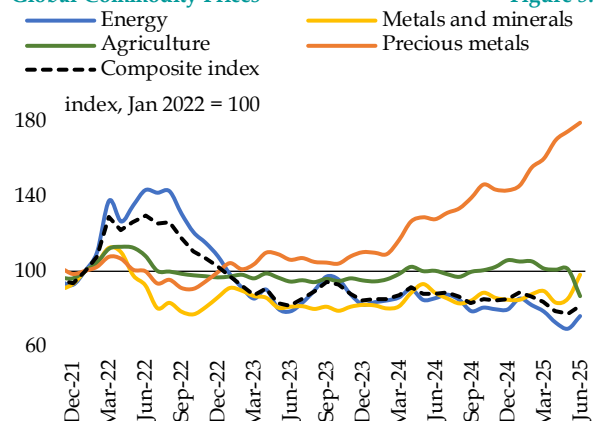
Figure 5.2



Sources: WB and worlduncertaintyindex.com

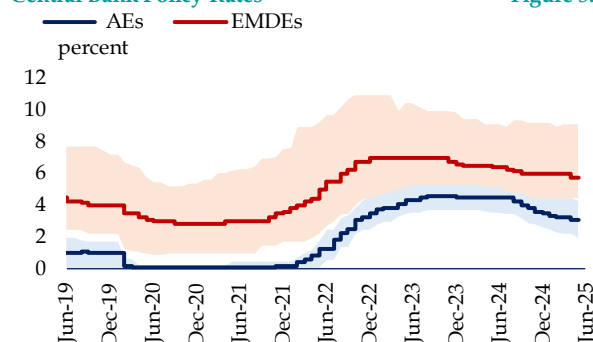
¹ World Economic Outlook, April 2025

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.

Global Commodity Prices Figure 5.3

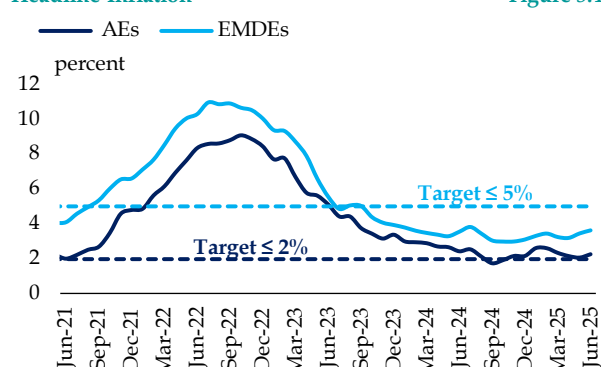
and services sector in the AEs, and higher food inflation and currency depreciation in case of EMDEs. This was reflected by inching up of inflation in both the AEs and EMDEs in the last quarter of FY25 (**Figure 5.4**).

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**).

Central Bank Policy Rates* Figure 5.5

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

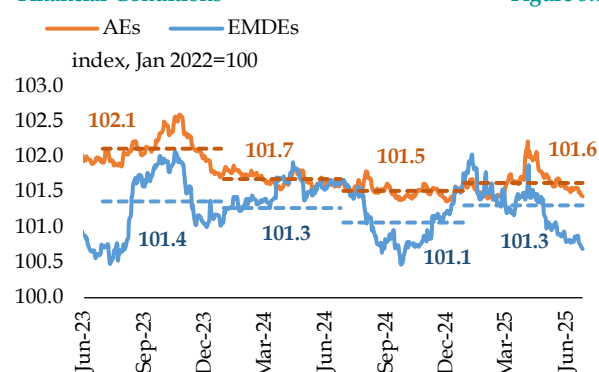
Sources: Haver and cbrates.com

Headline Inflation* Figure 5.4

*Median inflation of each group. The sample includes 30 AEs and 44 EMDEs.

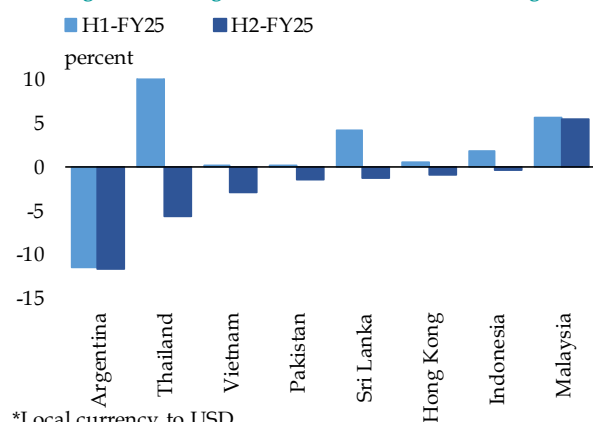
The cautious monetary policy stance was reflected in financial markets. Given increased uncertainty and higher inflation expectations, global financial conditions tightened in the latter part of FY25 (**Figure 5.6**). The escalation and subsequent partial easing of trade tensions in the last quarter 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

Financial Conditions Figure 5.6

Exchange Rate Changes*

Figure 5.7



*Local currency to USD

Source: Haver

supply and heightened risk aversion among lenders. Hence, the pace of economic growth in the last quarter of FY25 moderated in most of the AEs and EMDEs.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.

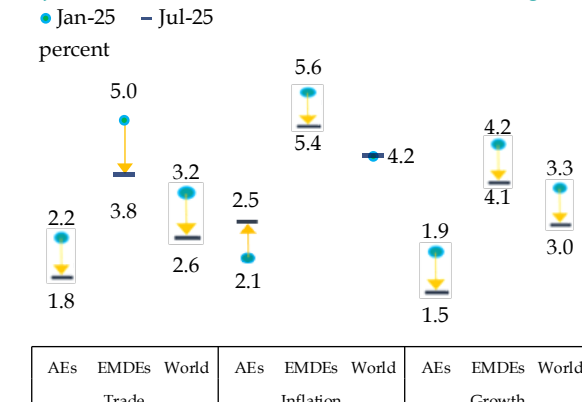
Acknowledging these risks, the multilateral agencies have revised down the projections of global growth and trade, while kept the inflation projections unchanged compared to those prior to the emergence of tariff and geopolitical tensions.⁴ Moreover, the magnitude appears to be more pronounced in trade 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

Projections of Macroeconomic Variables for 2025

Figure 5.8



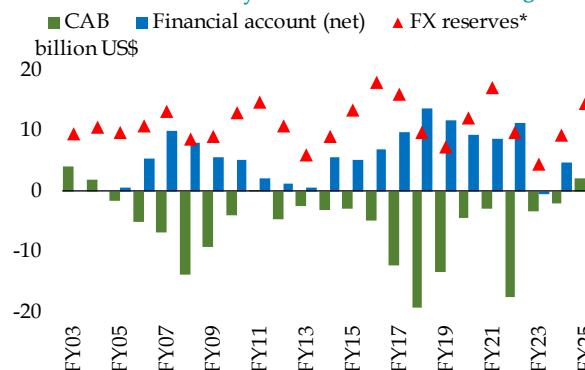
Source: IMF

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

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

Pakistan's Balance of Payments

Figure 5.9



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

Source: SBP

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

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

Pakistan's Balance of Payments*

Table 5.1

million US\$

	FY23	FY24	FY25	Abs. change over FY24
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 2024.⁶ 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

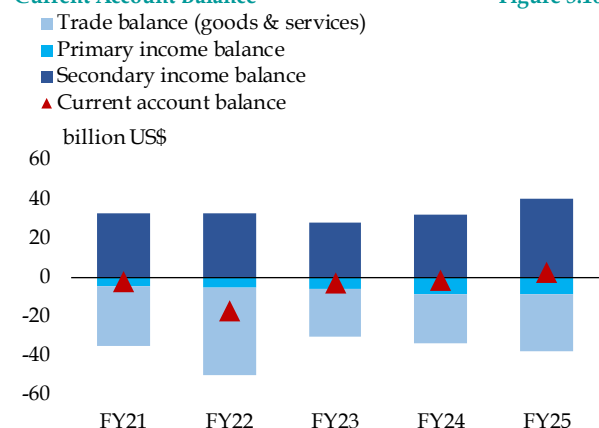
Trade (in goods) Balance⁸

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

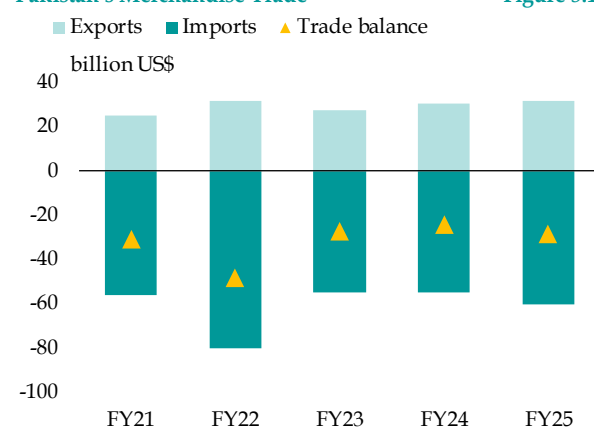
Current Account Balance



Source: PBS

Figure 5.10

Pakistan's Merchandise Trade



Source: PBS

Figure 5.11

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.

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

Merchandise Exports (Major Items)

Table 5.2

million US\$

	Values		Change		Volume Effect	Price Effect
	FY24	FY25	Absolute	Percent		
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	175	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).

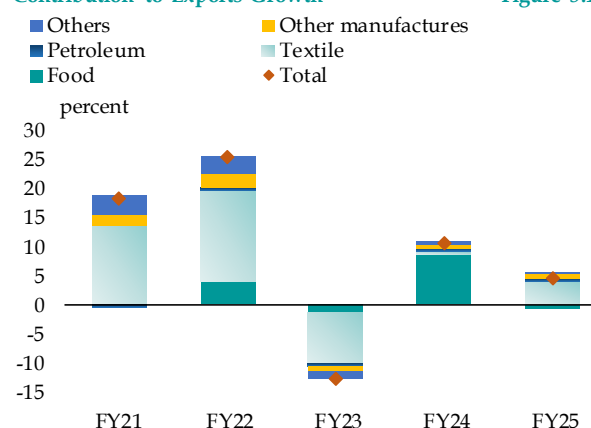
Textile exports

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

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

Contribution to Exports Growth

Figure 5.12



Source: PBS

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).

Exports of Home Textiles

Table 5.3

Exports to US	Volume change (%)	Unit Value (US\$/M2*)	
	FY25 over FY24	FY24	FY25
Thailand	36.2	0.72	0.68
Vietnam	21.0	1.0	1.0
India	8.9	0.90	0.81
Philippines	1.8	0.78	0.89
China	0.5	0.58	0.54
Pakistan	-2.4	0.69	0.71
Bangladesh	-6.4	0.71	0.68

Exports to EU-27	Volume change (%)	Unit Value (Euro/KG)	
	FY25 over FY24	FY24	FY25
Thailand	24.0	5.0	4.9
Vietnam	8.87	4.7	4.9
India	14.7	5.3	5.3
Philippines	32.7	5.0	4.7
China	13.5	3.3	3.3
Pakistan	10.8	5.5	5.5
Bangladesh	5.8	4.8	5.1

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

Sources: Otexa, Eurostat and SBP staff calculations

export of home textiles to EU, driving much of the increase. Amid US tariff uncertainties, Asian Exporters, including Pakistan, redirected export of high-volume home textiles to EU.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

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

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

Sources: Otexa, Eurostat and SBP staff calculations

retailers such as Walmart, IKEA, and Target have adopted the 'China+1 (or +2 or +3)'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

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 relevant trade associations have also advocated for a dedicated 'Apparel Policy', separate from other textile export segments. Source: <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

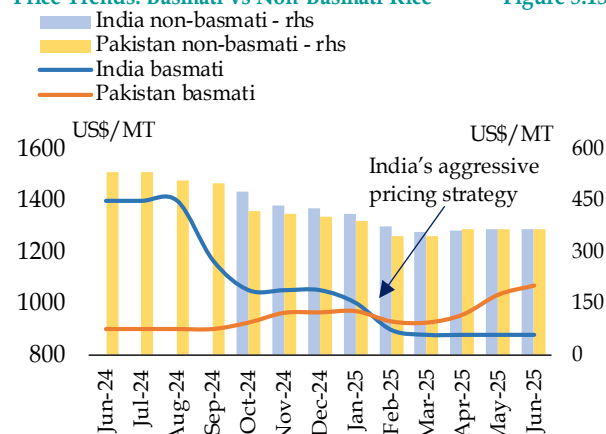
Food group exports declined primarily due to lower rice exports²¹

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

Price Trends: Basmati vs Non-Basmati Rice **Figure 5.13**



Source: FAO

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

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.

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

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

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

Exports of cement is maintaining the momentum

Cement exports increased primarily due to volume effect, driven by strong demand for clinkers from Afghanistan. Export viability improved further amid decrease in international coal prices.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 been 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)

Table 5.5

million US\$

	Values		Change		Volume Effect	Price Effect
	FY24	FY25	Absolute	Percent		
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

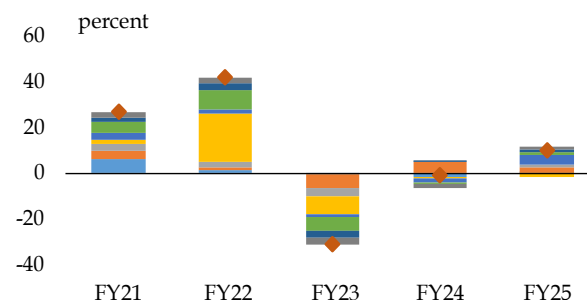
markets,³⁹ along with strategic compliance with international quality and traceability standards as endorsed by the Pakistan Leather Export Strategy (2023–27). With stable and high quality supply of raw material, Pakistan's exports to its high-end markets; Germany, Spain, U.S., U.K., and Canada also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

Contribution to Imports Growth

Food Machinery
Transport Energy
Textile Agri & other chemicals
Metal Others
Total



Source: PBS

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.⁴¹ 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.

