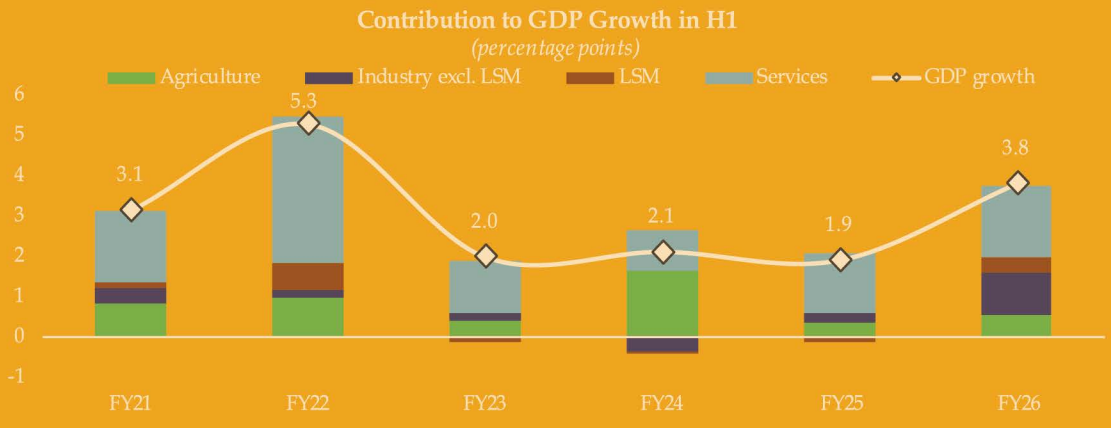
2

Economic Growth

Economic activity gained momentum with real GDP growth picking up pace in H1-FY26 compared to the first half of last year. The expansion was broad-based, with industry recording the highest growth, followed by services and agriculture sectors. The impetus to industry came from manufacturing – especially a rebound in large-scale manufacturing output, construction and electricity, gas & water supply. Growth in agriculture, notwithstanding flood-related crop losses, ticked up on the back of substantial increase in value addition by livestock. Growth in services sector, in line with better performance of industry and agriculture, also edged up. The improved economic activity started favourably reflecting on employment conditions. The recent information on online and newspaper job postings and SBP-IBA business confidence survey points to increased hiring.

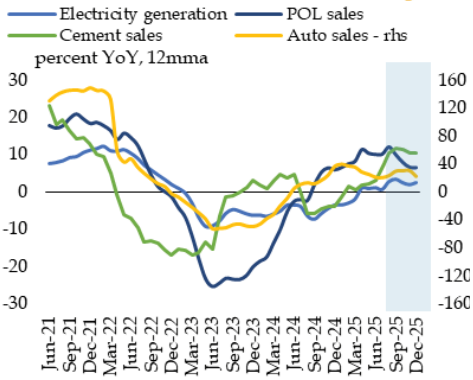


2.1 GDP Growth

Real GDP grew by 3.8 percent in H1-FY26, up from 1.9 percent in H1-FY25. The growth was broad-based, with the major impetus coming from industry, followed by services and agriculture sectors (**Table 2.1**). The upturn reflected positive spillovers from macroeconomic stability, particularly lower interest rates, stable exchange rate, increased fiscal space for development spending, improved business and consumer confidence, and pick-up in domestic demand. Meanwhile, benign global commodity prices helped in reducing input costs.

Industry recorded the highest growth since FY18, with expansion in all its major components, except for *mining and quarrying*. The major contribution came from *manufacturing*, especially a rebound in large-scale manufacturing (LSM) in H1-FY26, after showing contraction in the comparable period of last three years. The LSM benefited from increased domestic demand – as reflected in rising sales of cement, automobiles, and POL products (**Figure 2.1**) – amid lower inflation and interest rates. Besides strong recovery in LSM, value addition of *electricity, gas and water supply* and *construction also* considerably increased.

Growth in Demand Indicators — Figure 2.1



Sources: NEPRA; APCMA; OCAC; PAMA

Growth in agriculture was primarily due to a substantial increase in value addition by livestock, which more than offset the decline in output of *Kharif* crops, except sugarcane and rice, due to floods. Sugarcane benefited from both increased area under cultivation and improved yield, while higher rice output was because of yield only. Moreover, the crop losses were contained relative to initial expectations,[1]

GDP Growth — Table 2.1

growth in percent; contribution in percentage points

	FY25						FY26			Contribution	
	Q1	Q2	H1*	Q3	Q4	H2*	Q1	Q2	H1*	H1-FY25	H1-FY26
GDP	**1.7**	**2.2**	**1.9**	**2.4**	**6.0**	**4.2**	**3.6**	**3.9**	**3.8**	**1.9**	**3.8**
Agriculture	1.1	1.7	1.4	2.4	0.9	1.6	2.7	1.8	2.2	0.3	0.5
Important crops	-12.7	-12.8	-12.8	-9.6	-17.9	-13.6	-1.1	-1.9	-1.6	-0.7	-0.1
Industry	0.2	0.8	0.5	0.3	20.3	10.0	8.9	7.4	8.1	0.1	1.4
Large scale manufacturing	-0.9	-2.6	-1.8	-2.0	3.0	0.3	3.9	5.7	4.8	-0.1	0.4
Services	2.4	2.8	2.6	3.1	3.8	3.5	2.4	3.7	3.1	1.5	1.8

* H1 GVA = Q1 GVA + Q2 GVA; H2 GVA = Q3 GVA + Q4 GVA

Source: PBS

[1] As mentioned in the NDMA Post-Monsoon Review 2025, initial post-flood assessments indicated potential losses in *Kharif* crops. However, the realized outcomes were better than expected, with rice and sugarcane output clocked at 10.0 and 89.4 million tons, compared to post-flood expectations of 8.3–8.9 and 77.0–79.0 million tons, respectively.

partly due to timely recovery and support measures in the flood-affected areas. Reflecting the impact of better performance of commodity producing sectors, industry and agriculture, the growth in services sector also ticked up, with all segments, but *information & communication services,* recording increase in value addition in H1-FY26.

With the real GDP growth picking up pace, the employment situation also started to improve. While industrial employment in Punjab declined slightly, online and newspaper job postings increased in recent months. Moreover, SBP-IBA business confidence survey also showed optimism for employment generation over the next six months.

These developments are encouraging for a meaningful transition to more inclusive economic outcomes. However, sustained high growth is imperative for increasing employment generation and poverty alleviation. In this context, the focus on reforms aimed at increasing investment and productivity holds the key.

The distribution aspect of growth is evidenced in the Household Integrated Economic Survey (HIES) 2024-25 that reports nominal gain in household income and consumption. The gains are much smaller for lower quantiles that are also associated with lower productivity. The survey also indicates increasing contribution of non-labour income, particularly remittances and transfers, consistent with emigration trends (**Box 2.1**).

2.2 Agriculture

Higher agriculture growth in H1-FY26 was primarily on the back of a significant contribution of livestock. This more than offset the negative impact of crop losses due to floods **(Table 2.2)**.[2] The improved performance of livestock is mainly

Agriculture Growth **Table 2.2**

growth in percent; contribution in percentage points

	FY25						FY26			Contribution	
	Q1	Q2	H1*	Q3	Q4	H2*	Q1	Q2	H1*	H1-FY25	H1-FY26
Agriculture	**1.1**	**1.7**	**1.4**	**2.4**	**0.9**	**1.6**	**2.7**	1.8	2.2	**1.4**	**2.2**
Crops	-0.4	-3.0	-1.8	1.8	-2.0	-0.1	-4.1	-3.3	-3.7	-0.7	-1.4
Important crops	-12.7	-12.8	-12.8	-9.6	-17.9	-13.6	-1.1	-1.9	-1.6	-3.1	-0.3
Other crops	19.7	19.1	19.4	19.3	20.2	19.8	-6.9	-5.7	-6.3	2.5	-1.0
Cotton ginning	-3.0	-20.2	-12.0	-26.6	-24.4	-25.5	-11.9	-1.0	-6.7	-0.2	-0.1
Livestock	1.9	5.6	3.6	2.6	2.2	2.4	6.2	5.6	5.9	2.1	3.5
Forestry	0.1	2.6	1.3	4.1	4.7	4.4	4.3	3.8	4.0	0.0	0.1
Fishing	-0.1	1.9	1.2	0.5	2.2	1.7	0.9	0.8	0.8	0.0	0.0

* H1 GVA = Q1 GVA + Q2 GVA; H2 GVA = Q3 GVA + Q4 GVA

Source: PBS

[2] Flooding and waterlogging affected key agricultural districts in Punjab (Multan, Muzaffargarh, Lodhran, Bahawalpur, and Vehari) and parts of Sindh (including Kashmore, Shikarpur, Ghotki and Khairpur) with reported damages to standing *Kharif* crops. Source: NDMA, *Post Monsoon Report 2025.*

attributed to lower intermediate consumption, i.e. fodder.[3]

However, the flood-related damages to major *Kharif* crops were relatively limited compared to the initial assessment.[4] The latest estimates show that production of some of the important *Kharif* crops, sugarcane and rice, has surpassed last year's levels. The better-coordinated flood response, with timely rescue and relief operations in affected districts helped limit crop losses and relocate livestock.[5] Moreover, improved credit availability also cushioned the flood impact.

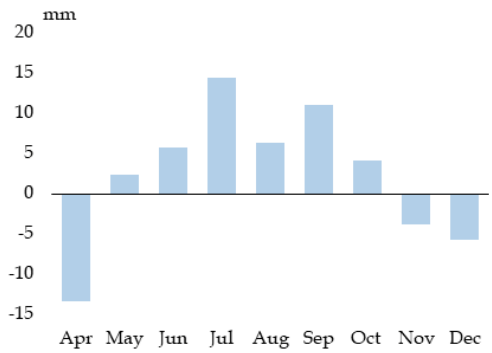
Climatic Conditions

Climatic conditions remained challenging during H1-FY26, with considerable variability in rainfall and above-normal temperature during much of the *Kharif* season. These conditions created a difficult environment for crop growth and increased the risk of weather-related disruptions to agricultural output.

