

Chapters

1	Economic Review	1
1.1	Overview	3
1.2	Economic Outlook	8
2	Economic Growth	11
2.1	GDP Growth	13
2.2	Agriculture	14
2.3	Industry	21
2.4	Services	25
2.5	Labor Market	27
3	Monetary Policy and Inflation	35
3.1	Policy Review	37
3.2	Monetary Aggregates	39
3.3	Private Sector Credit	45
3.4	Inflation	50
4	Fiscal Policy and Public Debt	61
4.1	Fiscal Trends and Policy Review	63
4.2	Revenue	65
4.3	Expenditure	68
4.4	Public Debt	71
5	Balance of Payments	85
5.1	Global Economic Developments	87
5.2	Pakistan's Balance of Payments	89
5.3	Current Account	91
5.4	Financial Account	102
5.5	Foreign Exchange Reserves and Exchange Rate	106
6	Pakistan's Low Competitiveness: A Case for Investing in Productivity	113
6.1	Introduction	115
6.2	Trends in Pakistan's Productivity	118

6.3	Macroeconomic Determinants of Productivity	123
6.4	Structural Challenges to Productivity in Pakistan	131
6.5	Final Remarks	144

Annexure A: Data Explanatory Notes	161
---	-----

List of Abbreviations	163
------------------------------	-----

Box Items

Box 2.1	Vertical Farming – Modernizing Food Production in Response to Climate Change	29
Box 2.2	Exploring Brain Drain and its Impact on Pakistan’s Economy	31
Box 3.1	Recommendations to Contain Currency in Circulation in Pakistan	57
Box 4.1	Rising Pension Bill and the Recent Reforms	78
Box 4.2	Debt-for-climate Swaps	81
Box 4.3	Buyback Auctions of Market Treasury Bills	83
Box 5.1	Tapping the Trade Potential of Fisheries through Aquaculture	107
Box 5.2	Impediments to Foreign Private Investment in Pakistan	109
Box 6.1	Drivers of Structural Transformation (ST) in Pakistan	145
Box 6.2	Estimating Determinants of TFP in Pakistan	149

List of Figures

Figure 1.1a	Area Under Cultivation of Important <i>Kharif</i> Crops	4
Figure 1.1b	Yield of Important <i>Kharif</i> Crops	4
Figure 1.2	Import Volumes	4
Figure 1.3	Contribution to GDP Growth in H1	4
Figure 1.4	Monetary Policy and Inflation	5
Figure 1.5	Global Commodity Prices	5
Figure 1.6	Balance of Payments and Forex Reserves	6
Figure 1.7	Monetary Aggregates in H1	6
Figure 1.8	Fiscal Indicators in H1	7
Figure 1.9	GDP per Person Employed (Constant 2021 PPP \$)	7
Figure 2.1	Growth in Demand Indicators	14
Figure 2.2	Wholesale Prices	15
Figure 2.3	Irrigation Water Releases during <i>Kharif</i> (Apr-Sep)	16
Figure 2.4a	Rainfall	16
Figure 2.4b	Temperature - FY25	16
Figure 2.5	Fertilizer Offtake and Prices during <i>Kharif</i> (Apr-Sep)	17
Figure 2.6	Area Under Cultivation of Cotton	19
Figure 2.7	Sesame Crop	20
Figure 2.8	Net-metering Capacity	21
Figure 2.9	Number of LSM Groups Showing Increase and Decrease in Production in H1	22
Figure 2.10	Contribution of Food Production in LSM Growth during H1	23
Figure 2.11	Growth in Output of POL Products in H1	24
Figure 2.12	Growth in Pharmaceuticals in H1	24
Figure 2.13	Sale and Production of Automobiles in H1	25
Figure 2.14	Growth in Steel and Cement Production in H1	25
Figure 2.15	Volume of Internet and Mobile Banking Transactions	26
Figure 2.16	Punjab: Employment Growth in Major Sectors	27
Figure 2.17	Punjab Industrial Employment Levels	27
Figure 2.18	Business Confidence Survey: Employment Indices	28
Figure 2.19	Services Sector Wages Growth	28
Figure 2.20	Urban Headline and Income Inflation	28
Figure 2.1.1	Level of Water Stress in Agriculture	29
Figure 2.1.2	Urban Population and Population Density	29
Figure 2.2.1a	Migration Trends	32
Figure 2.2.1b	Profession-Wise Emigration	32