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

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

Machinery imports continue to increase albeit at a slower pace

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

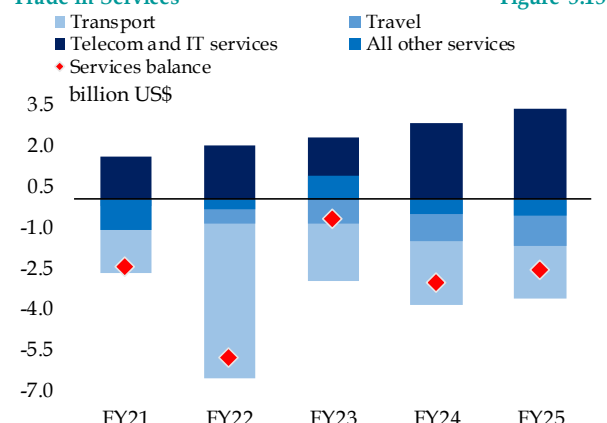
Imports of transport group picked up

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

Trade in Services

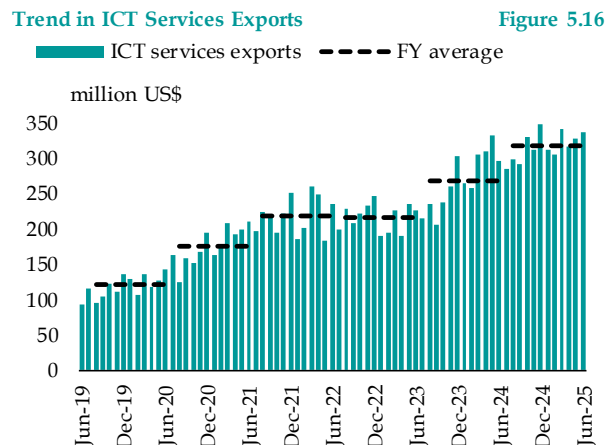


Source: SBP

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

Trend in ICT Services Exports



Source: SBP

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.

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Trade in Services

Table 5.6

million US\$, growth in percent

	FY24	FY25	Change	
			Absolute	Percent
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
<i>Sea freight</i>	109.7	146.0	36.3	33.1
<i>Air passengers</i>	445.2	410.0	-35.2	-7.9
Travel	758.0	720.0	-38.0	-5.0
<i>Education related expenditure</i>	21.3	18.9	-2.4	-11.3
<i>Other (personal)</i>	708.7	677.5	-31.2	-4.4
ICT Services*: of which	3,223.2	3,811.7	588.4	18.3
<i>Telecommunications services</i>	563.0	553.4	-9.6	-1.7
<i>Computer services, of which</i>	2,650.9	3,237.4	586.5	22.1
<i>Software consultancy services</i>	870.6	1,107.6	237.0	27.2
<i>Freelance of computer and information services</i>	408.9	779.2	370.3	90.6
Imports: of which	10,798.9	11,006.7	207.8	1.9
Transport	4,676.1	4,635.7	-40.4	-0.9
<i>Sea freight</i>	2,850.3	2,422.4	-427.9	-15.0
<i>Air passengers</i>	1,295.1	1,445.3	150.2	11.6
Travel	2,266.9	2,405.7	138.8	6.1
<i>Education related expenditure</i>	519.6	622.6	103.0	19.8
<i>Other (personal)</i>	1,720.9	1,757.3	36.4	2.1

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

*Telecommunications, Computer, and information services

Source: SBP

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

Furthermore, increased access to internet services in the country has helped bring the underutilized workforce to the digital platforms, particularly engaging tech-savvy, educated youth, including a growing number of women, into the online labour market.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

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.

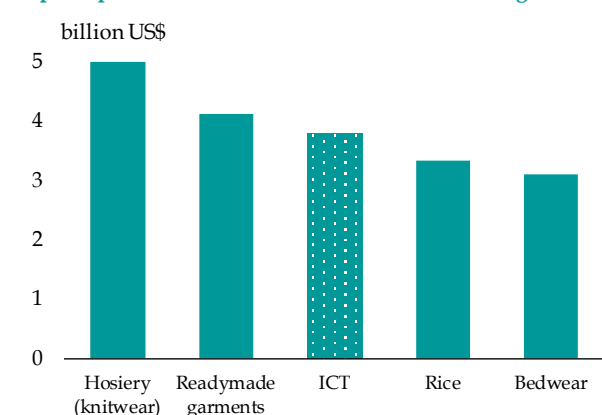
⁵² EPD circular letter no 17 of 2023

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 knowledge-intensive services. It is imperative to address the bottlenecks such as intermittent internet disruptions, relatively expensive broadband and lower integration with global payments gateways to sustain export-led growth in the digital domain (**Figure 5.17b**).

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

Top 5 Exports of Pakistan in FY25



Sources: SBP and PBS

Figure 5.17a

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

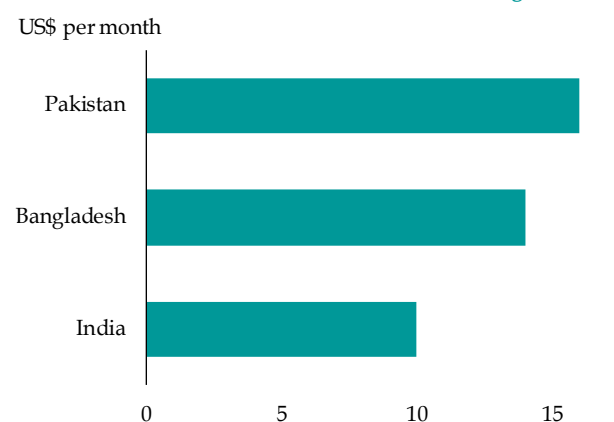
Primary Income Account

The primary income deficit was recorded slightly lower at US\$ 8.9 billion in FY25, compared to US\$ 9.0 billion the previous year. The slight improvement was mainly on account of lower interest payment on external debt owing to easing global financial 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

Broadband Cost



Source: www.worldpopulationreview.com

Figure 5.17b

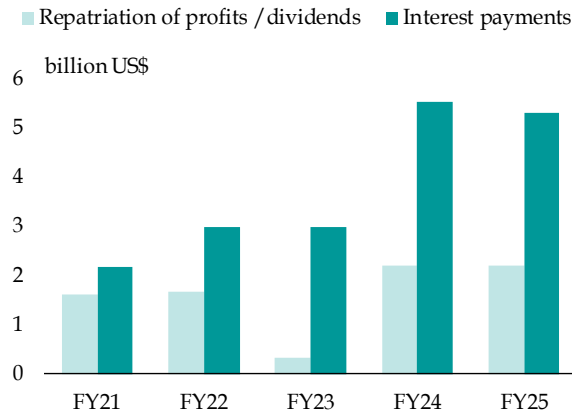
⁵³ Securities and Exchange Commission of Pakistan (SECP) press releases.

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

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.

Primary Income Account - Major Payments Figure 5.18

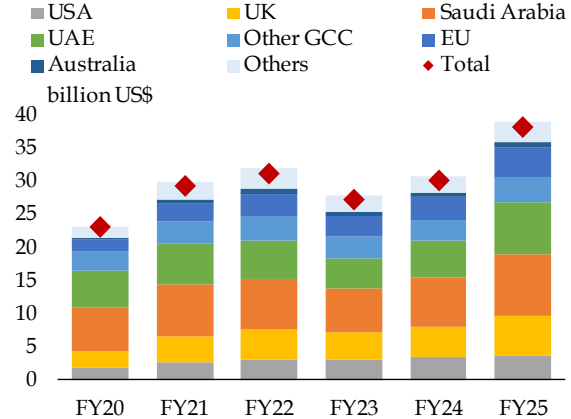


Source: SBP

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

This substantial growth in workers' remittances, even higher compared to peer countries (Figure 5.20), is attributable to both global as well as domestic factors. Globally, robust economic recovery in key host countries, particularly in the Gulf 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).

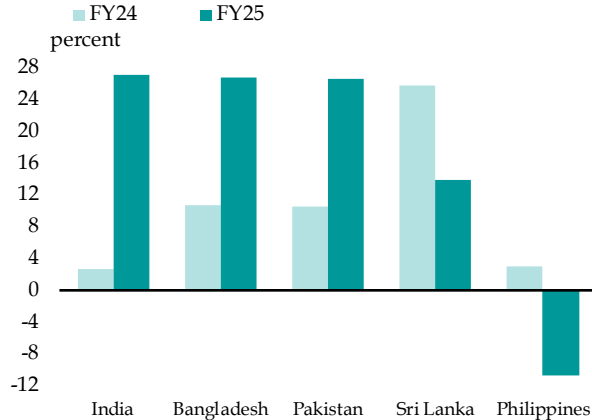
Workers' Remittances - by Country Figure 5.19



Source: SBP

On domestic front, the government and the SBP incentives under Pakistan Remittance Initiative (PRI) helped reduce the transaction costs, which together with stable exchange rate, encouraged remittance inflows through formal channels. These incentives included the reimbursement of TT charges rate for eligible home remittance transactions, which was increased to SAR 20 for transactions of US\$ 100 or higher.⁵⁸ 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.⁵⁹

Growth in Workers' Remittances Figure 5.20



Sources: SBP and Haver

Number of Workers Going Abroad Figure 5.21



Source: BE&OE

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

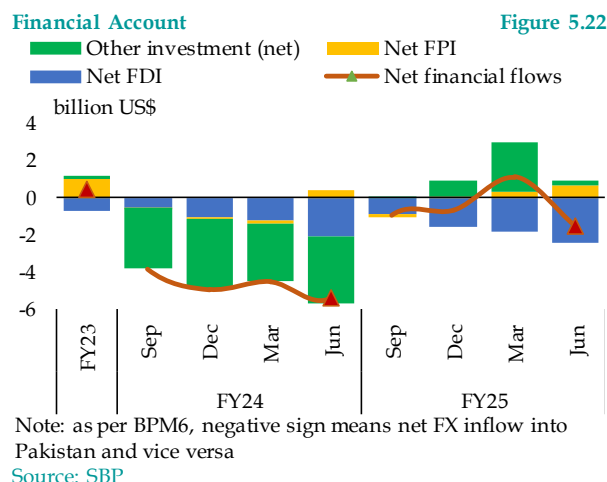
5.4 Financial Account

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

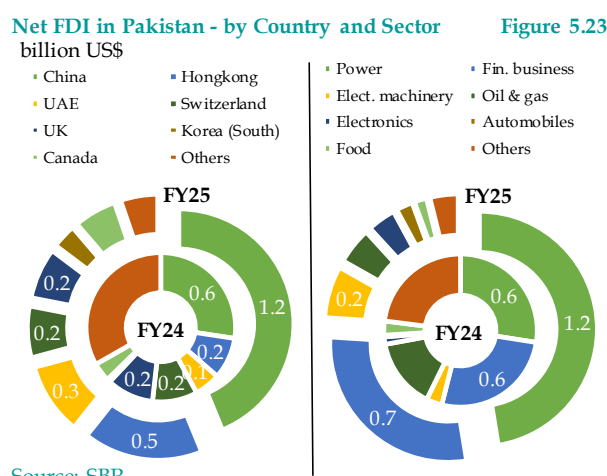
Net foreign direct investment (FDI) in Pakistan surpassed the last year's level by about US\$ 100 million to US\$ 2.5 billion in FY25. Out of which, only US\$ 50 million was realized through a total of 69 merger and acquisition (M&A) transactions in food, logistics, aerospace, media, and e-commerce.⁶²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

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



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

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



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

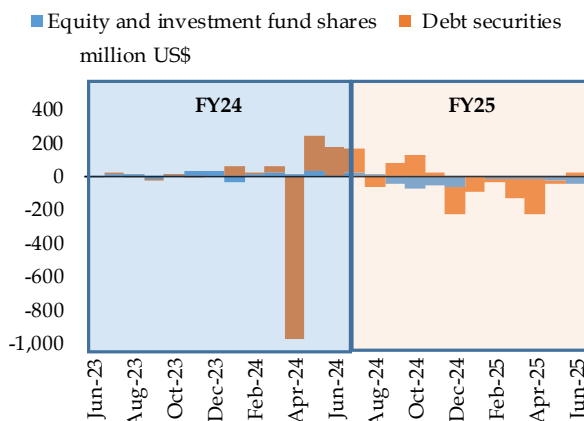
Net foreign portfolio investment (FPI), recorded a higher outflow of US\$ 637 million in FY25 compared to the outflow of US\$ 376 million in FY24. Both the equity and debt markets witnessed net outflows (**Figure 5.24**). The former was largely due to profit taking by foreign investors as the equity 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

Net FPI in Pakistan

Figure 5.24



Source: SBP

Market status in the first quarter of FY25. This reclassification, along with regional and global tensions in the last quarter of FY25, may have changed investment preferences of global institutional investors. Additionally, profit-taking behavior of the foreign investors contributed to the sell-off, as the equity market delivered robust returns in FY25.⁶⁷ 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.