Rainfall remained uneven during *Kharif* FY26 **(Figure 2.2a)**. After a dry April, the monsoon picked up during Jul–Sep 2025. In September, a deep depression triggered heavy downpour, especially in Punjab and Sindh, which caused flash floods and river flooding in several areas.[6] The post-monsoon months of November and December, however, remained relatively dry.

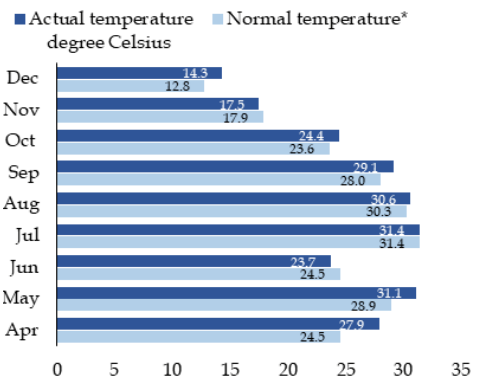
Temperature stayed above normal levels during most months of the *Kharif* season **(Figure 2.2b)**. Elevated temperatures in the peak summer months, together with high humidity following heavy rainfall, added to heat stress on crops and impacted growth conditions in several areas.[7]

Rainfall Deviation from Normal* - FY26 Figure 2.2a



* Normal levels of respective months of 1961-1999 Avg.
Source: PMD

Temperature - FY26 Figure 2.2b



[3] The intermediate consumption of dry and green fodder is linked to the production of crops, while livestock heads grow at a fixed rate (based on intergeneration census of 2006 and 1996). Source: PBS
[4] Source: Press Information Department (PID), Press Release 30750. https://pid.gov.pk/site/press_detail/30750
[5] Source: National Disaster Management Authority (NDMA), Government of Pakistan, *Post Monsoon Review 2025*.
[6] ibid
[7] Source: National Disaster Management Authority (NDMA), Pakistan: *Monsoon Daily Situation Report (September 2025)*

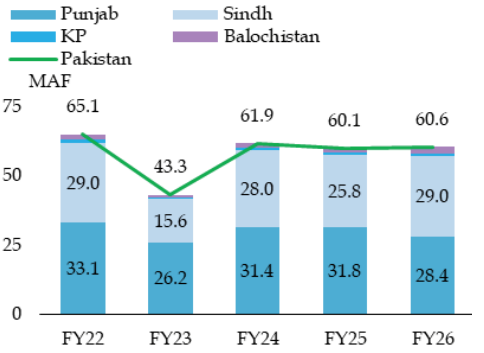
These changing climatic conditions are not only putting pressure on agriculture but also affecting the urban centres via urban heat island effect.[8] To this end, urban agriculture offers a workable solution to climate change through urban greening and localised food production **(Box 2.2).**

Inputs

Water: Irrigation water availability remained largely adequate during *Kharif* FY26. Canal water use stayed broadly in line with last year, though with some provincial variations. Heavy rains during Jul–Sep FY26 reduced the need for canal water in parts of Punjab, while the use in Sindh remained comparatively higher (**Figure 2.3**). Water & Power Development Authority (WAPDA) and Indus River System Authority (IRSA) managed reservoir operations by storing excess inflows during the heavy monsoon period and releasing subsequently in a controlled manner.[9] This helped ease flood pressure downstream and ensured sufficient water was available for canals afterwards.

Seed: Availability of certified seed for major crops fell short of requirements in FY26 **(Table 2.3)**. This suggests that farmers relied on non-certified seeds for cultivation, which has negative implications for crop yields.[10] While availability of certified seed for wheat and cotton improved over the last season, it declined sharply in the case of maize. Meanwhile, certified seed availability for

Irrigation Water Releases during *Kharif* (Apr - Sep) Figure 2.3



Source: IRSA

paddy, which had historically remained above requirements, fell marginally short in FY26.

Fertilizer: Fertilizer offtake increased during *Kharif* FY26, reflecting a recovery in demand. The increase was mainly on account of strong growth in urea sale amid fall in its price. Moreover, DAP sale also edged up despite rising prices (**Figure 2.4**). The improved fertilizer offtake in H1-FY26 was facilitated by input-financing schemes, such as the Kissan Card. Moreover, availability of fertilizer for *Kharif* FY26

Certified Seeds Table 2.3

	FY25		FY26	
	Availability (MT)	% of Req.	Availability (MT)	% of Req.
Cotton	16,717	27.1	20,871	46.7
Paddy	68,319	114.2	44,613	99.1
Maize	29,420	78.8	17,649	47.3
Wheat	569,761	46.3	551,467	49.0

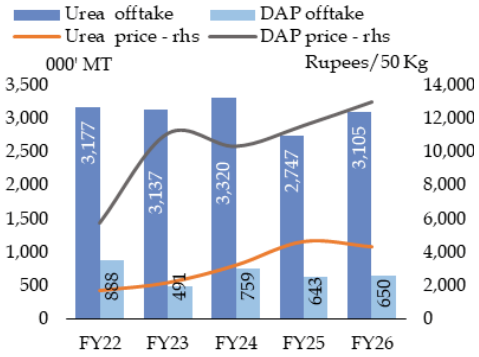
Source: FCA

[8] US Environmental Protection Agency defines urban heat island effect as the condition under which urbanized areas experience higher temperatures than surrounding rural areas, primarily because buildings, roads, and other infrastructure absorb and re-emit more heat than natural landscapes.

[9] Source: NDMA, Government of Pakistan, *Post Monsoon Report 2025*.

[10] The limited availability of certified seed in Pakistan increases reliance on non-certified seed - such as farm-saved seeds, farmer-to-farmer exchange, and non-certified brown-bag sales. (SBP, 2022; PIDE, 2024).

Fertilizer Offtake and Prices during *Kharif* (Apr - Sep) **Figure 2.4**



Sources: NFDC; PBS

remained sufficient with higher carryover stock. The availability for Rabi season is also expected to remain adequate.[11]

Agriculture credit: Agriculture credit continued to rise steadily, supporting both input use and farm investment (**Table 2.4**). Overall credit disbursements rose by 11.4 percent in H1-FY26, with production loans increasing sharply to meet seasonal working-capital needs. Credit for farm-sector development also increased by 9.7 percent, driven mainly by higher financing for tractors and other farm investments.

Several initiatives underpinned the rising trend in agriculture credit. These included: (i) SBP's endorsement of digital land verification as an alternative to traditional Khasra Girdawari helped reduce processing frictions for farmers; (ii) Zarkhez-e (Asaan Digital Zarai Qarza) framework developed under the National

Agriculture Credit Disbursement - H1 **Table 2.4**

billion Rupees

	FY24	FY25	FY26
Farm Sector (Production)			
All crops	246.5	265.0	361.6
Corporate farming	78.7	84.4	33.3
Others	218.4	274.4	309.1
Subtotal	**543.6**	**623.8**	**703.9**
Farm Sector (Development)			
Tractor	27.8	9.1	28.8
Others	33.3	75.5	64.0
Subtotal	**61.1**	**84.6**	**92.8**
Non-Farm Sector (Working Capital)			
Livestock/Dairy	251.8	290.3	307.9
Poultry	162.1	163.6	151.6
Others	51.9	58.1	115.0
Subtotal	**465.8**	**512.0**	**574.5**
Non-Farm Sector (Fixed Investment)			
Livestock/Dairy	18.7	32.5	21.5
Poultry	11.4	10.1	11.9
Others	5.2	3.7	7.0
Subtotal	**35.4**	**46.3**	**40.4**
Grand Total	**1,105.8**	**1,266.7**	**1,411.6**

Source: SBP

Subsistence Farmers Support Initiative that strengthened the digital channel for small borrowers, with inherent risk-sharing features and a standardised operating structure; (iii) Punjab government's Kissan and Livestock Cards, continued to facilitate farmers to get financing for inputs and livestock, helping them to better manage seasonal cash flow needs;[12] and (iv) provincial government's mechanisation initiatives.[13]

Outputs

Cotton: Cotton production fell for another year in FY26, mainly due to a decline in area under cultivation (**Table 2.5**). The

[11] Source: Federal Committee on Agriculture (FCA), *Working Paper on Rabi Season FY26.*
[12] In H1-FY26, Rs 68.7 billion were disbursed to 696,996 outstanding borrowers under the Kissan Card, while Rs 3.0 billion was disbursed to 27,730 outstanding borrowers under the Livestock Card Scheme. Source: The Bank of Punjab.
[13] Provincial farm mechanisation initiatives included CM Punjab's Green Tractor Scheme and the High-Tech Farm Mechanisation Finance Program.

Major *Kharif* Crops **Table 2.5**

production in 000 tons; area in 000 ha; yield in kg/ha.

	Production			Area			Yield			Change FY26		
	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26	Prod.	Area	Yield
Cotton*	10,223	7,084	7,052	2,424	2,043	2,012	717	589	595	-0.5	-1.5	1.0
Rice	9,859	9,724	9,998	3,637	3,899	3,758	2,711	2,494	2,660	2.8	-3.6	6.7
Maize	9,740	9,037	8,446	1,641	1,588	1,603	5,935	5,691	5,269	-6.5	0.9	-7.4
Sugarcane	87,638	84,239	89,429	1,180	1,193	1,221	74,270	70,605	73,243	6.2	2.3	3.7

* Production in thousand bales

Sources: PBS; FCA

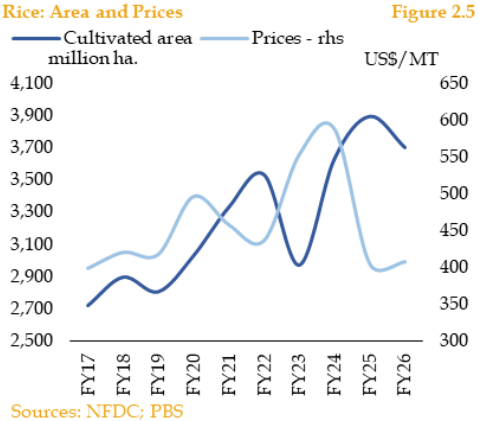
reduction in area reflects farmers' cautious sowing decisions amid weak returns, as shift to competing *Kharif* crops continued in FY26 as well. [14] Yield, however, marginally improved compared to last year, possibly due to better input use, especially fertilizer, facilitated by Punjab's Kisan Card scheme.