Figure 2.2.2a	Migration from Pakistan to Key AEs	32
Figure 2.2.2b	Estimated Pakistan-born Resident Population in Australia	32
Figure 2.2.3	Unemployment with Advanced Level Education	33
Figure 2.2.4	Remittance Inflow from Brain Drain Hotspots	34
Figure 3.1	Trends in NCPI Inflation and Current Account Balance, and the SBP Policy Rate	37
Figure 3.2	Weighted Average Deposit Rate and Deposits	40
Figure 3.3	CiC to GDP Ratio 5-Year Average (2019-2023)	40
Figure 3.4	Commodity Financing	40
Figure 3.5	Government Borrowings from Scheduled Banks	41
Figure 3.6	PIBs Offer to Target Ratio - FY25	41
Figure 3.7	T-Bills Auction Summary	43
Figure 3.8	Secondary Market Yields	43
Figure 3.9	Average Deviation of WAONR from Policy Rate	44
Figure 3.10	Volatility in WAONR	44
Figure 3.11	Interbank Liquidity	45
Figure 3.12	Private Sector Credit	46
Figure 3.13	Loans to Private Sector Businesses	46
Figure 3.14	Working Capital Loans to PSBs - H1	48
Figure 3.15	Business Confidence Index	48
Figure 3.16	Real Interest Rate, Exchange Rate and Fixed Investment Loans	49
Figure 3.17	Fixed Investment Loans to PSBs - H1	49
Figure 3.18	Consumer Financing	50
Figure 3.19a	Major Contributors to Inflation - Urban	51
Figure 3.19b	Major Contributors to Inflation - Rural	51
Figure 3.20a	Urban Food Inflation - Major Contributors	52
Figure 3.20b	Rural Food Inflation - Major Contributors	52
Figure 3.21	Wheat Consumption and Production	52
Figure 3.22	Energy Inflation	53
Figure 3.23	Trends in Electricity Charges and Tariff Adjustments	54
Figure 3.24	Composition of Motor Fuel Prices	54
Figure 3.25	NFNE Inflation	55
Figure 3.26a	Frequency Distribution of Urban NFNE Items	55
Figure 3.26b	Frequency Distribution of Rural NFNE Items	55
Figure 3.27	Trends in Headline and Core Inflation (Urban)	56
Figure 3.28	Trends in Wages and WPI	56
Figure 3.29	Inflation Expectations	56

Figure 3.1.1a	Inflation and CiC/M2	57
Figure 3.1.1b	EPU Index and CiC/M2	57
Figure 3.1.1c	WADR and CiC/M2	57
Figure 3.1.2	CiC to GDP ratio	58
Figure 3.1.3	Branchless Banking Transactions	59
Figure 4.1a	Fiscal Balance	63
Figure 4.1b	Primary Balance	63
Figure 4.2	Breakdown of Total Revenue	65
Figure 4.3	Breakdown of Non-tax Revenue	65
Figure 4.4	Personal Income Tax in Recent Years	66
Figure 4.5	Policy Rate and Income Tax on Interest-sensitive Earnings	67
Figure 4.6	Provincial Revenue in H1	67
Figure 4.7	Breakdown of Absolute Change in Domestic Interest Payments in H1	71
Figure 4.8	Public Debt - Stock and Flows	71
Figure 4.9	Sources of Change in Public Debt in H1	71
Figure 4.10	Composition of Public Debt	71
Figure 4.11	Repayment Capacity of Government in H1	72
Figure 4.12	Institution-wise Flows in Domestic Debt	73
Figure 4.13	Interest Payments on Domestic Debt	73
Figure 4.14	External Debt Servicing - Principal and Interest	76
Figure 4.15	Tenor-wise Effective Interest Rates on External Debt	76
Figure 4.16	Effective Interest Rates on External Debt	76
Figure 4.17	Solvency Indicators for External Debt	77
Figure 4.18	Liquidity Indicators for External Debt	77
Figure 4.1.1	Trend of Pension Bill	78
Figure 4.1.2	Trend in Net Pension Increase and Inflation	79
Figure 4.1.3	Scenario Analysis of Pension of an Officer Retiring in December 2024	80
Figure 4.1.4	Gross Replacement Rate	80
Figure 4.2.1	External Debt and Climate Risk of Pakistan vis-a-vis the Peer Countries	82
Figure 4.2.2	Public External Debt by Source	82
Figure 4.3.1	Bid Pattern of Buyback Auctions	83
Figure 4.3.2	Impact on Debt Servicing	83
Figure 5.1	Real GDP Growth	87
Figure 5.2	Global Trade and PMI	88
Figure 5.3	Global Supply Dynamics	88
Figure 5.4	Headline Inflation vis-à-vis Target	88