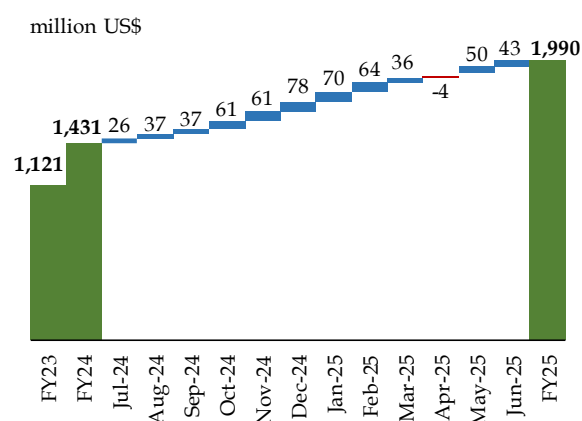
Largely driven by inflows in NPCs, gross inflows in RDAs crossed US\$ 10.5 billion by the end of FY25, with the current financial year recording the highest inflow of US\$ 2.3 billion. Out of this, repatriation and local utilization stood at US\$ 1.7 billion, thus increasing the Net Repatriable Liability (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

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.

Net Repatriable Liability under RDA

Figure 5.25



Source: SBP

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

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

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

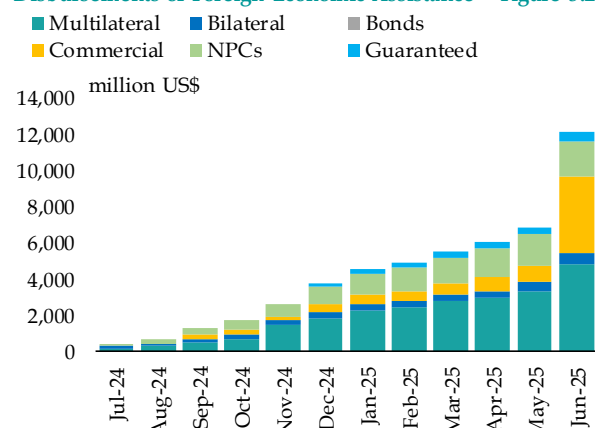
Islamic Development Bank (IsDB) along with Kingdom of Saudi Arabia provided short-term financing of more than US\$ 750 million for the import of oil and LNG, helping cushion the impact of increase in energy import bill. China emerged the largest bilateral lender with US\$ 583 million – a major chunk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

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

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 billion from the KSA and China.

Disbursements of Foreign Economic Assistance Figure 5.26



Source: EAD

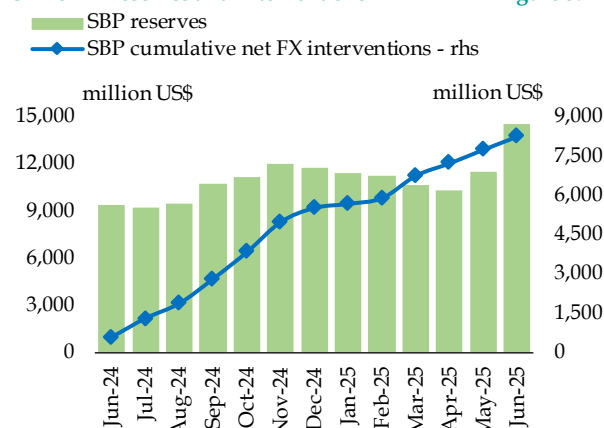
was borrowed from foreign commercial banks with the majority representing refinancing and additional funds underwritten by ADB guarantees.

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

5.5 Exchange Rate and FX Reserves

The SBP's foreign exchange reserves rose to US\$ 14.5 billion by end-June 2025, up by US\$ 5.1 billion from US\$ 9.4 billion at end-June 2024.⁷⁰ 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

SBP's FX Reserves and Interventions Figure 5.27



Source: SBP

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).

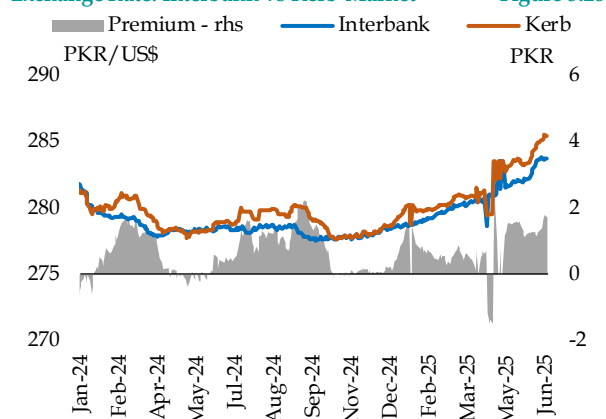
Pakistan's real effective exchange rate (REER) depreciated from 100.1 at end-June 2024 to 98.0 by end-June 2025. The depreciation in REER is largely driven by nominal effective exchange rate (NEER) as domestic inflation fell sharply relative to Pakistan's trading partners (Figure 5.29). The relative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

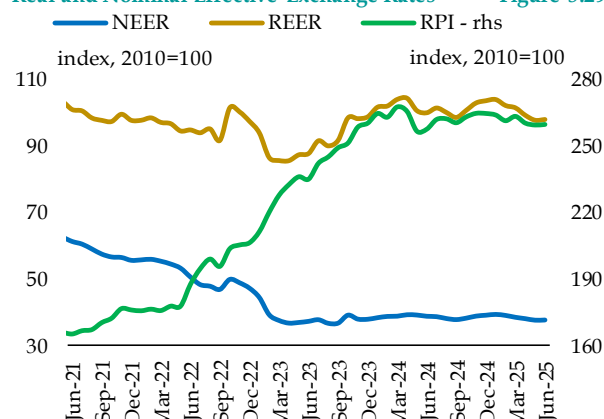
⁷² The standard deviation of daily exchange rate (PKR/USD) increased to 1.5 in H2-FY25, from 0.4 in H1-FY25.

Exchange Rate: Interbank vs Kerb Market



Sources: SBP

Real and Nominal Effective Exchange Rates



Source: SBP

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

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

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

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 competitiveness. Pakistan's shift towards a flexible exchange rate is a welcome step in this regard. Finally, export promotion policies also help to quicken export orientation. For instance, Bangladesh's export growth was in part due to low tariffs on inputs, along with export incentives and facilitation. Thus, tariff reforms must be viewed holistically, with complementary reforms implemented across the economy, especially because trade liberalisation is not a goal in of itself but rather a means through which countries can realise greater growth through exports and robust institutions.

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

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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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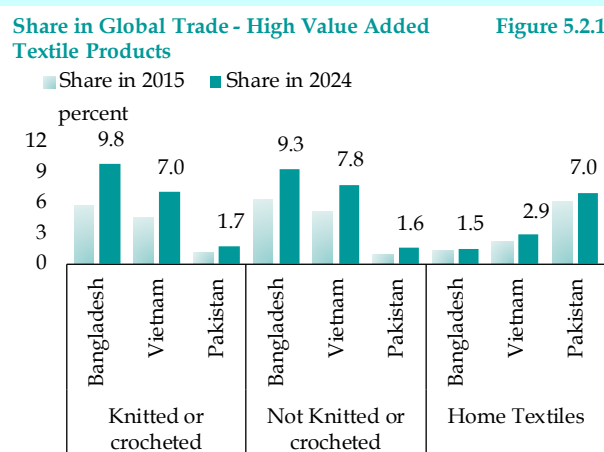
Box 5.2: Unlocking Green Trade Potential through Energy Efficient Textile Retrofitting⁷⁵

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 industry's competitive landscape. The sustainable fashion market⁷⁶ 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.

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.



Source: ITC

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.

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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 ≈ 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).

** 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.

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

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

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

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

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

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

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

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Box 5.3: Tapping Opportunities in Petrochemicals Sector

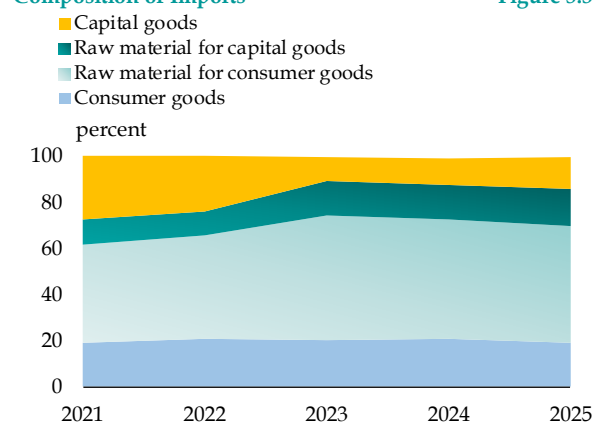
An analysis of Pakistan's import pattern over the past years highlights that the stabilization measures introduced in FY22 had a mixed impact across different import categories. While consumer goods imports remained largely unchanged and capital goods contracted, raw material imports rose – even amid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

Petroleum and petrochemical products constitute a significant portion of Pakistan's import bill. Yet, they also represent an opportunity to reduce external reliance and catalyze industrial expansion. Petrochemicals – derived mainly from petroleum and natural gas through processes such as steam cracking – serve as essential intermediates in the production of numerous value-added goods; therefore making them pivotal to enhancing domestic manufacture capabilities.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 competitiveness of

Composition of Imports

Figure 5.3.1



Source: PBS

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

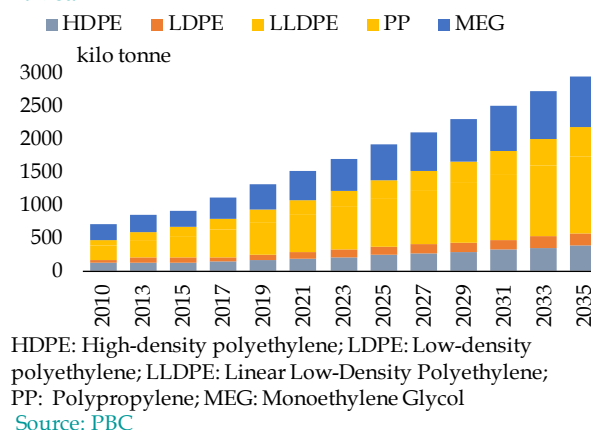
⁸⁰ Chemical Industry Vision - 2030. Final Report, Pakistan Engineering Board

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.

Demand for Petrochemical Derivatives in Pakistan

Figure 5.3.2



As per PBS, Pakistan exported nearly 1 million metric tons of Naphtha (furnace oil) in FY25. Instead of exporting Naphtha at relatively low prices, an integrated complex could convert this excess Naphtha into high-value Olefins, which can fetch nearly double the unit price of Naphtha. According to the Pakistan Business Council estimates, investment in such a complex can save the import bill by US\$ 2.7 billion.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 represents a step towards such industrial deepening. Beyond easing external vulnerabilities, it could re-orient imports into productive capacity, foster export-led growth and increase economic resilience to external shocks.

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

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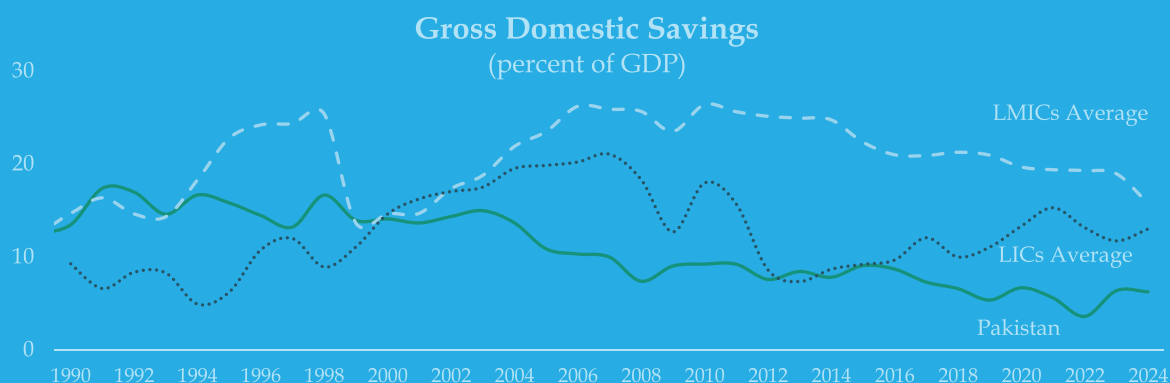
⁸¹ Plastipack Pakistan website: <https://plastipackpakistan.com/pakistan-is-on-the-precipice-of-its-first-ever-petrochemical-policy/>

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

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 The Challenge of Low Savings in Pakistan

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

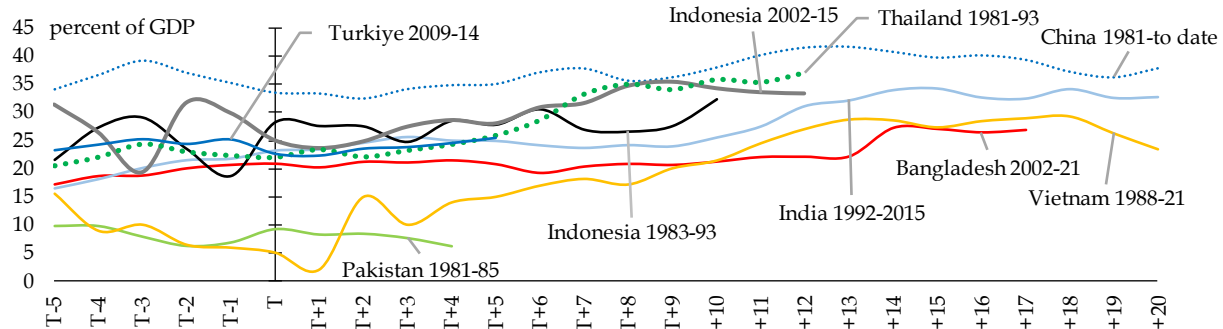
Moreover, higher domestic savings reduces dependence on foreign aid and external borrowing, mitigating risks related to external debt sustainability, and providing domestic

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.