Rice: Rice production increased in FY26, as higher yield more than offset the decrease in area under cultivation (**Table 2.5**). Better water availability in rice-growing belts likely helped improve rice yield. Although monsoon floods initially raised concerns about rice production, later assessments suggested that the damages remained limited, with some areas benefiting from better water availability.[15] Concerning the decline in area under rice, the unfavourable export environment, especially fall in prices following India's resumption of rice exports, may have discouraged planting of rice (**Figure 2.5**).

Maize: Maize output declined in FY26 due to fall in yield, despite a slight increase in area (**Table 2.5**). The decline in yield largely reflected adverse effects of floods, which led to lower overall production. At the same time, it is important to highlight that the use of maize as direct food crop is declining, while demand from the poultry and feed sector has increased. As a result, maize sowing decisions have become more responsive to feed sector offtake and price signals.

Sugarcane: Sugarcane performed better than the other major *Kharif* crops in FY26, supported by an expansion in area under cultivation and an increase in yield (**Table 2.5)**. This is primarily on the back of better

Rice: Area and Prices **Figure 2.5**



Sources: NFDC; PBS

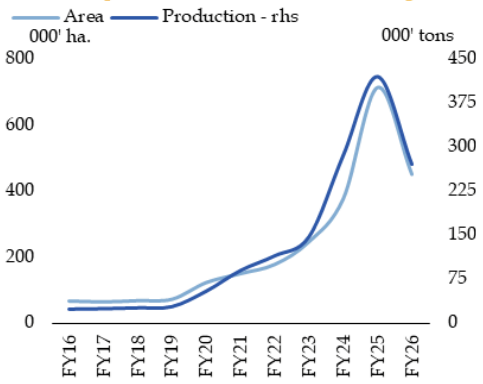
[14] SUPARCO, PAK-SCMS Bulletin (Aug 2025) notes factors such as shifting toward alternatives like sugarcane, weather volatility, pest infestation, declining yields, and low economic returns, affected cotton production.

[15] USDA Foreign Agricultural Service (FAS), *Grain and Feed Update – Pakistan*, Islamabad, December 2025 (GAIN Report No. PK2025-0020).

expected returns compared to the competing crops like cotton and maize, which encouraged farmers to increase sugarcane planting. Yield improved during the season, likely supported by better water availability.

Wheat: Sowing of wheat in current *Rabi* season progressed smoothly, with the Punjab and Sindh slightly exceeding their combined target. New wheat policy and input conditions were broadly supportive at the start of the season. Availability of certified seed and fertilizer improved, and IRSA anticipated no irrigation shortfall for Punjab and Sindh during *Rabi*.[16] These developments, along with post-flood soil enrichment, suggest that wheat production is expected to remain higher than last year's level, though it may fall marginally short of the 29.7 million tons target set by the Federal Committee on Agriculture (FCA).

Sesame Crop — Figure 2.6



Sources: MNFSR; PBS

Under the National Wheat Policy, the government has set an indicative price of Rs 3,500 per 40kg to guide farmers' decisions and market expectations. Moreover, the policy involves private sector to procure wheat at the indicative price and manage stocks, with government intervention focused on maintaining strategic reserves and stabilizing the market. The policy may lead the wheat prices becoming more predictable and help reduce the fiscal burden (**Box 3.1**).

Other Crops

Production of other *Kharif* crops fell sharply in FY26, compared to strong growth in last year. The decline was primarily driven by a significant fall in green fodder, one of the largest components of other crops. According to the PBS estimates, output of green fodder declined by 14.3 percent, reflecting widespread damages to standing fodder crops from rains and floods.[17]

In addition, production of sesame, which expanded rapidly in recent years driven by export demand, also declined in FY26 (**Figure 2.6**). Besides flood-related losses, lower exports, mainly to China, reduced demand and thus incentives for cultivation of sesame.[18] Moreover, *Kharif* pulses also showed a mixed trend. Specifically, production of the mung increased while that of mash declined. Further, production plan of other *Rabi* crops for FY26 shows

[16] Source: Press Information Department (PID), Press Release 30750. https://pid.gov.pk/site/press_detail/30750
[17] Source: PBS, *QNA Release 2025–26.*
[18] Sesame seed exports declined, led by a drop in shipments to China amid the return of Ethiopian and Sudanese supplies. Exports to Vietnam, Saudi Arabia, and Egypt also declined. Source: *The State of Pakistan's Economy: Annual Report 2024–25*

Other Crops – *Rabi* Production Plan **Table 2.6**

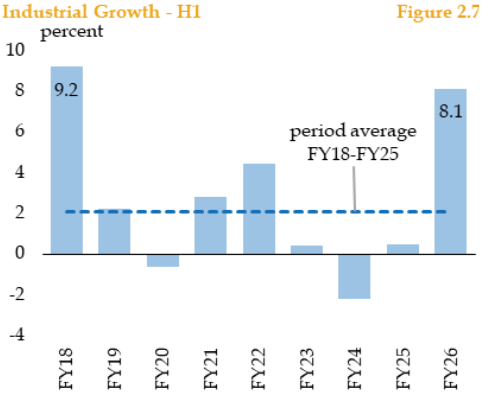
area in 000 ha; production in 000 tons; change in percent

	Area		Production		Change	
	FY25	FY26[T]	FY25	FY26[T]	Area	Prod.
Gram	707.1	806.0	172.0	536.1	14.0	211.7
Lentil	6.4	7.5	4.4	9.2	17.2	109.1
Potato	378.1	268.4	9,880.3	7,174.6	-29.0	-27.4
Onion	166.4	119.0	2,747.1	2,788.5	-28.5	1.5
Tomato	47.9	43.2	630.7	690.9	-9.8	9.5
Canola	68.7	73.5	103.9	111.0	7.0	6.8
Sunflower	60.4	70.5	96.1	113.5	16.7	18.1
Mustard	425.1	520.9	435.0	532.7	22.5	22.5

Source: FCA

increase in production targets, except for potato **(Table 2.6)**.

Industrial Growth - H1 **Figure 2.7**



Source: PBS

2.3 Industry

Industry grew sharply by 8.1 percent in H1-FY26, reaching close to the growth in H1-FY18 (**Figure 2.7**). The growth of industry was led by a broad-based increase in *manufacturing*, followed by *construction* and *electricity, gas and water supply*, while *mining and quarrying* saw contraction – a trend observed since FY22 (**Table 2.7**).[19]

Construction activity picked up pace, supported by various favourable developments. First, Public Sector Development Program (PSDP) spending grew by 41.8 percent in H1-FY26 compared to a decline of 1.1 percent in the corresponding period of last year (**Figure 2.8a**).[20] Second, the construction material prices considerably eased, while wage growth steadied (**Figure 2.8b**). Third, Wazir-e-Azam Apna Ghar Program - Ghar Ho Tu Apna launched in September 2025 created demand for housing.[21]

The strong growth in value addition by electricity, gas and water supply in H1-FY26 was largely driven by higher power subsidies, as power generation saw a meagre 1.1 percent increase during the period under review. The demand for grid power remained relatively subdued despite introduction of power package for industry and levies on gas and furnace oil to encourage a shift away from captive power generation. As a result, capacity utilisation of independent power producers (IPPs) stayed less than 50 percent, contributing to higher grid costs.

[19] As per PBS, the value addition of mining and quarrying contracted amid decline in production of gas, crude oil and limestone.

[20] Infrastructure sector utilized the highest expenditure of Rs 117 billion (55.7 percent) by end-December 2025, on projects related to transport and communication, energy, water, physical planning and housing. Source: MoPD&SI

[21] The scheme offers subsidized financing at the fixed rate of 5 percent, with the markup subsidy paid by GOP. For details, see
https://www.sbp.org.pk/smefd/circulars/2026/CL1.htm,
https://www.sbp.org.pk/smefd/circulars/2026/CL2.htm.

Industry Growth Table 2.7

growth in percent; contribution in percentage points

	FY25						FY26			Contribution	
	Q1	Q2	H1*	Q3	Q4	H2*	Q1	Q2	H1*	H1-FY25	H1-FY26
Industry	**0.2**	**0.8**	**0.5**	**0.3**	**20.3**	**10.0**	**8.9**	7.4	8.1	**0.5**	**8.1**
Mining & quarrying	-5.8	-3.2	-4.5	-3.4	-2.2	-2.8	-5.5	-2.5	-4.0	-0.4	-0.3
Manufacturing	1.8	0.5	1.1	1.0	4.8	2.8	5.7	6.8	6.2	0.7	4.2
Large scale	-0.9	-2.6	-1.8	-2.0	3.0	0.3	3.9	5.7	4.8	-0.8	2.2
Small scale	8.6	8.6	8.6	8.9	9.5	9.2	10.2	10.0	10.1	1.1	1.4
Slaughtering	6.2	6.2	6.2	6.4	6.9	6.7	7.5	7.4	7.4	0.5	0.6
Electricity, gas and water supply	-0.1	3.2	1.4	-11.3	125.0	56.9	24.5	15.1	20.3	0.2	2.4
Construction	-3.3	3.0	0.0	10.7	17.6	14.0	19.2	10.5	14.6	0.0	1.9

* H1 GVA = Q1 GVA + Q2 GVA; H2 GVA = Q3 GVA + Q4 GVA

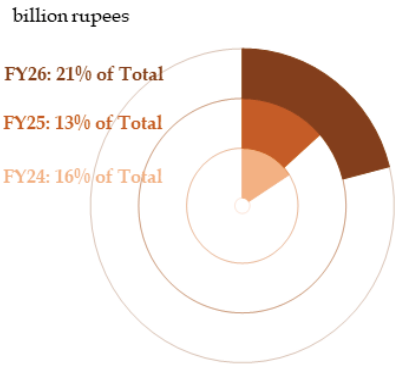
Source: PBS

At the same time, rising solar power continues to pose a significant challenge in terms of demand for national grid as well as integration of solar power into national grid. In this context, the government has recently made changes in tariffs for prosumers. However, further measures, such as investment in transmission and distribution network and developing an appropriate regulatory framework, are required to strengthen integration of solar generation with national grid. These could help encourage greater reliance on the grid, enhance system efficiency, and gradually lower overall energy costs while supporting industrial competitiveness.