Figure 5.5a	Policy Rate in AEs	89
Figure 5.5b	Policy Rate in EMDEs	89
Figure 5.6	Current Account Balance	91
Figure 5.7	Pakistan's Merchandise Trade	91
Figure 5.8	Contribution to Export Growth	91
Figure 5.9	Rice Prices in International Market	94
Figure 5.10	Sugar Exports	95
Figure 5.11a	Fish Exports: Value and Share	95
Figure 5.11b	Fish Exports: Trade Indicators	95
Figure 5.12	Energy Mix for Power Generation	96
Figure 5.13	Contribution to Import Growth	97
Figure 5.14	Textile Imports in H1	98
Figure 5.15	Machinery Imports	98
Figure 5.16	Global Revenue Passenger Kilometre (RPK)	99
Figure 5.17	ICT Exports	99
Figure 5.18	Primary Income Payments: Major Components	101
Figure 5.19	Financing Rate - SOFR	101
Figure 5.20	Workers' Remittances	101
Figure 5.21	Cost of Sending Remittances - Q1 FY25	102
Figure 5.22	Remittance Inflows in Peer Countries	102
Figure 5.23	Net Foreign Direct Investment in H1	103
Figure 5.24	FPI and Equity Market Performance	104
Figure 5.25	Outstanding Position of Roshan Digital Account	104
Figure 5.26	Borrowing Plan and Disbursements Pattern	105
Figure 5.27	SBP's Forex Reserves	106
Figure 5.28	Exchange Rate and Kerb Premium	106
Figure 5.29	REER and NEER - Selected Economies	106
Figure 5.1.1	Export Potential of Fisheries	107
Figure 5.1.2	Pakistan's Export Diversification Frontier	108
Figure 5.2.1	FDI as percent of GDP	110
Figure 5.2.2	Economic Policy Uncertainty Index	110
Figure 5.2.3	Corporate Taxes	111
Figure 6.1	TFP vis-à-vis GCI	116
Figure 6.2	Productivity Trends in Pakistan (Average Growth)	117
Figure 6.3	GDP Per Worker (Constant 2021 PPP\$ terms)	118
Figure 6.4	Sources of Labour Productivity Growth	119