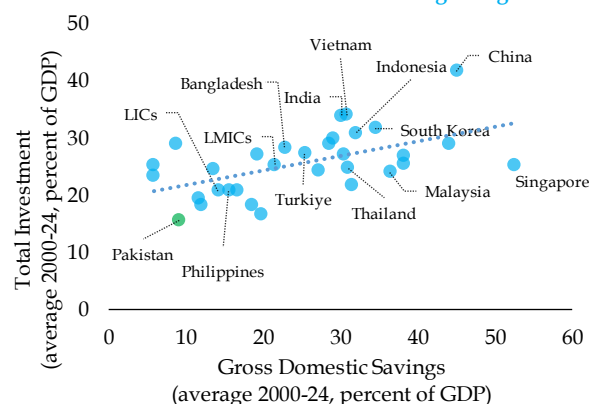
¹ This special chapter draws on background discussions with various public and private sector stakeholders including Securities and Exchange Commission of Pakistan, Pakistan Post Office Department, as well as various real estate and capital market professionals.

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)

Total Investment and Gross Domestic Savings Figure 6.2



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.⁹ 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)

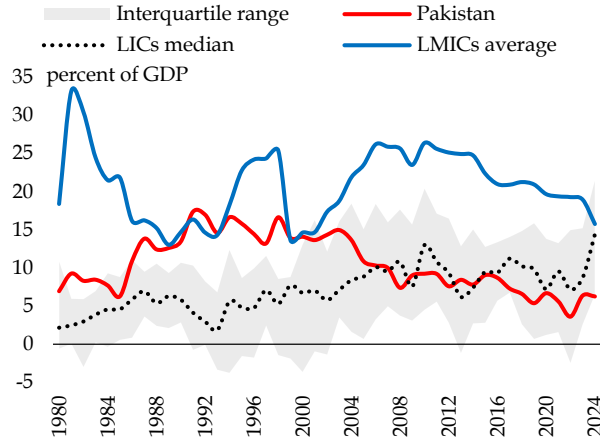
¹¹ A cross-country study shows that a 7 percent rise in dependency lowers domestic savings by 1 percent of GDP, where total dependency and youth dependency both have similar impact on domestic savings. Masson et al. (1998)

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.

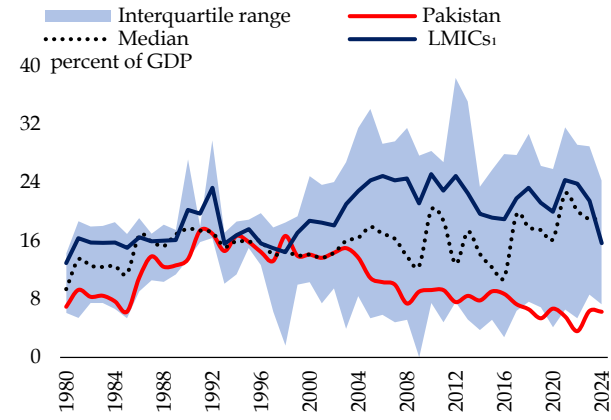
GDS: Pakistan and Low Income Countries

Figure 6.3a



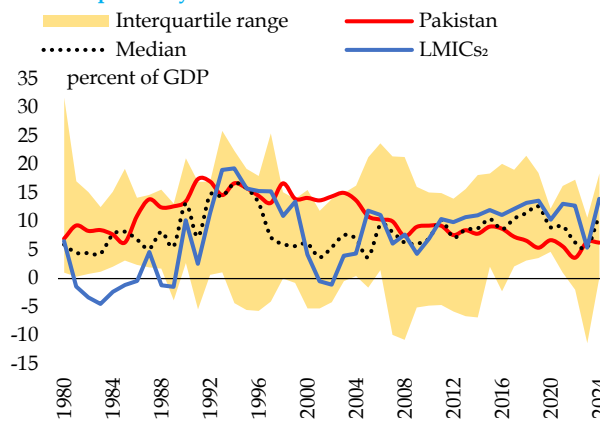
GDS: Pakistan and Other High Inflation Countries¹

Figure 6.3b



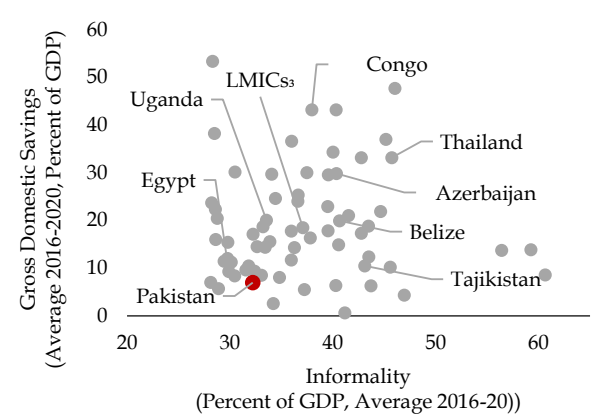
GDS: Pakistan and Other High Youth Dependency Ratio Countries²

Figure 6.3c



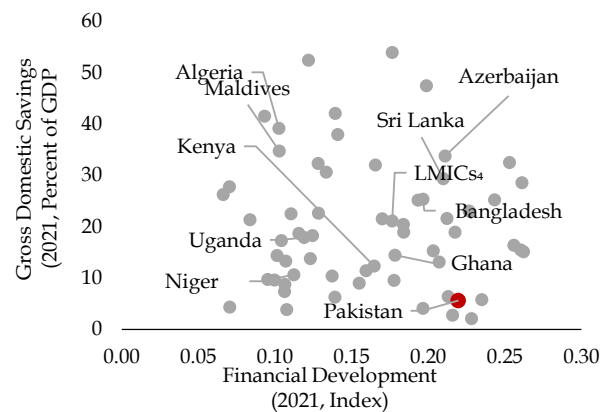
GDS: Pakistan and Other High Informality Countries³

Figure 6.3d



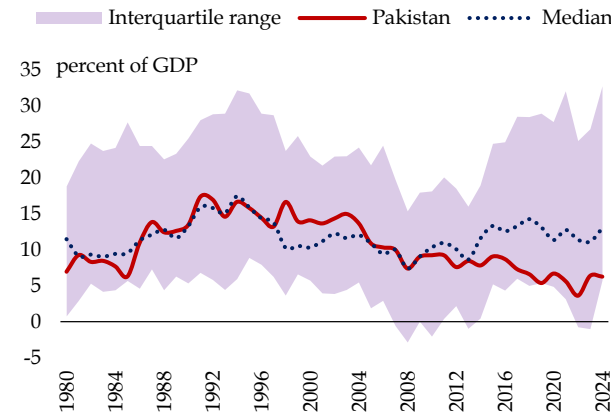
GDS: Pakistan and Other Low Financial Development Countries⁴

Figure 6.3e



GDS: Pakistan and Similar Economies⁵

Figure 6.3f



¹For 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

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

³Following Ohnsorge and Yu (2022), 71 economies with above median informality of 27.1% is considered high. LMIC₃ refers to LMICs with high Informality.

⁴Following 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. LMIC₄ 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.

Sources: IMF, WB and SBP staff calculations

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.

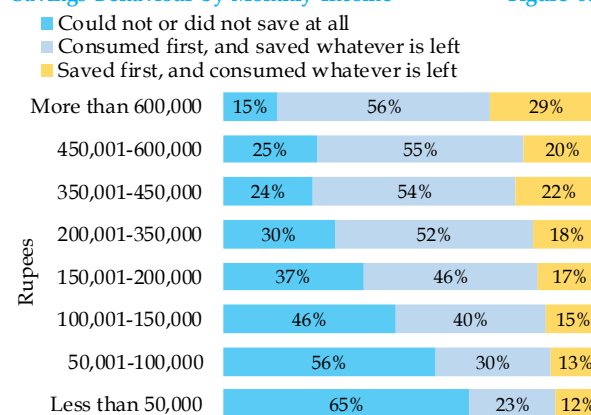
Another likely reason stems from the notion that savings is a matter of habit and culture, and not necessarily solely influenced by income, inflation, financial development, dependency, and so forth. This is somewhat reflected in the findings of SBP Pulse Survey on Savings 2025, conducted for the purpose 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 6.4



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), future-orientation, 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

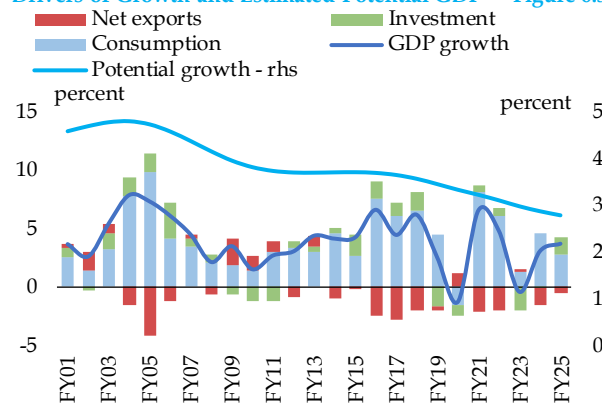
The relationship between GDP growth, per capita income, and savings is critical to understand Pakistan's savings landscape. Higher GDP growth and rising per capita income typically correlate with higher savings, as greater economic output enables more disposable income for savings (Sajid and Sarfraz, 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.¹⁸ 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.

Drivers of Growth and Estimated Potential GDP Figure 6.5



Note: Estimated using Hodrick-Prescott Filter

Sources: PBS and SBP staff calculations

¹⁷ SBP staff calculations

¹⁸ WB (n.d.)

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.

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).

With RiR remaining mostly negative or marginally positive between 2004 and 2023, the incentive to save in interest bearing assets has been relatively low (**Figure 6.6**), as the return on 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**).

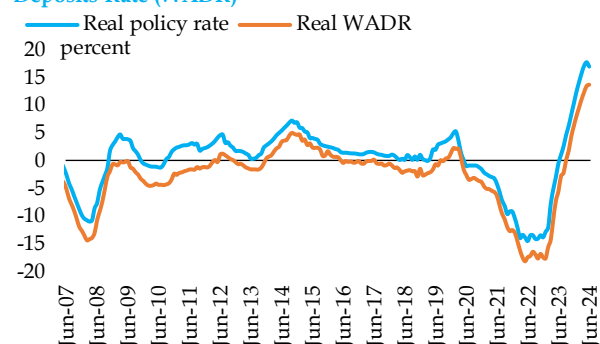
Studies on determinants of savings in Pakistan are somewhat dated with limited coverage of variables. In this context, **Box 6.2** attempts to fill that gap and empirically investigate the major determinants of savings in Pakistan. Six key findings emerge from this empirical analysis. First, there is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

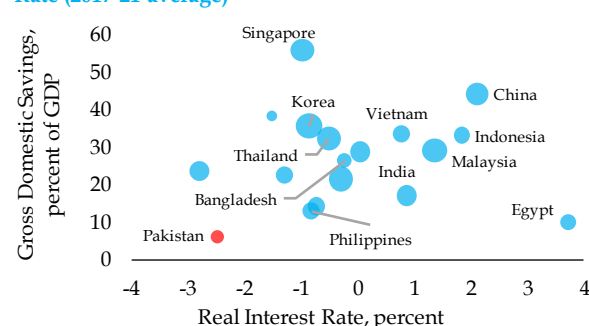
Real Policy Rate and Weighted Average Deposits Rate (WADR) **Figure 6.6**



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

Sources: SBP, PBS and SBP staff calculations

Gross Domestic Savings and Real Interest Rate (2017-21 average) **Figure 6.7**



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

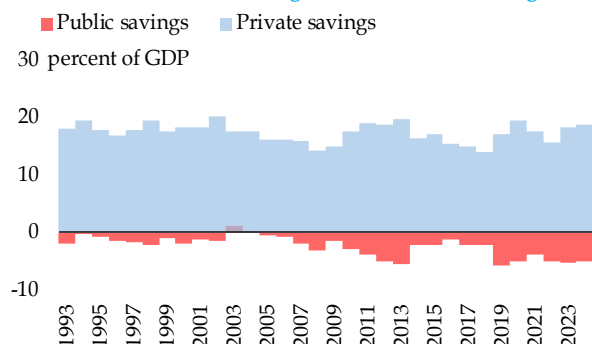
Sources: WB, IMF and SBP staff calculations

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.