Large-Scale Manufacturing (LSM)

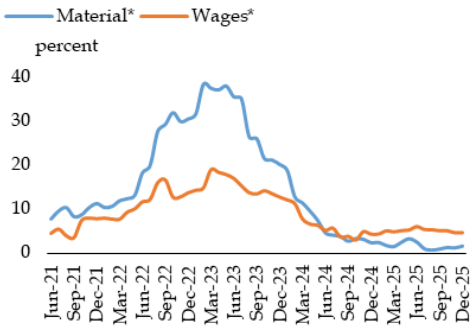
The LSM output grew by 4.8 percent in H1-FY26, against a contraction of 1.8 percent in the same period last year (**Table 2.8**). The growth was also broad-based. The number of industry-groups showing increase in production (14 out of 22) reached close to the high-growth period of H1-FY22, reflecting the underlying momentum in industrial activity (**Figure 2.9**).

PSDP Expenditure - H1 Figure 2.8a



Sources: MoPD&SI; PBS

Construction Inputs - YoY Growth Figure 2.8b



* Material include price of cement, bricks, blocks, sand etc.; wages are of plumber, mason, painter etc.

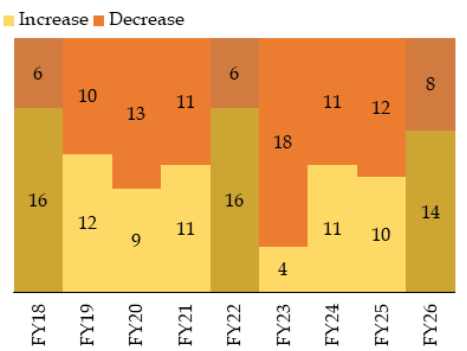
Large Scale Manufacturing - H1 **Table 2.8**

growth in percent; contribution in percentage points

Sector	Weight	Growth			Contribution		
		FY24	FY25	FY26	FY24	FY25	FY26
LSM	78.4	**-1.0**	**-1.8**	**4.8**	**-1.0**	**-1.8**	**4.8**
of which							
Food	10.7	4.9	-0.3	0.6	0.7	-0.1	0.1
Beverages	3.8	0.1	0.2	5.1	0.0	0.0	0.2
Tobacco	2.1	-36.7	19.2	8.7	-0.7	0.2	0.1
Textile	18.2	-11.0	2.1	1.5	-2.1	0.4	0.3
Wearing apparel	6.1	-0.8	9.5	7.5	-0.1	1.4	1.2
Leather products	1.2	3.4	0.7	-0.7	0.0	0.0	0.0
Wood products	0.2	9.2	-2.0	-0.9	0.0	0.0	0.0
Paper & board	1.6	-5.0	2.3	-3.1	-0.1	0.1	-0.1
Coke & petroleum	6.7	8.4	-0.1	13.5	0.5	0.0	1.0
Chemicals	6.5	4.2	-2.0	-1.9	0.3	-0.2	-0.2
Pharmaceuticals	5.2	31.9	1.8	-5.3	1.4	0.1	-0.3
Rubber	0.2	0.6	-1.2	10.1	0.0	0.0	0.0
Non-metallic mineral	5.0	1.8	-13.3	10.5	0.1	-0.9	0.7
Iron & steel	3.4	-1.4	-12.0	-4.5	-0.1	-0.6	-0.2
Fabricated metal	0.4	-2.2	-21.8	8.8	0.0	-0.1	0.0
Computer, electronics, optical	0.0	-21.1	0.8	1.7	0.0	0.0	0.0
Electrical equipment	2.0	-10.9	-19.0	8.7	-0.4	-0.6	0.2
Machinery and equipment	0.4	70.7	-27.9	-18.7	0.2	-0.1	-0.1
Automobiles	3.1	-52.9	49.7	67.3	-1.7	0.8	1.6
Other transport equipment	0.7	-14.5	31.9	41.4	-0.1	0.1	0.2
Furniture	0.5	31.1	-61.1	-5.7	0.9	-2.3	-0.1
Other manufacturing	0.3	-3.4	-10.7	19.9	0.0	0.0	0.1

Source: PBS

Number of LSM Groups Showing Increase and Decrease in Production - H1 **Figure 2.9**

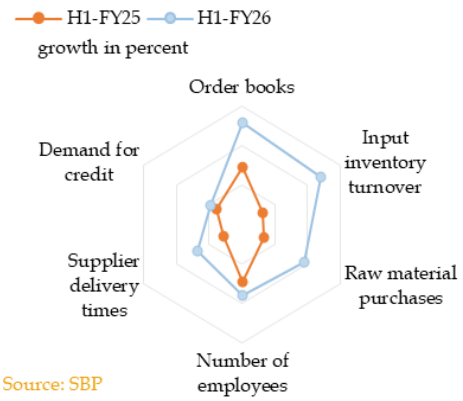


Source: PBS

The LSM output recorded a sustained increase throughout the first half. The recovery in LSM was supported by ease in financial conditions, reduced tariffs on intermediate and raw materials, stable exchange rate, and improved business & consumer confidence (**Figure 2.10**).

The major LSM groups showing increase in production included *automobiles* and related industries (*rubber*, *tyre* and *transport equipment*), *textiles* and *wearing apparel*, *coke and petroleum*, *non-metallic minerals*, *food and beverages*, and *electrical equipment*, while production of *pharmaceuticals*, *chemicals*,

Other Factors Supporting LSM Growth Figure 2.10



Source: SBP

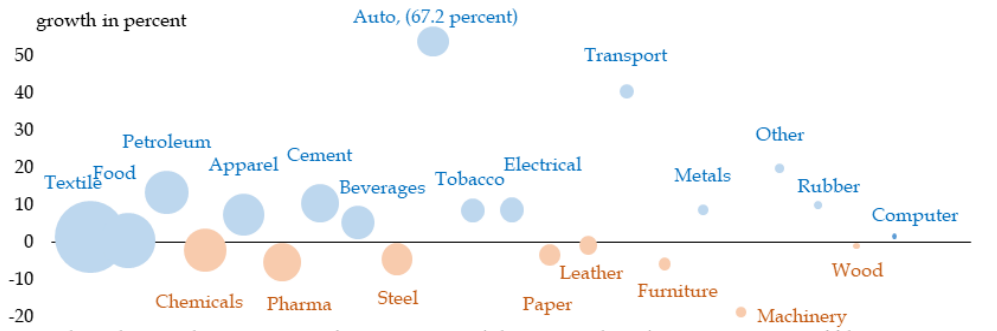
and *iron & steel* declined (**Figure 2.11**). Importantly, export-oriented industries with a contribution of 1.5 percentage points, were the second major contributor to LSM growth in H1-FY26 after automobiles (**Figure 2.12**).[22]

Automobiles

Production of automobiles was broad-based, with all vehicle categories, except for tractors, registering growth. The momentum in automobile production can be attributed to stronger domestic demand amid decline in borrowing cost, relatively stable prices, promotional discounts, and launch of new variants, especially in SUV segment.[23]

Importantly, most of the newly launched vehicles, aligned with changing consumer preferences, are fuel-efficient and environment-friendly vehicles. Accordingly, local assembling of e-vehicles is also gaining traction (**Table 2.9**). In this regard, government launched new energy vehicle (NEV) policy 2025-30, which is a welcome step to boost nascent industry. However, there is a need to address certain risks and challenges to support EVs in the country (**Box 2.3**).

Sectoral Performance (H1-FY26) Figure 2.11



Note: Blue colour implies sectors recording expansion, while orange colour shows contraction. Bubble size represents sector's weight in LSM

Source: PBS

[22] Export-oriented industries include textile, wearing apparel, furniture, football and leather products with a weight of approximately 26 percent.

[23] Most of the automobile assemblers have been offering discounts, extended after-sales service, as well as zero markup instalment plans to capture higher market share amid intense competition.

Production and Sales of Automobiles **Table 2.9**

production and sales in numbers; growth in percent

	Production		Sales		Growth	
	H1-FY25	H1-FY26	H1-FY25	H1-FY26	Production	Sales
Cars	47,880	74,782	46,398	65,771	56.2	41.8
1300cc and above	21,172	36,716	20,491	35,404	73.4	72.8
1000cc	2,437	2,205	2,289	2,521	-9.5	10.1
< 1000cc	24,271	35,861	23,618	27,846	47.8	17.9
Electric cars	110	137	104	139	24.5	33.7
Jeeps and pickups	15,623	21,386	14,174	22,412	36.9	58.1
Trucks and buses	2,036	3,856	1,798	3,532	89.4	96.4
Tractors	16,621	13,366	17,397	12,929	-19.6	-25.7
Two and three wheelers	698,446	928,521	696,455	921,566	32.9	32.3

Source: PAMA

These developments have also helped in uplifting the production of automobile-allied industries such as rubber and tyres. Meanwhile, decline in tractor sales and production can be attributed to subdued performance of crops and decline in its exports to Afghanistan – a key destination.[24] Nevertheless, domestic sales have picked up in Q2-FY26, showing the impact of Phase-II of Punjab Green Tractor Scheme.[25]

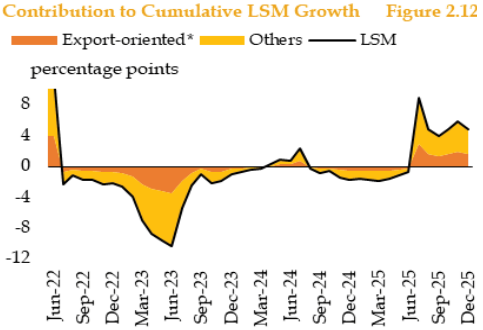
Textile and Wearing Apparel

Output of *textile and wearing* apparel grew at a slightly slower pace in H1-FY26 compared to the last year. Nonetheless, the growth was broad-based compared to the last year, when it was mostly due to garments and yarn (**Figure 2.13**). The trend is in line with the moderation in growth of export volumes, particularly of readymade garments.

Food and Beverages

Output of food and beverages increased on account of higher wheat and rice milling and increase in production of cooking oil and sugary drinks (**Figure 2.14**). The expansion in milling activity was mainly on the back of a 60 percent increase in wheat stocks with the private sector encouraged by collapse in prices at the

Contribution to Cumulative LSM Growth **Figure 2.12**



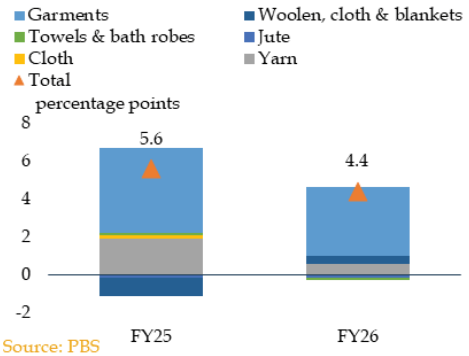
* These include textile, wearing apparel, furniture, football and leather products with a combined weight of approximately 26 percent in LSM.