Figure 6.5	Capital Deepening	119
Figure 6.6	Total Factor Productivity Growth	120
Figure 6.7	Sources of Economic Growth (1971-2022)	121
Figure 6.8	Contribution to Economic Growth (2000-2022)	121
Figure 6.9	Water Productivity (GDP per Total Freshwater Withdrawal)	121
Figure 6.10	Energy Productivity (EP) and Energy Consumption per Capita (EC)	122
Figure 6.11	Total Investment	124
Figure 6.12	Gross National Savings	124
Figure 6.13	Tax-to-GDP	124
Figure 6.14	Interest Paid on Public Debt	125
Figure 6.15	Household Consumption and Private Sector Fixed Capital Formation (Percent of GDP)	125
Figure 6.16	FDI Net Inflows	126
Figure 6.17	Chinese FDI Flows	126
Figure 6.18	Government Borrowing (GB) and Private Sector Credit (PSC)	126
Figure 6.19	Banking Sector Advances	127
Figure 6.20	Corporate Income Tax (CIT) and Tax Complexity Index (TCI)	128
Figure 6.21	Deviation of REER from its Long Term Trend, and Exports	130
Figure 6.22	Primary Education GER of Selected Countries	132
Figure 6.23	Trends in Secondary and Tertiary Education GER in South Korea and Current Enrolment Level of Selected Asian Economies in 2022	133
Figure 6.24	State of Formal Education in Pakistan's Employed Labour (2021)	134
Figure 6.25	Global Innovation Index and Sub-indices Scores, 2022	138
Figure 6.26	GDP per Capita and R&D Expenditure	138
Figure 6.27	Logistics Performance Index	141
Figure 6.28	Internet Adoption and Security	143
Figure 6.1.1	Key Measures of Structural Transformation	146
Figure 6.1.2	Labour Reallocation and Sectoral Labour Productivity Trends	146
Figure 6.1.3	Economic Complexity Rank and Manufacturing Value-added (Percent of GDP)	147
Figure 6.1.4	GVC Participation with Backward and Forward Linkages Changes (2005 to 2018)	148
Figure 6.1.5	Real GDP and Demand Composition Change	148

List of Tables

Table 1.1	Selected Economic Indicators	3
Table 1.2	Macroeconomic Targets and SBP Projections for FY25	8
Table 2.1	GDP Growth	13
Table 2.2	Agriculture Growth	14
Table 2.3	Certified Seeds	15
Table 2.4	Agriculture Credit Disbursement in H1	18
Table 2.5	Major <i>Kharif</i> (Apr-Sep) Crops	18
Table 2.6	Wheat	20
Table 2.7	<i>Kharif</i> Pulses	20
Table 2.8	Other Crops – <i>Rabi</i> Production Plan	21
Table 2.9	Industry Growth	21
Table 2.10	Large Scale Manufacturing in H1	22
Table 2.11	Textiles and Wearing Apparel Production in H1	23
Table 2.12	Services Growth	26
Table 2.13	Key Statistics of Banking Sector	27
Table 2.1.1	Vertical Farms	30
Table 3.1	Monetary Aggregates - H1	39
Table 3.2	Auction Summary - H1-FY25	42
Table 3.3	Cost of Production	46
Table 3.4	Loans to Major Private Sector Businesses	47
Table 3.5	Average CPI Inflation	51
Table 3.1.1	Financial Inclusion Indicators	59
Table 4.1	Consolidated Fiscal Indicators	64
Table 4.2	Tax Revenue in H1	66
Table 4.3	Economic Indicators in FY25	67
Table 4.4	Consolidated Expenditure in H1	68
Table 4.5	Breakup of Subsidies and Grants	69
Table 4.6	Provincial Fiscal Accounts in H1	70
Table 4.7	Mark-up Payments as Percent of Major Fiscal Variables and GDP in H1	70
Table 4.8	Government Domestic Debt and Liabilities	72
Table 4.9	Public External Debt	74
Table 4.10	Summary: External Disbursements	75
Table 5.1	Pakistan's Balance of Payments	90
Table 5.2	Merchandise Exports	92

Table 5.3	Unit Prices of Apparel Exports (H1-FY25)	93
Table 5.4	Regional Comparison of Apparel Exports - 2024	93
Table 5.5	Merchandise Imports	97
Table 5.6	Trade in Services	100
Table 5.1.1	Aquaculture Production	108
Table 5.2.1	ICT Rankings: Selected Economies	111
Table 6.1	Yields of Top 10 Crops and Livestock Producing Countries in 2022	122
Table 6.2	Health Indicators of Pakistan vis-à-vis Selected Regional Economies (2022)	134
Table 6.3	Key Governance Indicators in Selected Transition Economies	135
Table 6.4	Official Productivity Measurements	138
Table 6.5	World Bank Enterprise Surveys 2022: R&D and Innovation in Firms	139
Table 6.2.1	Summary of Regression Results	149