Breakdown of National Savings

Figure 6.8



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

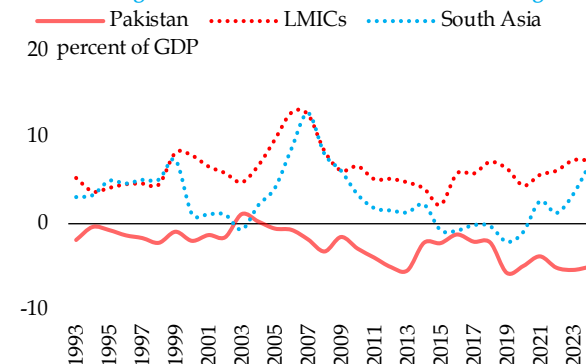
from the persistent fiscal deficit that, until recently, has been growing over the last two decades. This has also been weighing on public and private investment, and as a result on long-term economic growth.²⁵ In the context of domestic savings, two related concerns are worth highlighting.

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.

Public Savings

Figure 6.9



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 Guidottini (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 in Government Instruments

Table 6.1

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.
Insurance^d	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; ^cSBP Statistical Bulletins (Dec 2015 to Mar 2025); ^dSBP, 2020-24; ^eSBP, 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

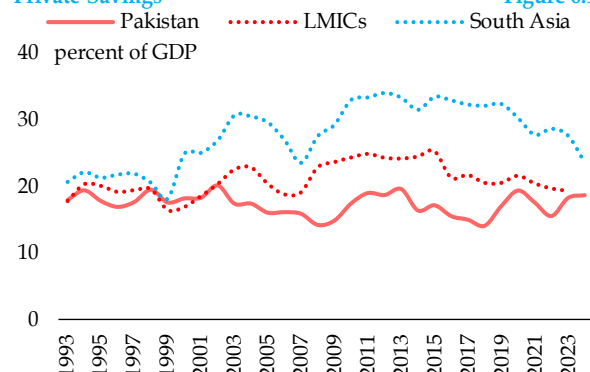
and income group peer economies during the same period (Figure 6.10). The sectoral breakdown of private savings shows that household savings form the bulk of the country's private savings, whereas corporate savings remains negligible (Figure 6.11). The share of corporate savings in Pakistan is in line 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 sub-section relies on HIES 2018-19 to analyse

Private Savings

Figure 6.10

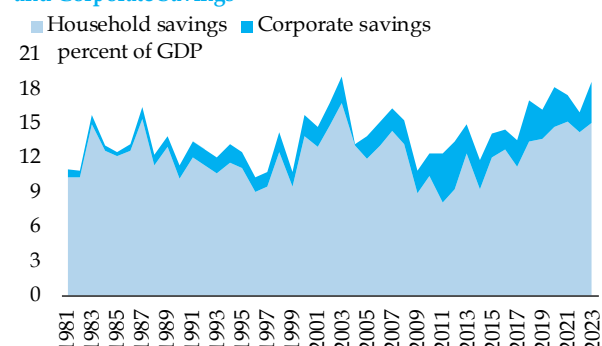


Note: Private savings are estimated as the difference between gross national savings and public savings

Sources: WDI, IMF and SBP staff calculations

Breakdown of Private Savings: Household and Corporate Savings

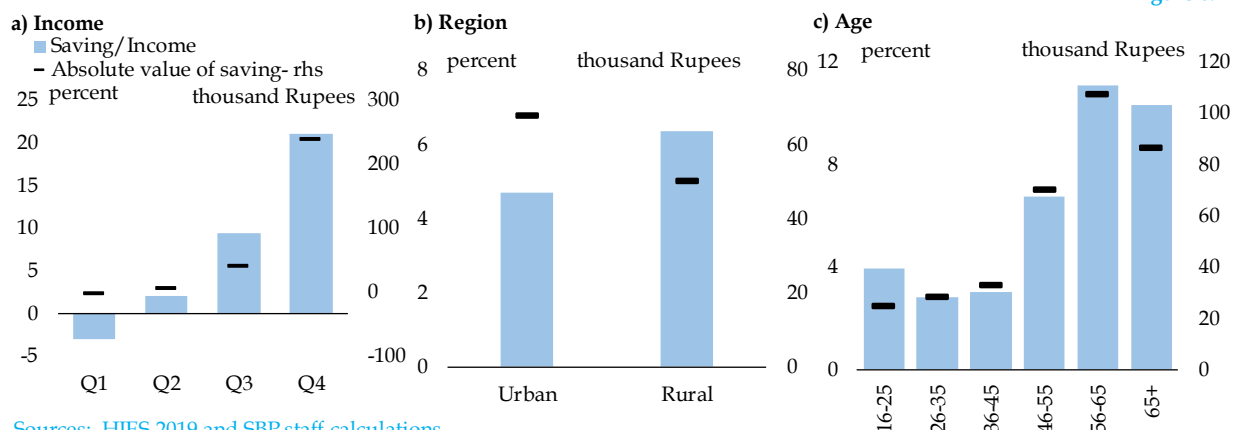
Figure 6.11



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

Source: SBP, PBS, and SBP staff calculations

Saving Ratio by Income, Region and Age



Sources: HIES 2019 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.

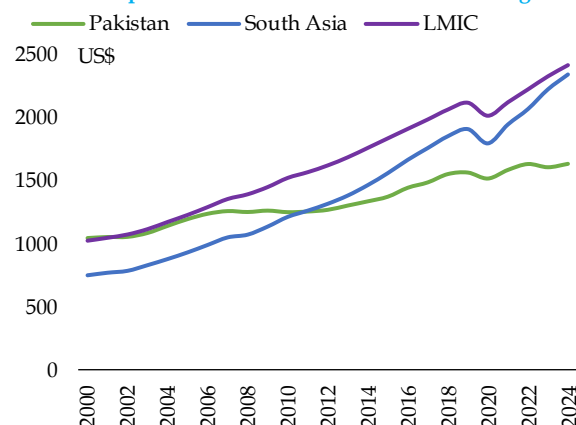
Analysis of HIES 2018-19 shows that income is a major driver of savings growth (Figure 6.12a). Households in the fourth income quartile save substantially more, with a 12-percentage point difference from the third quartile. This echoes the findings of earlier research (Khalid, 2023) that shows household 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

GDP Per Capita - Constant 2015 USD



Source: WB

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.

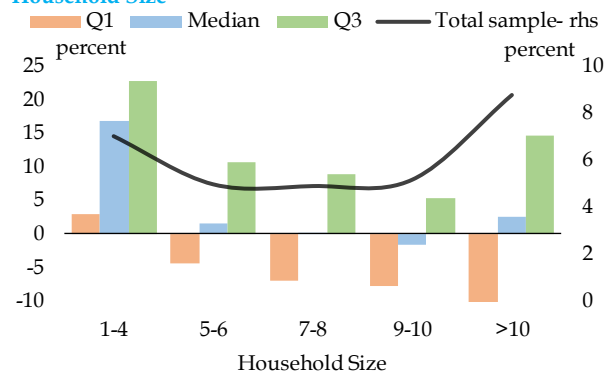
The need for policy interventions to control high population growth and reduce dependency is also evident from the differences in saving rates of different household sizes. There is clear evidence that savings rates decline with an increase in household size within nuclear family sizes (**Figure 6.14**), 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

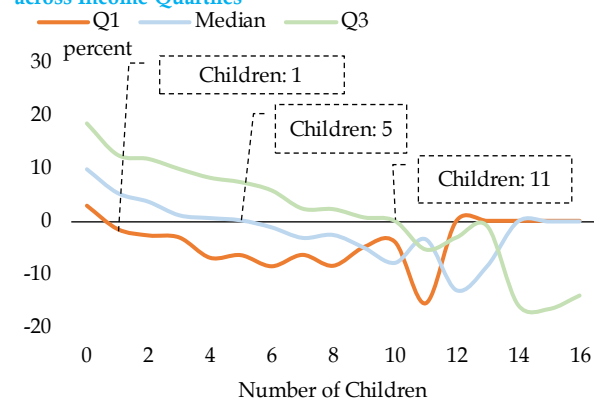
The size of informal savings in Pakistan is widely understood to be large. Although precise

Figure 6.14
Saving Ratio by Income Quartile and Household Size*



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

Figure 6.15
Point of Dissavings by Number of Children across Income Quartiles



Sources: HIES 2019 and SBP staff calculations

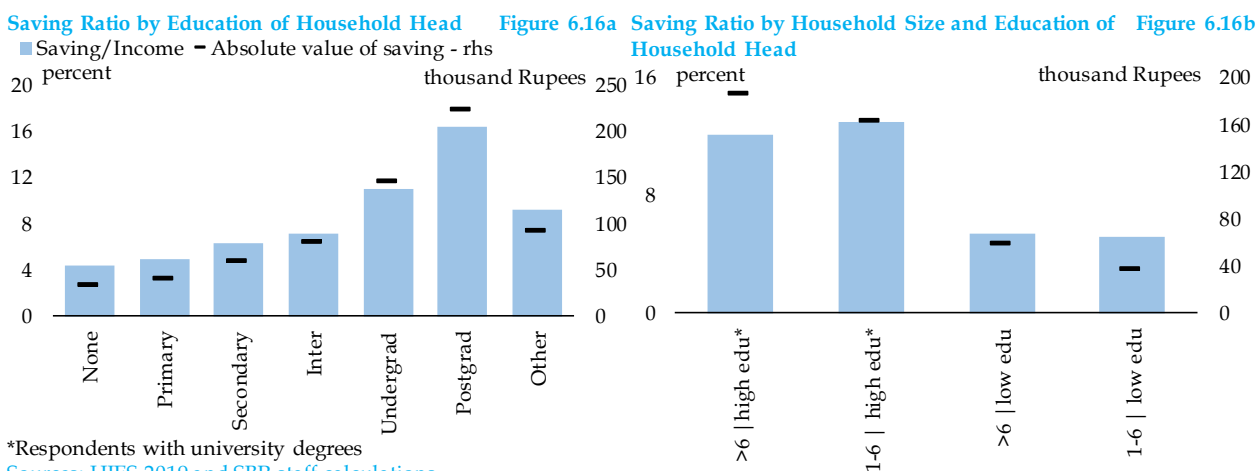
³⁵ SBP staff calculations based on UN Population Division, medium fertility projections 2024-2100.

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.⁴⁴ 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.⁴⁵

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

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)

Real Return on Financial Assets

— Weighted average deposit rate
 — KSE-100
 — T-Bill - 1 year cut off yields
 — Defence saving certificate
 — NSS saving account

150 thousand Rupees

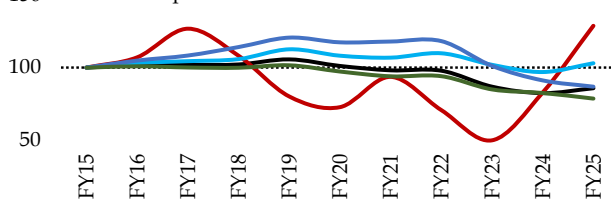


Figure 6.17a

Real Return on Cash and Non-Financial Assets

— Gold - Price/Tola
 — Cash
 — House & flat index*
 — USD - Kerb rate
 — Residential & commercial plot index*

300 thousand Rupees

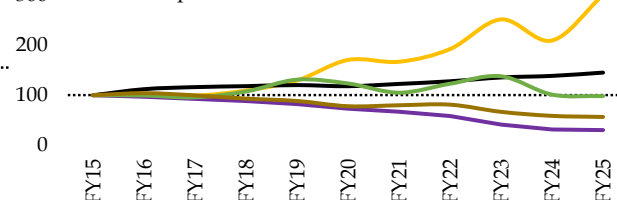


Figure 6.17b

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

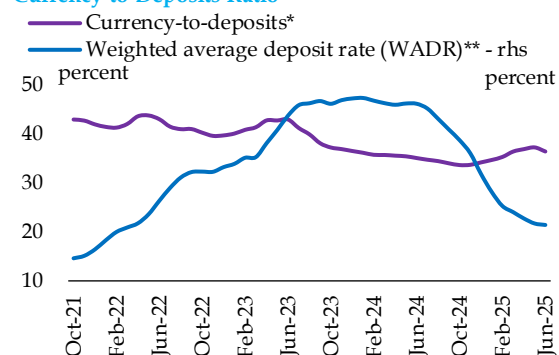
and found the charges associated with FIs too burdensome.⁵⁴ These issues are compounded by low levels of financial literacy that impact the level of trust in financial institutions and markets among those who are financially excluded.

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

Monetary Tightening Cycle and Currency-to-Deposits Ratio

Figure 6.18



*3-month moving average; **WADR on fresh deposits excluding zero mark-up and inter-FI deposits

Source: SBP

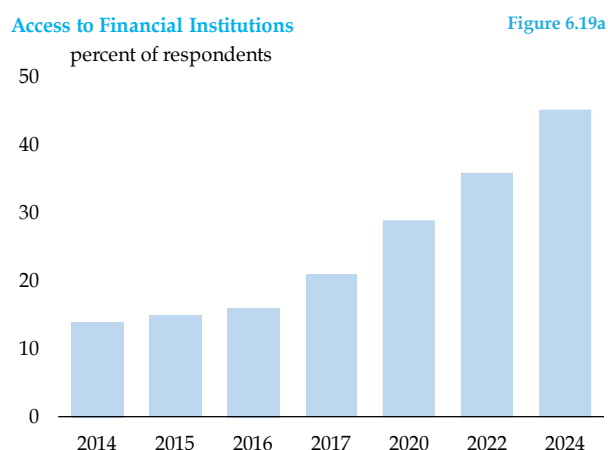
⁵³ Vincelette (2006)

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'.