Source: PBS

[24] As per SBP data, Afghanistan accounted for more than 40 percent of total tractor exports during FY25.

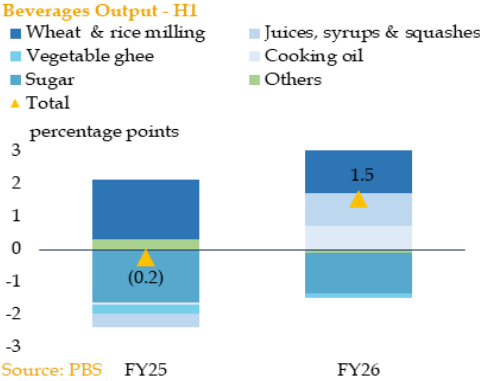
[25] Punjab's Chief Minister launched Phase-II of Green Tractor Program in July 2025. Around 734,000 farmers applied under this scheme; 282,000 farmers were declared eligible for the draw and 9,500 have been declared successful in the ballot of high-power tractors in Punjab. https://agripunjab.gov.pk/green-tractor-scheme

Contribution to Growth in Textile and Wearing Apparel Output - H1 Figure 2.13



Source: PBS

Contribution to Growth in Food and Beverages Output - H1 Figure 2.14



Source: PBS

start of FY26.[26, 27].

The marginal increase in production of cooking oil can be linked to steady increase in demand for healthier oil varieties compared to ghee. Leading brands are increasingly providing fortified products, with more enriched ingredients.[28] In beverages, improved product mix of flavoured drinks, along with the commencement of local flavouring production by a big company, resulted in higher production of juices, syrups and squashes.[29]

Petroleum Products

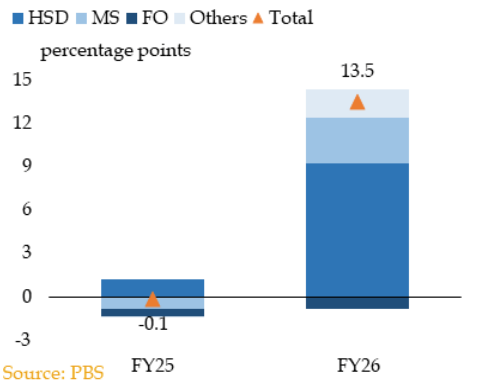
Output of petroleum products increased in line with the recovery in economic activity (**Figure 2.15**). This is also reflected in higher domestic sales of petroleum products, excluding FO that is being exported.[30]

Cement and Steel

Cement production increased by 11.6 percent in H1-FY26 compared to the decline of 9.0 percent in the same period last year. This is attributed to higher domestic sales with the recovery in construction activity in the country (**Figure 2.16**), and improved margins amid decline in financial cost and international coal prices.[31] However, exports declined by 3.8 percent in H1-FY26 due to the closure of western border.

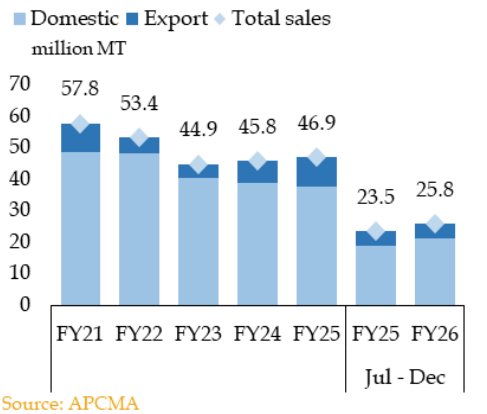
[26] As per the compilation of Ministry of National Food Security and Research (MNFSR).
[27] In the absence of minimum support price, the wheat prices plummeted from Rs 2,900 – Rs3,700 per 40kg last season to Rs 2,200 – Rs 2,390 in Punjab and Sindh, and up to Rs 2,450 in KP and Balochistan.
[28] Pakistan Cooking and Edible Oils Market 2025-2030 available at https://strategyh.com/report/cooking-and-edible-oils-market-in-pakistan/
[29] In mid-2025, a leading beverage company in Pakistan introduced a sparkling fruit drink, tapping into growing demand for flavoured carbonated options. As regards to the localisation, another company has commenced local flavouring production in Pakistan since February 2025 as part of efforts to enhance supply chain self-sufficiency.
[30] FO sales declined by more than 50 percent in H1-FY26 as the recently imposed levy made it unaffordable for consumers and exporting the same has also been challenging. Amidst weak domestic demand, the pile up of inventory forced the refineries to export FO in bulk in Q2-FY26.
[31] Australian coal prices dropped by 21.6 percent in H1-FY26 over the same period last year. Source: World Bank

Contribution to Growth in Petroleum Products Output - H1 Figure 2.15



Source: PBS

Cement Dispatches Figure 2.16



Source: APCMA

On the other hand, production of iron and steel declined for the fourth consecutive year. Despite strong construction activity, domestic steel output was constrained by rising international prices of key inputs such as iron ore and scrap.[32] Given the industry's reliance on imported raw materials, higher global prices significantly increased production costs. Moreover, capacity constraints and energy-related challenges further weighed on domestic production. Therefore, domestic demand is being increasingly met through imports at relatively competitive prices, a trend reinforced by tariff rationalisation under the National Tariff Policy 2025–30.[33]

Electrical Equipment

Production of electrical equipment rose by 8.7 percent in H1-FY26, compared to a decline of 19.0 percent in the same period last year. The expansion was driven by consumer durable segment, as production of refrigerators, deep freezers and electric fans rebounded. This is also evident from rising consumer finance for durables.[34]

Paper and Board

Output of paper and board contracted by 3.3 percent in H1-FY26, compared to an increase of 2.3 percent last year. Despite high anti-dumping duty on coated paperboard, domestic firms faced intense competition from imported products from China. The resulting lower margins have discouraged domestic production.[35]

Chemicals

The production of chemicals maintained the falling trend, registering a decline of 1.9 percent in H1-FY26. This was due to: (i) weaker furniture production amid decline

[32] The price of iron ore increased by 1.2 percent in H1-FY26 over the same period last year. Source: World Bank
[33] https://www.commerce.gov.pk/wp-content/uploads/2025/07/National-Tariff-Policy-2025-30.pdf
[34] Consumer finance for the purchase of durables grew by 4.2 percent in H1-FY26, with outstanding stock increasing from Rs 8.6 billion at end-June 2025 to around Rs 9.0 billion as of end-December 2025.
[35] National Tariff Commission imposed anti-dumping duty of 29 percent on coated paperboard for five years in 2017, which was further extended for another five years in 2022. Market analysts report that imports undercut domestic pricing which has lowered margins for domestic producers.

in exports reduced the utilisation of downstream chemicals such as polishes and varnishes; (ii) persistent global oversupply exerted downward pressure on PVC and ethylene prices, compressing margins and dampening production incentives;[36] and, (iii) moderating demand as firms increasingly attempt to incorporate the aspects of circular economy.

Pharmaceuticals

The output of pharmaceuticals contracted by 5.3 percent, compared to an expansion of 1.8 percent in the same period last year. This largely reflected decline in exports, particularly to Afghanistan.[37] Moreover, the deregulation that provided some pricing flexibility and supported margins last year, was somewhat offset by increased competition, which squeezed margins of big firms.[38]

In sum, output of most LSM groups has rebounded in H1-FY26. However, the sustainability and breadth of this recovery would depend on the underlying business environment. In this regard, a detailed analysis of Pakistan's performance, using World Bank's Business Ready (B-READY) 2025 framework, is presented in **Box 2.4**. The analysis shows that first-generation reforms (governance improvement, business deregulation and trade liberalisation) can potentially increase the output by 4 – 8 percent. Similarly, second-generation reforms pertaining to credit access and labour market can increase production by another 3 percent.

2.4 Services

Growth in services saw a slight uptick in H1-FY26, mainly supported by *wholesale and retail trade*; *transport and storage*; *general government services*; *real estate activities* and *other private services*. Meanwhile, *information and communication* services recorded a sharp decline (**Table 2.10**).

Wholesale and retail trade (WRT) rebounded on the back of recovery in industrial output and higher import volumes.[39] This is also corroborated by increase in private sector credit to WRT.[40] Similarly, the improved economic activity supported growth in *transport and storage*. This was also reflected by: (i) substantial increase in production and sales of automobiles; (ii) higher POL sales to the transport sector, especially road transport;[41] and (iii) increased credit to transport and storage.

Meanwhile, higher growth in *finance and insurance* was on the back of increased financial intermediation amid fall in borrowing cost and recovery in production of the large industries. Besides higher financial intermediation (quantum effect), the interest rate spread – the difference between interest earned and interest expense on advances and deposits – also

[36] Petrochemicals and Polymers: Quarter Three Performance – Q3 2025 available at https://www.nexanteca.com/blog/petrochemicals-and-polymers-quarter-three-performance-q3-2025
[37] As per PBS, export volumes of pharmaceutical products have declined by 31 percent during H1-FY26.
[38] As per the latest financials of top 10 firms in calendar year 2025.
[39] Imports rose to US$ 31.4 billion in H1-FY26 compared to US$ 27.9 billion in the corresponding period of last year.
[40] The credit to WRT was Rs 155.7 billion in H1-FY26 against Rs 91.7 billion in the first half of FY25.
[41] The POL sales to road transport increased from 7.0 trillion tons in H1-FY25 to 7.3 trillion tons in H1-FY26.