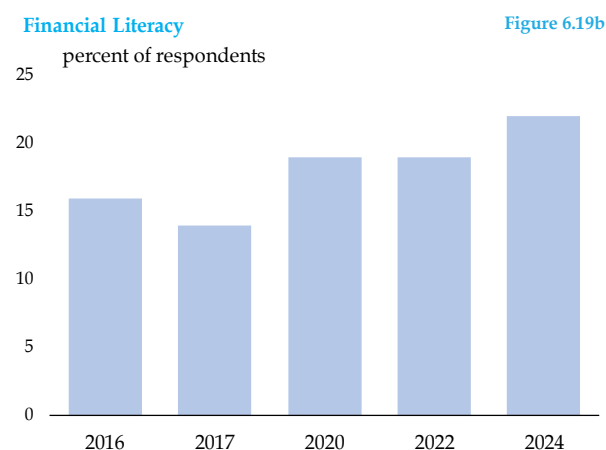


Source: Karandaaz K-FIS Survey; Various Issues

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)

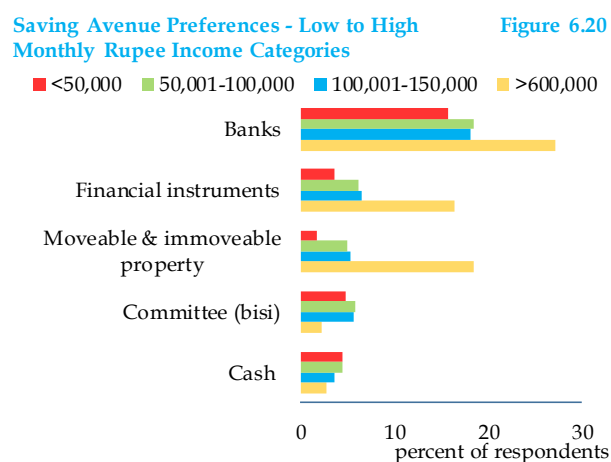
⁶⁰ Zhuang et al. (2009)

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

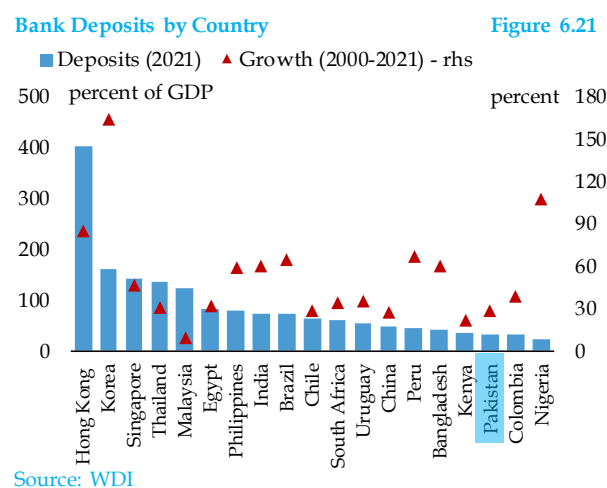
The banking industry dominates Pakistan's financial sector in terms of assets and liabilities, which makes it the largest mobiliser of domestic savings. It is also the most preferred financial institution for formal savings across income levels (**Figure 6.20**). Over the last 40 years, the country's banking sector has seen significant infrastructural, policy and regulatory developments as well as



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



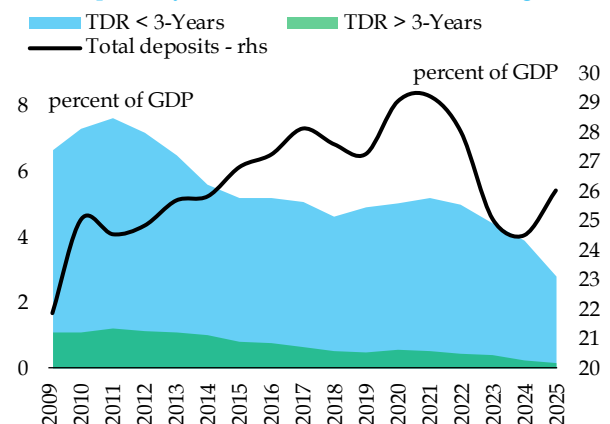
⁶² Pakistan underwent interest rate liberalization, removed quantitative controls, privatized public financial institutions and introduced market-based securities in early 1990s and began its digitization journey in the early 2000s.

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)

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Bank Deposits by Tenor

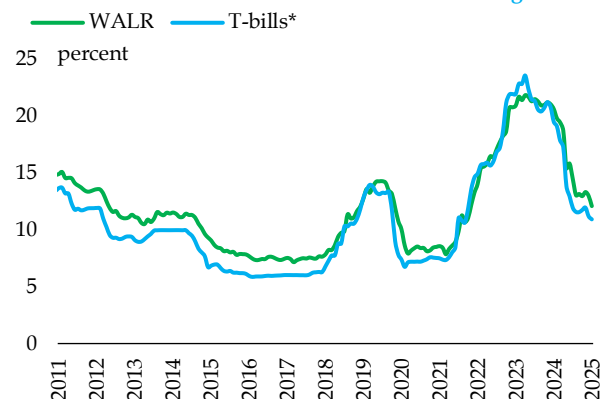


Source: SBP

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

WALR and Return on Risk-Free Investment



*Average cut-off rates of 3, 6 and 12 month T-bills

Source: SBP

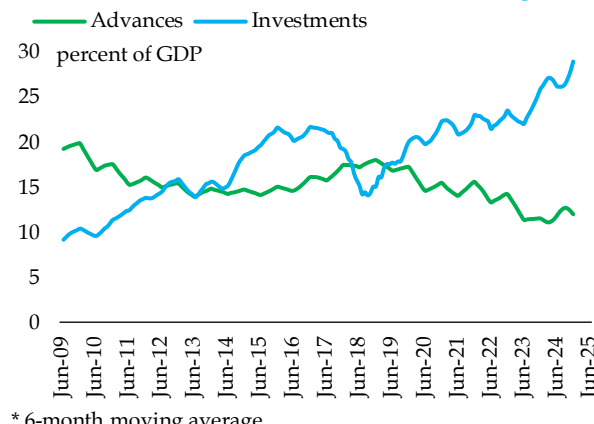
⁶⁵ SBP (2023); Khan and Qayyum (2006)

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)

Advances and Investments of Scheduled Banks*



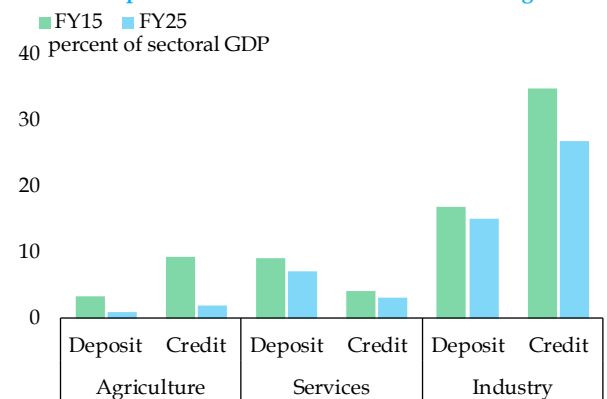
* 6-month moving average

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

Sectoral Deposits and Credit



Note: GDP at current market prices

Sources: SBP and PBS

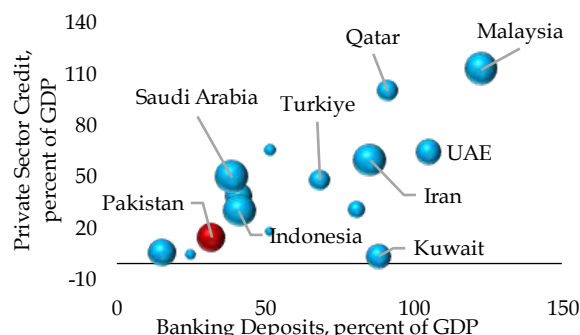
However, that is only one side of the picture. Historical data of loan applications suggest that the loan amount demanded by would-be borrowers is not substantially higher than the amount actually loaned.⁶⁹

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 supply-side 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

Banking Penetration and Islamic Finance 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)

⁷² Among 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).

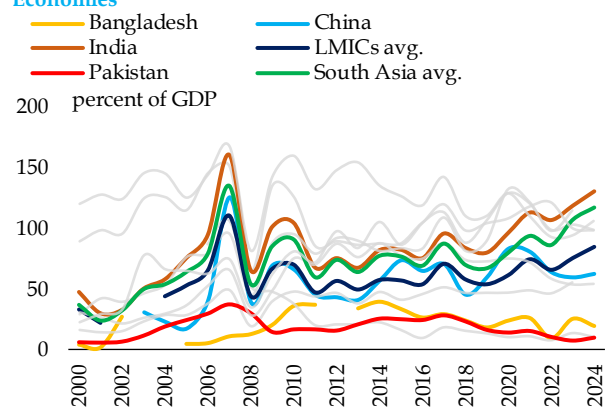
Similarly, stock trading in Pakistan is significantly lower compared to regional peers and countries with similar income levels (Figure 6.28). While market access — the ability of individuals and companies to access capital market services — has

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

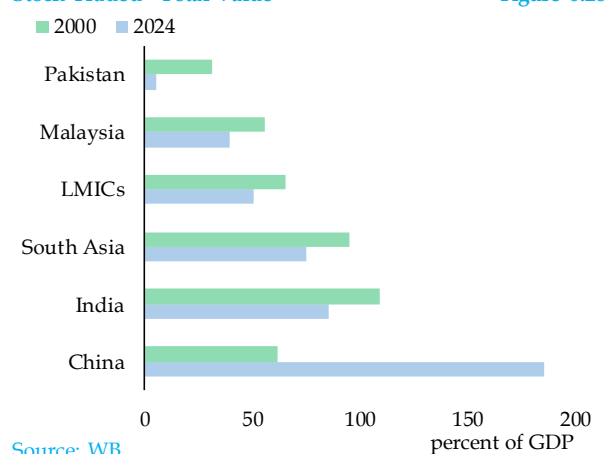
Market Capitalization of Select Regional Economies



Sources: WB and MoF

Figure 6.27

Stock Traded - Total Value



Source: WB

Figure 6.28

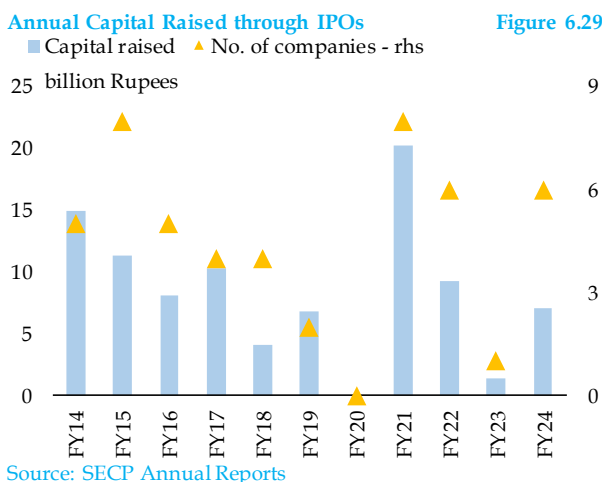
⁷⁴ Gregorio and Guidottim (1995); Estrada et al. (2010); IMF (2001)

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.

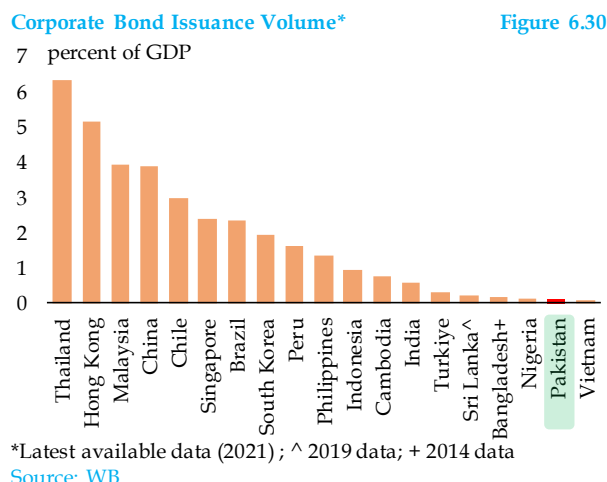
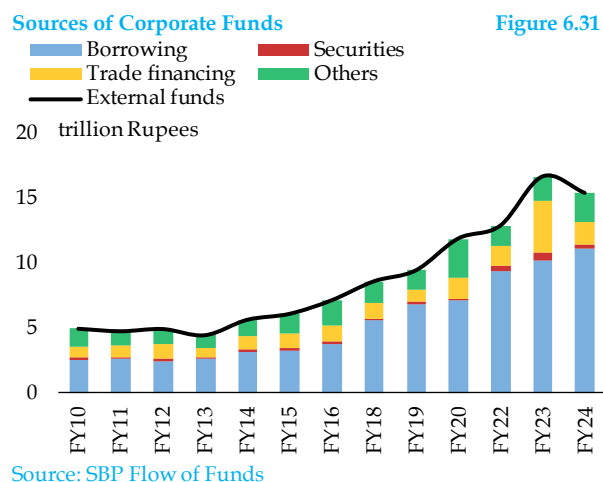
⁷⁷ Capital market access is composed of the percent of market capitalization outside of top 10 largest companies; and total number of issuers of debt.

⁷⁸ WB (2023); WB (2022b); Uppal (2011)



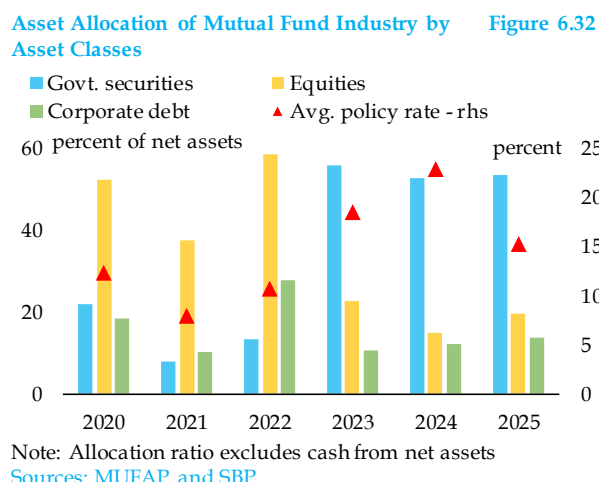
Firm level data also suggests that the bond market remains shallow, as companies predominantly prefer bank borrowing over the issuance of corporate debt securities, such as Term Finance Certificates (TFCs) and commercial papers (Figure 6.31). This preference is primarily driven by the high transaction 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



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

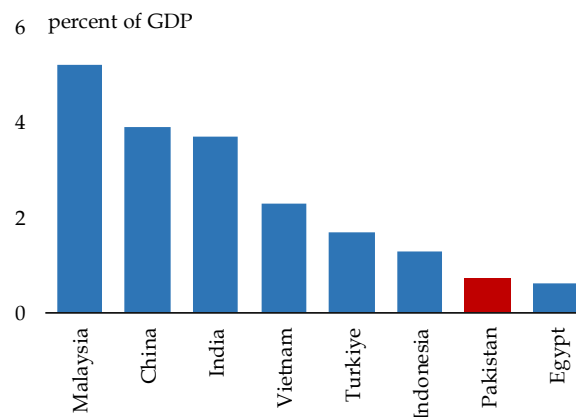
The insurance and pension industry is an integral part of the formal financial system given its strong links with banks, capital markets, public and private sector borrowers, as well as individuals and corporations. Their large and often long-term

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 Türkiye. 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



Source: Swiss Re Institute Sigma 03/24

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 agri-insurance. 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)

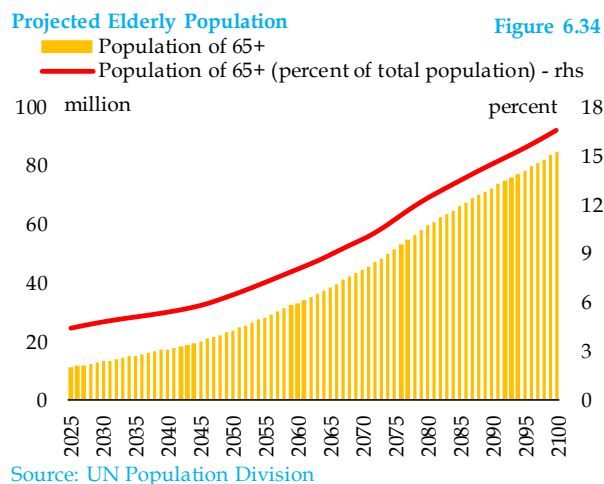
⁹⁴ According to SBP Pulse Survey 2025, 67 percent of respondents who saved said their main purpose of saving was precautionary for income/health shocks, and 42 percent said they were saving for retirement. This suggests a latent demand for insurance and pension products.

well-planned insurance and pension industry, rather than through public charity and social safety nets. The bulk of Pakistan's population is currently young, and given its current growth trend, it may continue to be so in the future. However, in 30 years, the share of individuals who are 65 years or older is projected to rise from 4.3 percent of the total population to 7.2 percent (Figure 6.34).⁹⁵ This would equal around 28 million people.⁹⁶ Given annuity accumulation is a relatively long-term process, Pakistan's insurance and pension industry needs active development to be able to cope with these projections.

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)

Postal Saving Bank (PSB) Models in the World

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 Transition	Limited	Transitional (various arrangements are being made under government or Post offices)	Currently evolving	Rare	Mongolia, Laos
Post Bank Model	Yes	Banking corporation with an independent board under the central bank regulations	Provides full banking services	Yes	Japan, Korea, Germany, China (after PSBC)

Source: Scher and Yoshino (2004)

savings but also supports economic development in rural and underserved areas.¹⁰⁰

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).

In Pakistan, the Pakistan Post Savings Bank (PPSB) worked as a department of the Pakistan Post prior to its closure in 2021–22. The PPCB played a significant role in advancing financial inclusion and mobilising national savings, particularly for underserved populations. At the time of its closure, PPCB 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 PPCB was able to garner this amount from diverse and underserved segments and geographies.

In 2021, PPCB 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 focussing 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 Practices¹⁰⁶

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.

Capital and Financial Balance Methodology: 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.¹¹¹ 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.

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 Miralles (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 Türkiye. These results suggest that fiscal consolidation is expected to raise savings in the long run.

Long-Run Results **Table 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

Short-Run Results **Table 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 Miralles, 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.

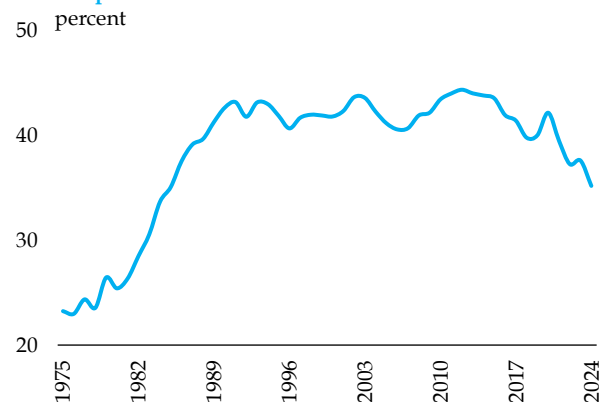
Estimation of informal economy and informal savings:

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

Informal economy: 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.

Informal saving: 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

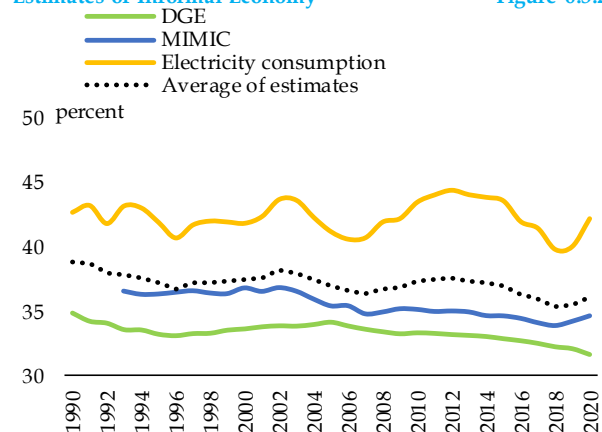
Estimate of Informal Economy: Electricity Consumption



Sources: SBP staff calculations on SBP, WB, PBS & MoF

Figure 6.3.1

Estimates of Informal Economy



Sources: WB & SBP staff calculations

Figure 6.3.2

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.

Approximating Informal Savings

Table 6.3.1

Calculation	Indicator	Value
Method 1: Private Savings		
<i>1. Assuming all private savings are saved informally</i>		
A	Informal Economy Estimates – 2023	24,635 billion Rupees
A x 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
<i>2. Private savings after subtracting worker remittances</i>		
A	Informal Economy Estimates – 2023	24,635 billion Rupees
A x (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 x 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.

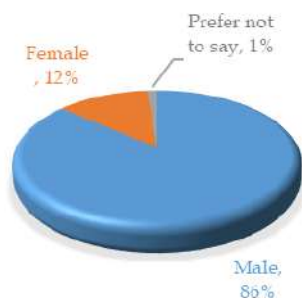
- 5) **Limitation:** The online and email-based mode of the survey meant that most respondents were comparatively literate. Survey results confirmed this, with over 80 percent of participants reporting education at the graduate level or higher. Consequently, the findings primarily reflect the saving 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

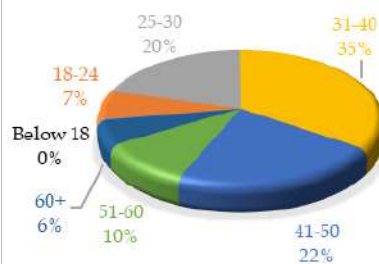
a. Demographics

Gender

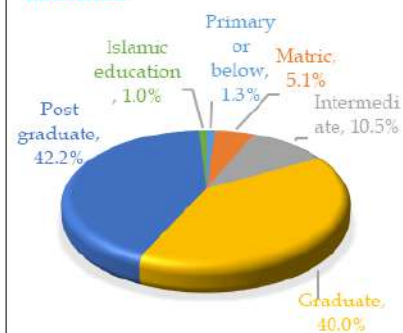


Age

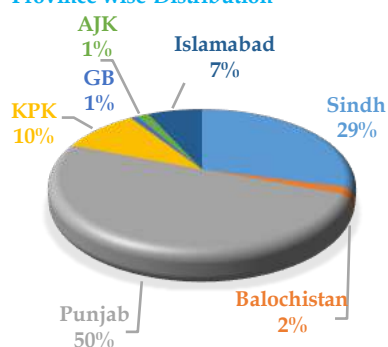
(percent of responses in each range)



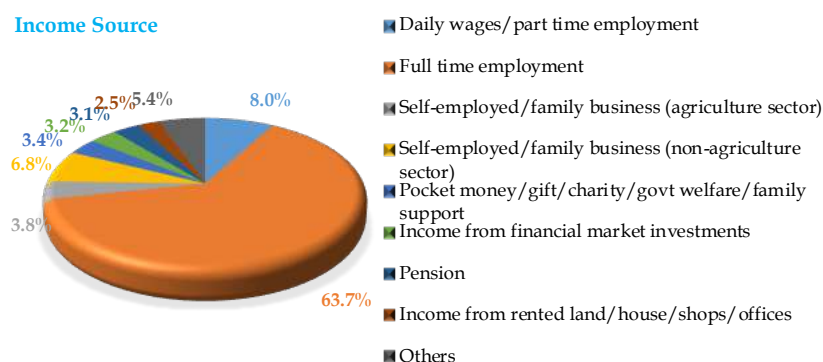
Education



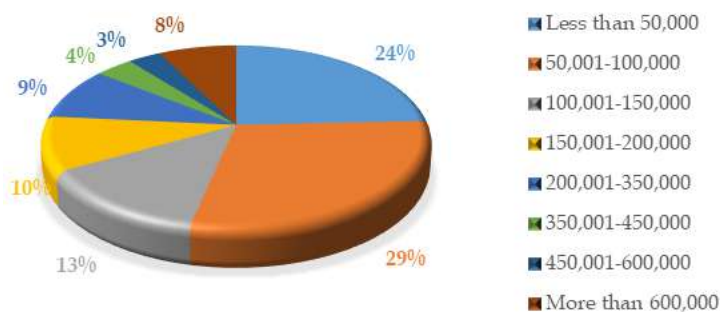
Province wise Distribution



Income Source

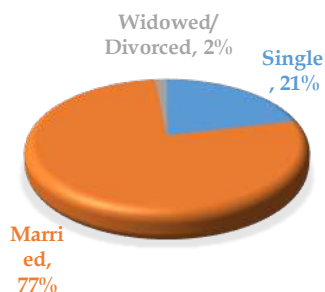


Income wise distribution

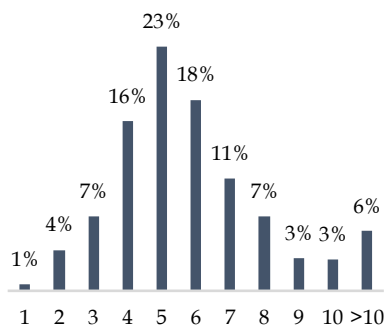


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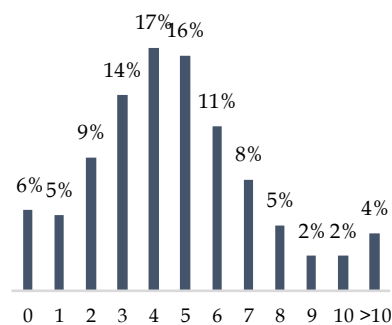
Marital Status



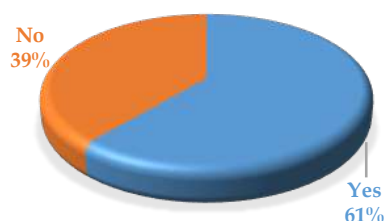
Number of Family Members



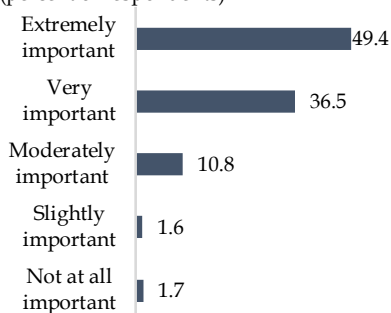
Number of Dependents



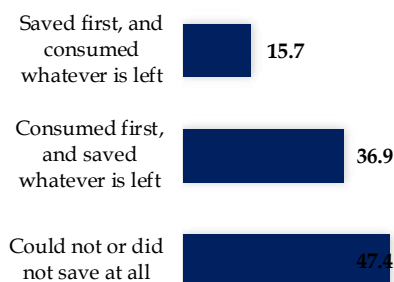
Permanent/source of income in the last 3 years