Services Growth **Table 2.10**

growth in percent; contribution in percentage points

	FY25						FY26			Contribution	
	Q1	Q2	H1*	Q3	Q4	H2*	Q1	Q2	H1*	H1-FY25	H1-FY26
Services	**2.4**	**2.8**	**2.6**	**3.1**	**3.8**	**3.5**	**2.4**	3.7	3.1	**2.6**	**3.1**
Wholesale & retail trade	0.5	-1.0	-0.3	-0.3	2.5	1.1	3.1	4.5	3.8	-0.1	1.2
Transport & storage	2.3	2.7	2.5	1.9	4.0	3.0	2.6	2.8	2.7	0.5	0.5
Accommodation & food services	3.9	4.0	4.0	4.1	4.3	4.2	4.6	4.5	4.6	0.1	0.1
Information & communication	6.3	10.4	8.4	10.2	1.6	5.7	-29.7	-6.0	-17.6	0.4	-0.9
Finance & insurance activities	-3.7	11.1	3.4	9.6	8.7	9.1	10.2	4.5	7.3	0.1	0.2
Real estate activities (OD)	3.6	3.7	3.6	3.8	4.0	3.9	4.3	4.2	4.2	0.4	0.4
Public admin and social security	3.3	7.8	5.5	12.2	11.7	11.9	10.6	8.7	9.7	0.4	0.7
Education	3.7	3.5	3.6	3.2	2.9	3.0	5.9	4.9	5.4	0.2	0.3
Human health and social work	3.8	4.2	4.0	3.2	2.3	2.8	7.2	5.7	6.4	0.1	0.2
Other private services	3.8	3.7	3.8	3.5	3.1	3.3	2.9	2.8	2.8	0.6	0.4

* H1 GVA = Q1 GVA + Q2 GVA; H2 GVA = Q3 GVA + Q4 GVA

Source: PBS

increased.[42] In addition, deflator and low base last year also accounted for higher growth.

The *general government* services picked up on the back of increased government spending on public administration and social security; health and education; as well as running of the civil government. As regards to the *real estate activities* and *other private services*, higher construction activity and credit offtake, along with lower deflators, explain the increase in value addition of these services.[43, 44]

On the other hand, the contraction in *information and communication services* is primarily attributed to a fall in revenue of cellular companies,[45] as ICT services exports maintained upward trajectory.[46] The downturn in this sector is also corroborated by a sharp decline in credit offtake in *information and communication*, especially telecom, from Rs 115.1 billion during H1-FY25 to Rs 47.7 billion in H1-FY26.

2.5 Labour Market

The Labour Force Survey (LFS) 2024-25 shows that unemployment increased to 7.1 percent in FY25 compared to 6.3 percent in

[42] In H1-FY26, the difference between interest earned and interest expense of the financial sector, including banks, DFIs, and MFBs, increased to Rs 4.1 trillion from Rs 3.5 trillion during H1-FY25. Moreover, the non-interest earning of the financial sector increased to Rs 1.0 trillion from Rs 978.3 billion in H1-FY25, indicating increased financial intermediation.

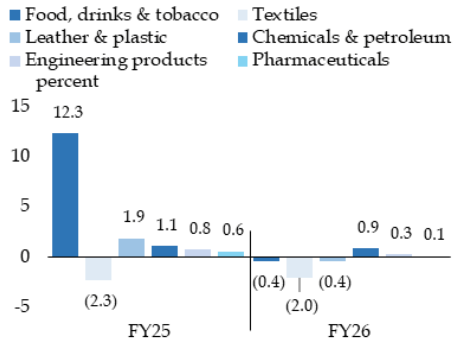
[43] There was addition of Rs 1.4 billion in credit to real estate activities during H1-FY26 compared to a net retirement of Rs 372.4 million during H1-FY25.

[44] The credit to *other private services* increased from Rs 14.8 billion during H1-FY25 to Rs 36.5 billion in H1-FY26.

[45] The decline in revenues owes to increased operational costs and government taxes. Source: PBS.

[46] QNA estimates exclude ICT exports, growth of which remained robust in H1-FY26. The annual estimates, however, include these with a weightage of around 30 percent. Source: PBS.

Growth in Industrial Employment in Punjab - H1 Figure 2.17



Source: BOS, Punjab

FY21 (**Table 2.11**), the highest since FY04.[47] The period from FY21 to FY25 witnessed a confluence of events and policies that affected employment generation, including COVID-19 pandemic, floods, and weak economic growth. The LFS also reveals a notable decline in employment share of agriculture as labour shifted mainly to services. An important development is rise

Employment Indicators Table 2.11

percent of labour force

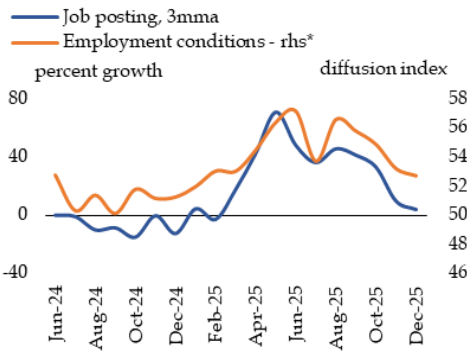
Indicators	FY19	FY21	FY25
Unemployment rate			
Pakistan	6.9	6.3	7.1
Male	5.9	5.5	6.0
Female	10.0	8.9	10.5
Employment by Sector			
Agriculture	39.2	37.4	33.1
Industry	24.0	25.4	25.7
Services	36.8	37.2	41.2

Source: Labour Force Surveys, PBS

of gig economy, measured first time in Pakistan, as 2.9 percent of employed labour force identified it as a main work.[48]

The latest labour market indicators show a mixed picture. The Punjab industrial employment contracted slightly compared to an uptick in the last year. The employment in sectors such as chemicals & petroleum; engineering products; and pharmaceuticals exhibited slight increase, in line with increase in the production of

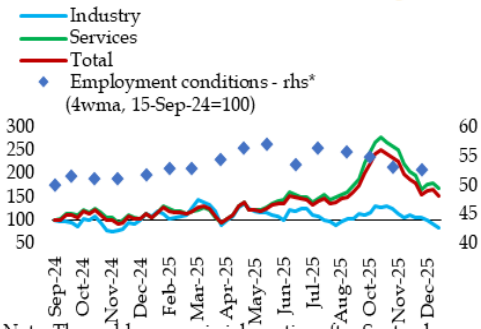
Newspaper Job Postings & Employment Conditions Index Figure 2.18a



* Diffusion index as reported in SBP BCS

Source: SBP

Online Job Postings Figure 2.18b



Note: The sudden surge in job posting after September 2025 was due to introduction of a new category.

* Diffusion index as reported in SBP BCS

Source: SBP

[47] In FY04, the unemployment rate was 7.7 percent according to LFS.

[48] Digital platform workers/employment, known as gig workers, refer to individuals who engage in short-term, flexible and often freelance work arrangements through online platforms, mobile apps, or websites. These platforms connect workers with customers or clients who need specific tasks or services." Source: LFS 2024-25.

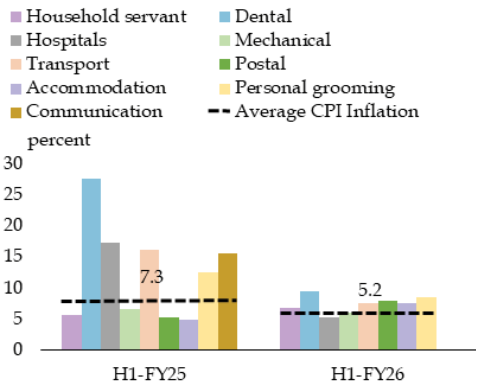
these sectors, except pharma (**Figure 2.17**). In recent past, LSM output and employment have comoved, reflecting the usual link between industrial activity and hiring. However, this relationship somewhat weakened in H1-FY26. This may be due to relative change in the composition of LSM growth, which is mainly driven by capital intensive sectors like automobiles, chemicals, pharma, beverages and minerals.[49]

Meanwhile, newspaper & online job posting indicated increase in employment opportunities during H1-FY26 compared to H1-FY25. SBP-IBA Business Confidence Survey (BCS) also points to improved employment sentiments in the country (**Figure 2.18a and 2.18b**).

Wage Growth

The wage growth in services sector slowed during the first half of FY26 compared to the same period last year amidst lower average inflation (**Figure 2.19**). Like H1-FY25, most of the increase was seen in dental, personal grooming and transport services. Nonetheless, wages of household servants and rents increased during H1-FY26.

Average Wage Growth in Services Sector Figure 2.19



Source: SBP Staff Calculations

[49] Capital-intensive sectors contributed 3.2 percentage points in overall LSM growth of 4.8 percent in H1-FY26. Meanwhile, the labour-intensive sectors having almost same weight, contributed around half (*1.6 percentage point*s) of the contribution by capital-intensive sectors. The classification of capital vs labour-intensive is done using UNCTAD, Trade and Development Report 1996.

Box 2.1: Household Income and Consumption Dynamics in Pakistan: Key Take Aways from Household Integrated Economic Survey (HIES)[50] FY25

The HIES FY25 reveals that income levels have risen in nominal terms in the last 6 years, alongside some improvement in the country's demographics. However, the socio-economic gaps have increased across income groups, and provinces.

Demographic trends show a modest decline in average household size, while employment mix shifted towards paid work. The share of employees increased while the share of contributing family workers decreased, suggesting some movement toward more monetised labour. At the same time, the gap between rural and urban incomes has widened in FY25 relative to FY19 (**Table 2.1.1**).

The consumption pattern highlights reduced household welfare, especially in lower income quintiles. This is reflected in rising share of housing and utilities, prompting the households to reduce expenditure on education, which is essential for human capital development. Although the share of food expenditure slightly declined, this is also accompanied by lower consumption of key staples and nutrients (**Figure 2.1.1**).

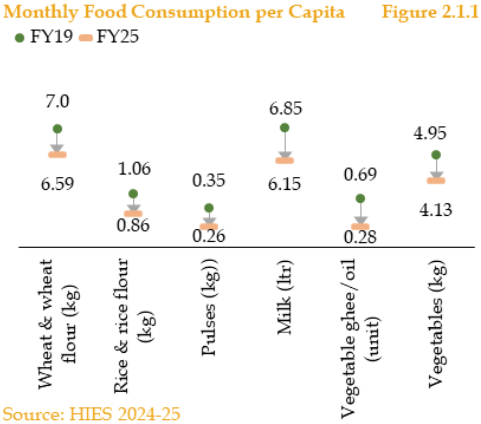
One of the main factors underpinning this development is constrained household income. The

Major Indicators of HIES — Table 2.1.1

Indicators	FY19	FY25
Household Demographics		
Average household size	6.24	5.98
Average earners per household	1.86	1.72
Income Indicators (Monthly, Rs)		
Average household income	41,545	82,179
Urban household income	53,010	96,767
Rural household income	34,520	72,157
Income by Quintile (Monthly, Rs)		
Bottom 20 percent	23,192	41,851
Top 20 percent	63,544	139,317
Consumption Indicators (Monthly, Rs.)		
Average household consumption	37,159	79,150
Per-capita consumption	5,959	13,240
Sources of Household Income (Percent Share)		
Wages & salaries	41.7	42.0
Crop production	8.2	6.9
Foreign remittances	5.0	7.8
Household Consumption Pattern (Percent Share)		
Food and beverages	37.1	36.7
Housing, utilities and fuel	23.8	25.7
Health	3.2	3.3
Education	4.0	2.5

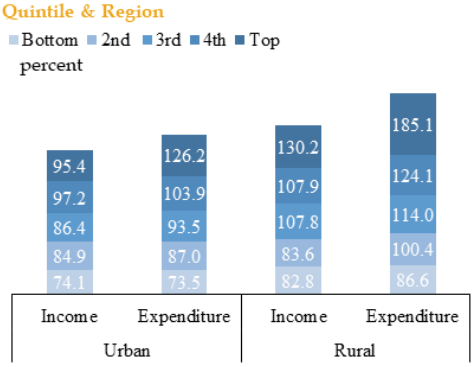
Source: PBS

Monthly Food Consumption per Capita — Figure 2.1.1



Source: HIES 2024-25

Growth in Income and Expenditure: by Quintile & Region — Figure 2.1.2



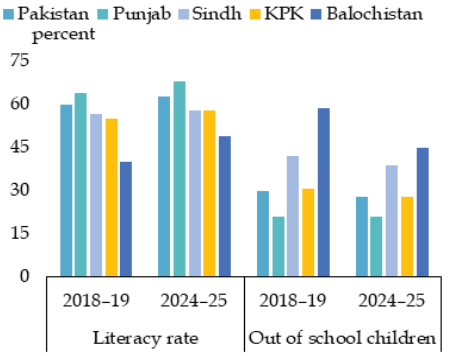
Source: HIES 2024-25

[50] HIES is a nationally representative survey that provides key information on household income, consumption, and living standards in Pakistan.

average number of earners per household declined, indicating households' weaker earning capacity. At the same time, the survey points to higher contribution of non-labour income, including increased shares of remittances and transfers. While these help smooth consumption during periods of stress, they also imply greater exposure to external and domestic shocks.

Moreover, increase in income and expenditure was more pronounced for the top quintile, which recorded much larger absolute gain (119 percent) than the bottom quintile (80 percent) (**Figure 2.1.2**). As a result, the gap between rich and poor households widened. Spatial disparities also became evident with urban households reporting higher average income and consumption than rural households, despite a higher growth in rural income. These disparities were not only limited to income and consumption. They were also reflected in broader social indicators, pointing to uneven access to opportunities and basic services across regions. Provincial differences remained visible, especially in literacy and out-of-school-children indicators **(Figure 2.1.3)**.

Literacy Rate and Out of School Children by Province **Figure 2.1.3**



Source: HIES 2024-25

Contribution of Ravi Kumar and Saad Ali is acknowledged in writing this box.

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Box 2.2: Greening Cities and Securing Food: Integrating Urban Agriculture into Urban Planning of Pakistan

Rapid urbanisation and increasing heat stress in Pakistan demand innovative approaches to urban planning. Moreover, shrinking arable land due to increasing urbanising needs amid rising population is also leading to risk of food insecurity. Urban Agriculture (UA) offers solutions to these challenges by enhancing resource recycling, improving urban environment through waste reduction using localised and circular food systems (Hernandez and Manu, 2018), and by diversifying food production. Beyond its role in food supply, UA also contributes to environmental sustainability by reducing food miles,[51] improving microclimates (urban heat island effect) and creating green employment opportunities.

Several countries have successfully mainstreamed UA. The country experiences show that the success of UA rests on three common factors: policy continuity, institutional coordination, and community engagement. For instance, Cuba created urban agriculture departments (1994) for provision of urban food supplies; allowed decentralised management through land in usufruct (use without ownership) empowering individuals/cooperatives; and integrated UA with national food security policies. This, in turn, reduced imports, promoted organic farming and created a strong tradition of UA, especially

[51] Food mile is a distance over which a food item is transported during the journey from producer to consumer.

Forms of Urban Farming — Table 2.2.1

	Purpose of Adoption	Example(s)	Feasibility in Pakistan
Mushroom cultivation (MC)[52] and Mycoremediation (MM)[53]	Health benefits; medicinal purposes; to clean environment	China leading exporter; research in China, South Africa, US, Japan, etc. to use MM to remove pollutants; Pakistan: recirculation of forest waste	**Highly feasible:** requires minimal land & capital such as small rooms/basements; low initial infrastructure cost; less energy intensive; low impact on environment; short growth cycle
Organopónic[54]	Food security & safety, sustainable urban development, reducing carbon emissions	Largely associated with Cuba, adopted by Venezuela	**Highly feasible**: Needs basic infrastructure such containers, raised beds, water source and drainage & organic inputs; low initial infrastructure cost; less energy intensive, need adequate sunlight
Street/Edible Landscaping[55]	Sustainable urban development, climate change adaptation and mitigation, reduce carbon emissions, place branding	Spain, Italy, and Portugal: edible plants in public parks and streets, such as citrus trees; Taiwan: place branding	**Feasible:** Needs proper site assessment and planning regarding sun exposure; water access and drainage; selection, design and layout of plants/trees; Less energy intensive; needs proper
Community Gardens[56]	Food safety, sustainable urban development, climate change adaptation and mitigation, reduce carbon emissions, community engagements	UK, Australia, Canada, US, Brazil, Bhutan, Burkina Faso, Indonesia, Nepal, Philippines, South Korea, China; Islamabad: small initiatives by local groups	**Feasible:** Needs vacant space with secure lease; water accessibility; tools; good soil quality, sunlight & community engagement; low initial infrastructure cost, comparatively high maintenance
Urban Forest Gardens[57]	Food security & safety, sustainable urban development, climate change adaptation and mitigation, reduce carbon emissions, research, Aesthetics	UK: established forest gardens focusing on edible forest gardens & research on their effectiveness, particularly in agroforestry and permaculture	**Feasible:** Secure land lease & legal requirements; needs water accessibility & storage facility, good soil quality, sunlight & community engagement; low initial infrastructure cost; comparatively high maintenance

Source: Based on various studies

Organoponic.[58] Similarly, Ghana benefitted from strong community ownership, market linkages, and recognition of UA as a legitimate urban land use.[59] In Kenya, regulatory reforms and technical training have enabled UA to become one of the leading sources of self-employment.[60] These examples suggest that

[52] Mushroom cultivation aims to grow edible or medicinal mushrooms for human consumption. It involves growing mushrooms on waste materials such as coffee grounds or agricultural waste.
[53] Mycoremediation is increasingly recognized as a cost-effective and environmentally friendly way to address pollution. Fungi like white-rot fungi are being studied for their ability to degrade pollutants in soil and water.
[54] Uses organic substrate, obtained from crop residues, household wastes and animal manure, from other intensive, high yielding horticulture production systems.
[55] Street landscaping refers to planting trees, plants, and other greenery within and along streets, to enhance appearance, functionality, and overall quality of life in urban areas. Edible landscaping incorporates edible plants.
[56] Shared piece of land where people cultivate plants & vegetables and is often managed by a local community.
[57] Edible forest gardens have edible trees and plants or useful in other ways.
[58] As a result of these measures, Cuba has around one million registered urban gardens and city farms (Harrison, 2019). In Havana, around 90 percent of the annual consumption of fruits and vegetables is produced by these gardens and farms (Incredible Edible, 2024).
[59] Urban farmers produce most vegetables such as lettuce and spring onions, and supply them to urban markets (Azunre et al., 2019).
[60] Around 60 percent of the leafy vegetables and 70 percent of milk and poultry products consumed in Nairobi comes from UA (Ruhweza. A, 2020). Source: University of Nairobi

UA flourishes when it is institutionally embedded, supported by local governance mechanisms, and aligned with urban planning frameworks.

Pakistan has also taken a few initiatives, such as Miyawaki forests (urban forests), mushroom cultivation, rooftop gardens and community gardens. Pakistan's cities hold significant potential for UA. In densely populated cities like Karachi, Lahore and Faisalabad where concrete structures increase temperatures, encouraging farming on rooftops, in backyards, and in containers could provide affordable and effective solutions for enhancing climate adaptation and food security. Moreover, Pakistan needs to explore various forms of urban farming. Some of these are identified in **Table 2.2.1**.
Further, UA can be integrated into urban spaces by renting unutilised public spaces to individuals/cooperatives; reinforcing fencing with Green Walls and installing Green Walls monuments on the roadsides and roundabouts; introducing fruit trees and pollutant clearing plants in public spaces. Moreover, to promote UA on a larger scale, there is a need to provide extension services; [61] collaboration between urban planners, agricultural experts, and communities; and public awareness campaigns at mass media level.

However, several factors have impeded a wide-scale adoption of UA in Pakistan. For example, according to Waseem (2025), while provincial Urban Forest Policy in Punjab and KP exist, they are not fully implemented. This underlines the need for policy coherence and adaptive management rather than isolated pilot projects. While having favourable prospects, UA also has its own limitations, such as the availability of land for commercial operations given the expansion of cities (FAO, 2011). To address this issue, new techniques are being utilised, such as vertical gardens, hydroponics, and aquaponics.