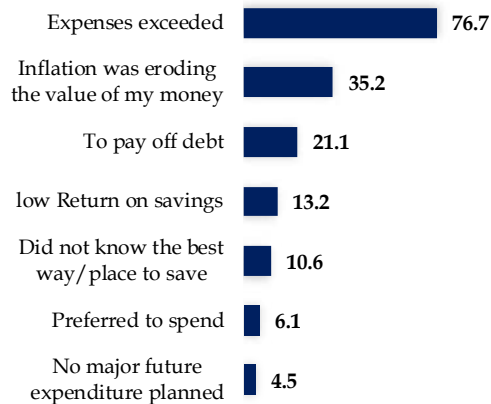
Is it important to save? (percent of respondents)



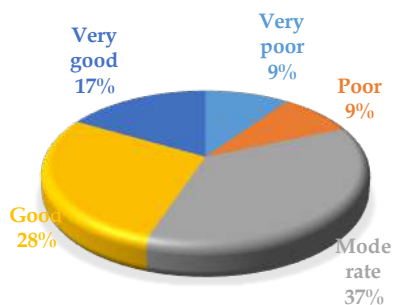
Saving behavior in last 3 years



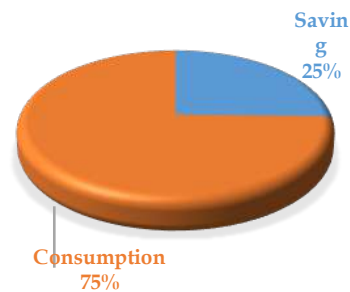
Reasons for not saving



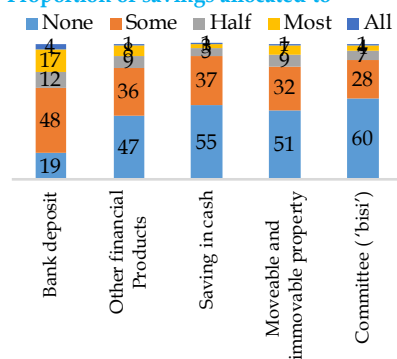
Understanding of basic financial concepts



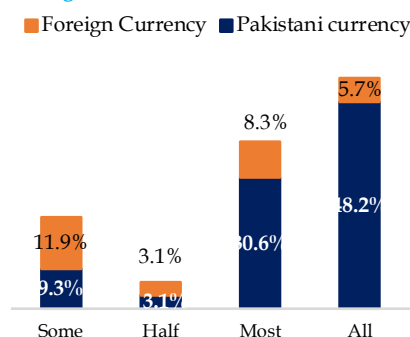
Personal income distribution in last 3 years



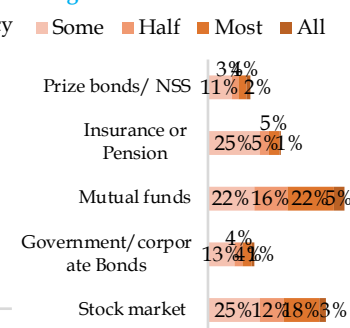
Proportion of savings allocated to



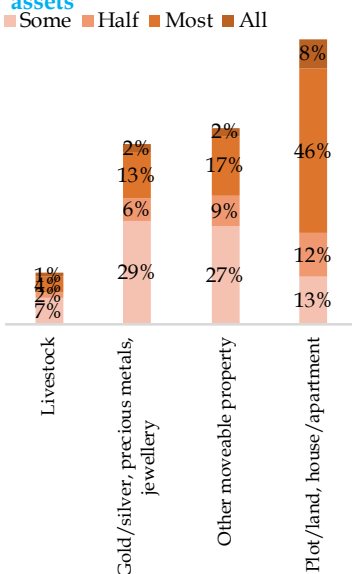
Those who allocated most or all savings to cash



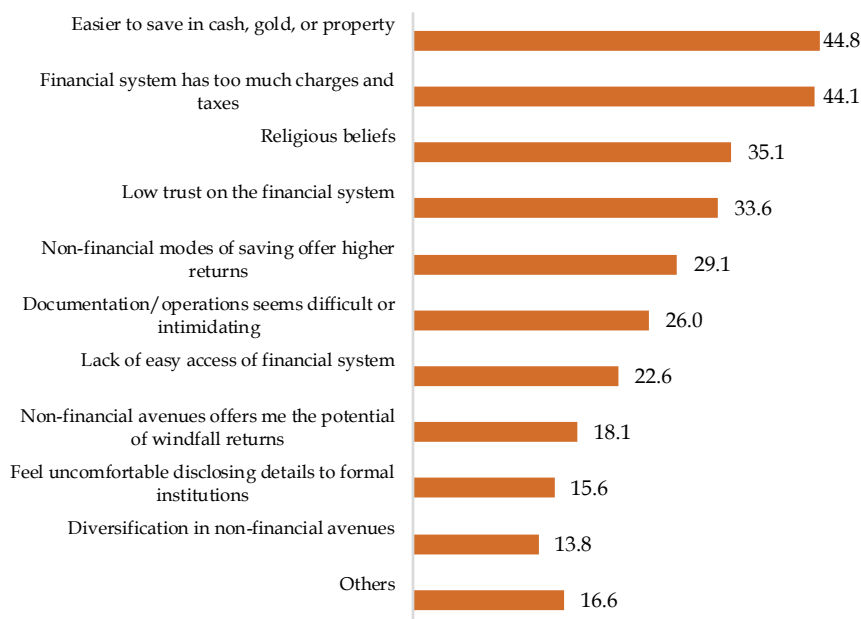
Those who allocated most or all savings to financial instruments



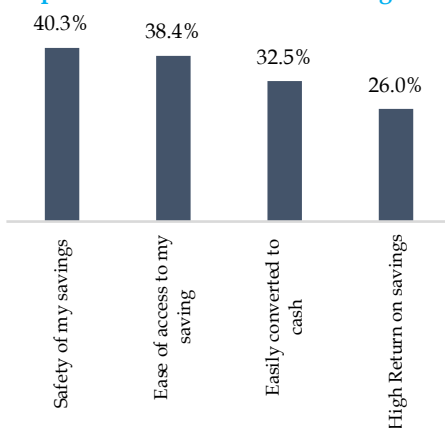
Those who allocated most or all in movable/immovable assets



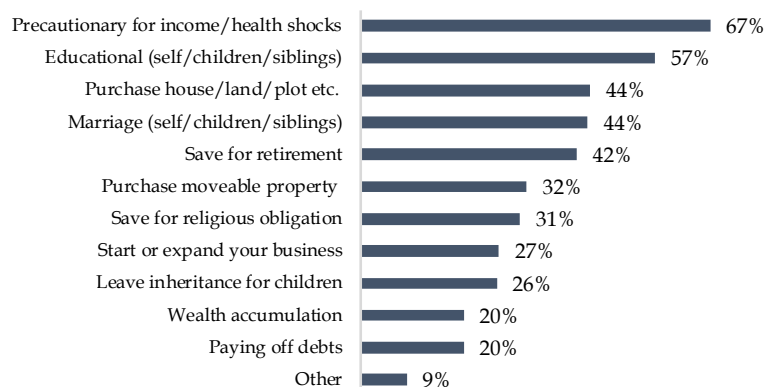
Reasons why saving was mostly in non-financial saving avenues



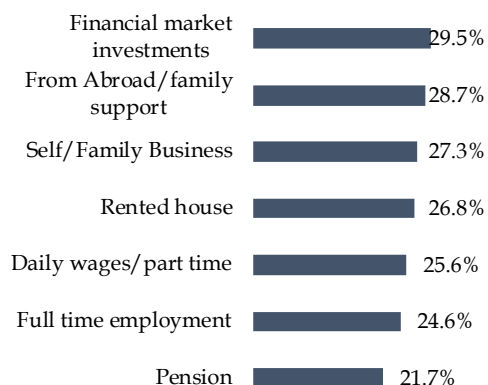
Importance of Attributes of Savings



Main Purposes of Savings

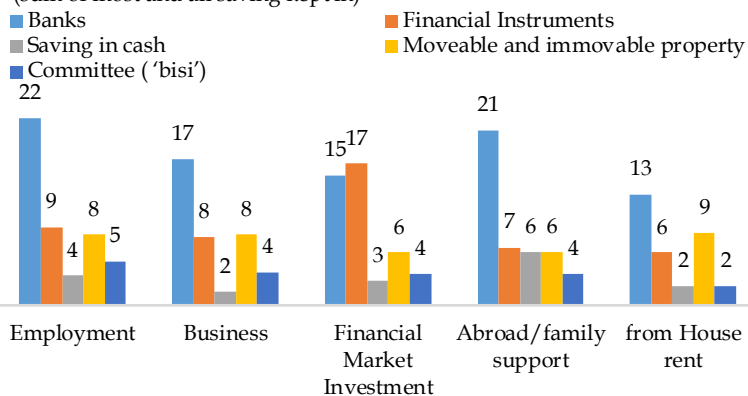


Saving rates of respondents deriving income from:

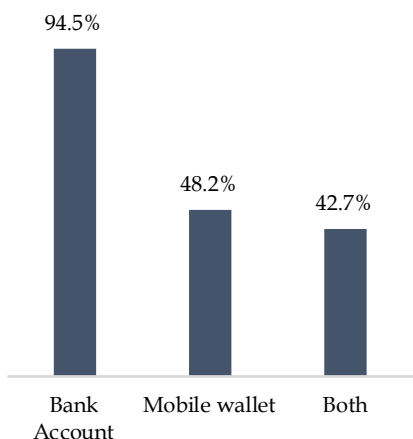


Saving avenues preferences

(sum of most and all saving kept in)

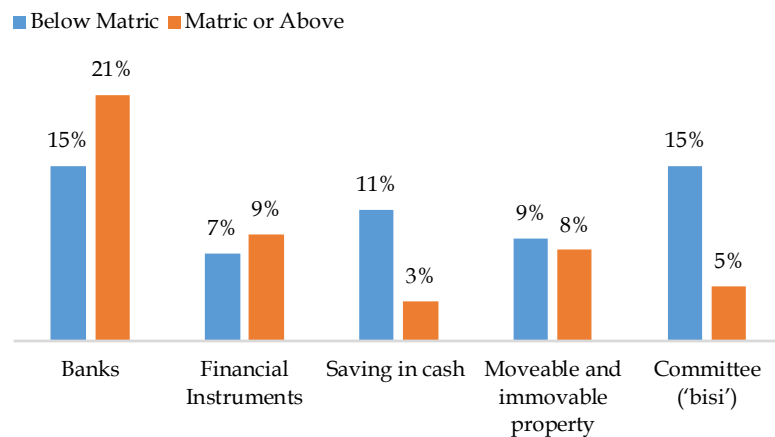


Usage of Banking account or mobile wallet



Saving avenues preferences by respondent (education wise):

(sum of most and all saving kept in)



*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:

$$\text{Period average inflation} = \left(\frac{\sum_{i=0}^{t-1} I_{t-i}}{\sum_{i=0}^{t-1} I_{t-12-i}} - 1 \right) \times 100$$

$$\text{YoY inflation} = \left(\frac{I_t}{I_{t-12}} - 1 \right) \times 100$$

$$\text{Monthly inflation} = \left(\frac{I_t}{I_{t-1}} - 1 \right) \times 100$$

Where I_t is consumer price index in t^{th} 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**A**

ACD	Additional Custom Duty
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

B

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

C

CAB	Current Account Balance
CAD	Current Account Deficit
CBM	Commodity Balance Methodology
CBU	Completely Built Unit
CCP	Competition Commission of Pakistan
CD	Customs Duty
CDNS	Central Directorate of National Savings
CFBM	Capital and Financial Balance Methodology
GiC	Currency in Circulation
CKD	Completely Knocked Down
CPI	Consumer Price Index
CRS	Crop Reporting Services

D

DAP	Diammonium Phosphate
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

	FY	Fiscal Year
G		
	GB	Gilgit Baltistan
	GCC	Gulf Cooperation Council
	GDP	Gross Domestic Product
	GDS	Gross Domestic Savings
	GE	Genetically Engineered
	GFN	Gross Financing Need
	GI	Geographical Indication
	GM	Genetically Modified
	GNI	Gross National Income
	GNP	Gross National Product
	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
	MDR	Minimum Deposit Rate
	MIMIC	Multiple Indicators Multiple Causes
	MJ	Megajoule
	MMT	Million Metric Ton
	MNFSR	Ministry of National Food Security & Research
	MNP	National Mineral Policy
	MoCC&EC	Ministry of Climate Change and Environmental Coordination
	MoF	Ministry of Finance
	MoSPI	Ministry of Statistics and Programme Implementation
	MPC	Monetary Policy Committee
	MSCI FM	Morgan Stanley Capital International Frontier Markets
	MSITS	Manual on Statistics of International Trade in Services Classification
	MSP	Minimum Support Price
	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
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
V		
	VIS	Vital Information Services
W		
	WADR	Weighted Average Deposit Rate

	WALR	Weighted Average Lending Rate
	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