* *Contribution of Almas Karim is acknowledged in writing this box.*

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Box 2.3: Pakistan's NEV Policy 2025–30 through the Lens of Policy Goals and Global Experiences

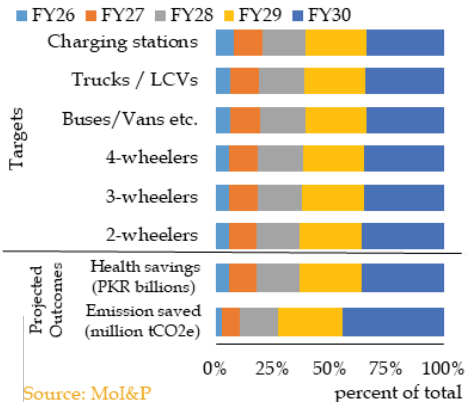
As part of Pakistan's commitment to transition towards cleaner transport, the government has announced New Energy Vehicles (NEV) Policy 2025–30, outlining a framework to accelerate the adoption of electric vehicles (EVs) across two- and three-wheelers, passenger cars, light commercial vehicles, buses, and trucks. Motivated by the challenges of reducing greenhouse gas emissions[62] and managing a high oil import bill,[63] the policy envisions a vibrant local EV industry, especially for two and three wheelers. In

[61] Extension services may include providing ready to grow and improved cluster of vegetable & fertilizers at a subsidized rate and providing trainings.
[62] As reported by UNCTAD, transport sector emissions account for approximately 10 percent of national carbon output.
[63] As per PBS data, petroleum group imports averaged US$ 15.8 billion per annum during FY20–25.

this context, this box examines the goals, design and implementation framework of the new policy based on the lessons from selected peer economies.

The NEV policy 2025-30 follows country's first EV policy launched in 2019, which faced implementation challenges amid COVID-19 disruptions. The current policy builds on the lessons learned and extensive stakeholder consultations, emphasizing supply-side support for local manufacturing, demand-side incentives, charging infrastructure development, and a robust regulatory framework for vehicles safety and environmental safeguards.[64] Major targets and outcomes point towards a gradual approach to NEV adoption (**Figure 2.3.1)**. The policy incorporates a multi-pronged strategy across four areas: (a) affordability, (b) charging infrastructure, (c) demand incentives, and (d) institutional framework (**Figure 2.3.2**).

NEV Adoption: Targets and Outcomes **Figure 2.3.1**



Source: MoI&P

Although the policy is comprehensive, domestic dynamics and global experiences suggest a few implementation challenges, such as:

i. The policy's Rs 122 billion feebate funding relies on sustained demand for conventional vehicles and efficient revenue collection; any shortfall could affect the continuity of incentives and infrastructure funding.[65] In this context, international experience, particularly in India and Malaysia, suggests aggressive upfront support instead of feebate or levies.[66]

ii. Large-scale rollout of charging infrastructure remains uncertain considering a low commercial return due to lower EV adoption.[67] Moreover, multi-agency coordination including residential, commercial, and public deployment may add governance complexity. International experience from Indonesia and Brazil suggest that state-led charger deployment in targeted urban areas promoted infrastructure development and facilitated private sector participation.

iii. The policy proposes extensive National Energy Vehicles Centre (NEVC) coordination with different institutions (EDB, CCP, SBP etc.) that may face mandate challenges. In this regard, Mexico's case offers a pragmatic model for multi-agency alignment. Mexico developed sectoral regulations to accelerate electromobility, focusing on nationwide coordination and public-private collaboration.

iv. Pakistan's manufacturing localisation plan currently focuses mainly on two- and three-wheelers, as this is where its manufacturing strength is concentrated. However, China's experience suggests that Pakistan may start developing phased coverage of heavy vehicles for broader environmental impact and meaningful reduction in emissions.

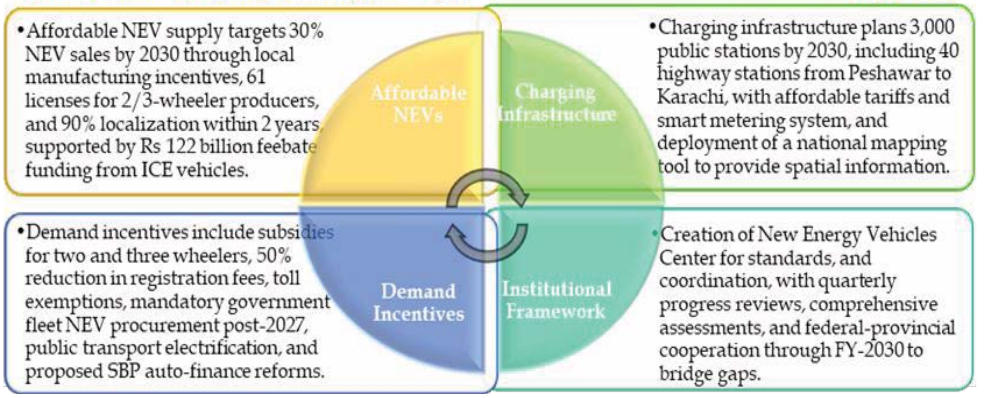
[64] https://pid.gov.pk/site/press_detail/29435

[65] The subsidies and viability gap funding are to be provided through varying rates of levies (1 - 3 percent) applied on the invoice price of an ICE vehicle.

[66] For instance, India provides upfront subsidy in reducing the cost of acquiring an EV (ranging from 20 – 40 percent of ex-factory price) and Malaysia provides tax rebates of up to RM 2,400 to individuals.

[67] World Bank in its report "Pakistan Energy Efficiency: Industrial Energy Efficiency and Decarbonisation (EE&D)" mentions that Pakistan's energy intensity — the amount of energy needed to produce US$ 1 of GDP — was 4.2 megajoules (million joules, MJ) per USD compared to 1.9 MJ/USD in Bangladesh and just 1.7 MJ/USD in Sri Lanka.

Key Interventions for meeting NEV Adoption Targets — Figure 2.3.2



Source: Author's compilation from source document

Addressing these challenges can strengthen policy impact while supporting energy efficiency and industrial competitiveness. More importantly, the recent Middle East conflict highlights an additional consideration for oil-importing countries like Pakistan. Greater EV adoption will cushion the economy against such shocks by reducing dependence on imported oil in the medium to long-run.

** Contribution of Ravi Kumar is acknowledged in writing this box.*

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Box 2.4: Assessing Pakistan's Business Readiness for Sustainable Industrial Growth

Pakistan's industrial output has though recovered in FY26, sustaining the higher growth requires a host of structural and policy reforms. In this regard, the World Bank's recently released Business Ready (B-READY)[68] 2025 framework offers useful insights for Pakistan. On overall basis, Pakistan's performance is

[68] B-READY assesses business environments by evaluating three pillars (regulatory framework, public services, and operational efficiency) across the lifecycle of a business (i.e. entry, operation, and exit).

mixed, with notable variation across various pillars and topics. This box looks at major structural challenges identified by B-READY.

Among the ten topics spread across three pillars, Pakistan demonstrates relative strength in two compared to the selected peer economies (**Table 2.4.1**). For example, the relative strength in *Business Entry* that cut across the regulatory framework reflects a regulatory environment that facilitates firm formalisation through streamlined registration processes, reducing the administrative burden on new entrants. *Utility Services* – an area that is relevant to public services, also suggest some improvement in access to reliable infrastructure (particularly electricity and water), which directly affect firms' operational continuity. Reliable utilities reduce downtime and allow businesses to allocate resources more efficiently toward investment and expansion.

B-READY Performance 2025, by pillar **Table 2.4.1**

Economy	Code	Pillar 1 Regulatory Framework	Pillar 2 Public Services	Pillar 3 Operational Efficiency
Rwanda	RWA	72.54	59.81	71.47
Ghana	GHA	68.88	49.99	51.73
Vietnam	VNM	67.03	53.93	70.44
Türkiye	TUR	66.81	73.43	62.91
Indonesia	IDN	65.61	62.00	59.01
Malaysia	MYS	65.61	63.41	67.99
Cambodia	KHM	63.06	43.14	56.17
Pakistan	**PAK**	**62.31**	**54.58**	**59.64**
Nepal	NPL	61.46	42.04	56.15
Bangladesh	BGD	53.01	45.14	57.77

Note: Cell colour represents the quintile an economy is in for each of the three pillars. (high score = 100; low score = 0)

Top Quintile	Second Quintile	Third Quintile	Fourth Quintile	Bottom Quintile

Source: WB

In the remaining eight areas, however, the country's performance remains subpar. These are briefly discussed as follows:

Weak implementation of laws and policies: The *Regulatory Framework* pillar outperformed both the pillars named *Public Services* and *Operational Efficiency*, which points to a familiar pattern across emerging economies: rules exist but they lack implementation and ease of compliance. A regulatory framework that is not matched by effective public service delivery or efficient operational processes can raise compliance costs, discourage formalisation, and constrain private investment.

Trade and market entry barriers: Pakistan faces significant constraints in *international trade* and *domestic competition*. Customs clearance procedures involve multiple documentary requirements and coordination between agencies, increasing the processing time that affects export delivery schedule and import supply chains. Domestically, new entrants encounter procedural requirements, information asymmetries, limited transparency in public procurement that influence market access, while established firms operate within existing regulatory parameters. These factors collectively affect transaction costs and limit Pakistan's participation in global value chains.

Efficiency gaps in institutional processes: The *taxation*, *dispute resolution* mechanisms, and *insolvency framework* represent institutional arrangements that influence business operations. The tax regime involves multiple compliance requirements and administrative processes (that demand firm resources), with lengthy refund mechanisms that affect working capital needs. Commercial courts take time in processing the caseloads affecting the dispute resolution timelines. The insolvency framework is still evolving with the capacity building of practitioners.

Labour, land, and credit market frictions: *Labour regulations*, *property registration* systems, and *financial services* frameworks shape how firms access productive inputs. In the labour market, compliance requirements are burdensome, particularly for smaller firms, while mismatches between worker skills and industry needs constrain productivity. For small and medium enterprises, access to credit is limited

by stringent collateral requirements and underdeveloped alternative lending products, while credit information systems experience lack of data collection from non-bank institutions or utility companies. These operational frictions raise costs, create uncertainty, and hinder firms from efficiently utilizing the inputs for production and growth.

Evidence from 125 emerging markets and developing economies suggests that reforms aimed at addressing the aforementioned areas, if sequenced appropriately, can help sustain industrial growth (Budina et al., 2023). The estimates show that *first-generation reforms* such as governance improvements and business deregulation, along with tariff reduction and eliminating non-tariff barriers, can raise the level of output by 4 percent within two years and 8 percent over four years. Similarly, *second-generation reforms* such as expansion in credit access and market-driven wage structure, can yield an additional 3 percent.

** Contribution of Ravi Kumar is acknowledged in writing this box.*

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