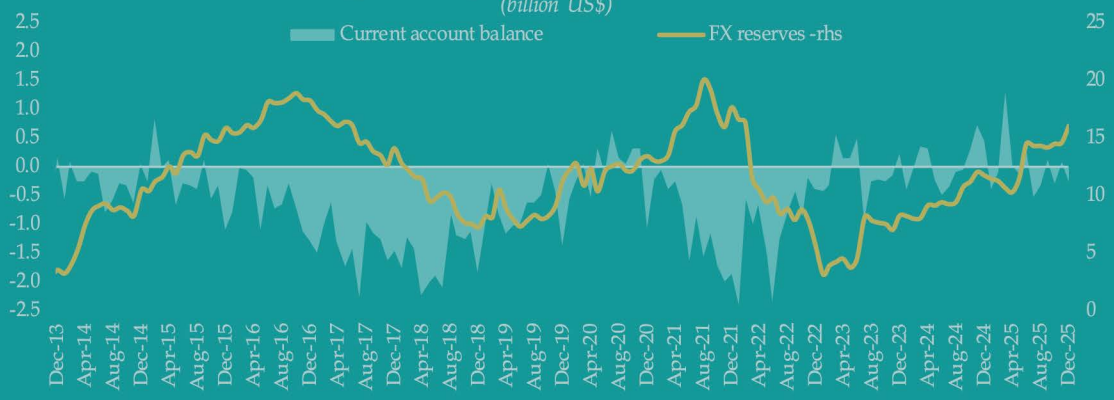
5

Balance of Payments

Pakistan's external buffers continued to strengthen amid contained current account deficit. In H1-FY26, the current account balance turned into a deficit primarily due to widening of trade deficit, as exports declined and imports rose sharply in line with momentum in economic activity. Nonetheless, robust workers' remittances partially offset the combined deficit in trade in goods and services, and primary income accounts. Meanwhile, financial account recorded higher net inflows led by higher official disbursements, while private capital flows somewhat moderated. SBP's FX market purchases and net official loan disbursements supported upward trajectory in foreign exchange reserves. As a result, import coverage of FX reserves further improved and exchange rate remained broadly stable.

Foreign Exchange Reserves and Current Account

(billion US$)



5 Balance of Payments

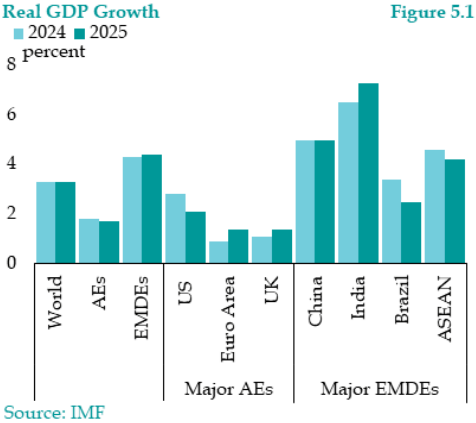
5.1 Global Economic Developments

Global economy remained resilient to trade-related uncertainty and geopolitical tensions in 2025. The global GDP growth is estimated to remain steady at 3.3 percent in 2025, same as in 2024 (**Figure 5.1**). The global trade volumes also picked up towards the end of 2025 as trade policy uncertainty (TPU) eased. However, inflation in both advanced economies (AEs) and emerging markets and developing economies (EMDEs) remained persistent, leading to cautious monetary policy stances by central banks.[1] Despite these, global financial conditions largely stayed benign, which helped global capital flows and cross border investments.[2]

The resilience in global economic activity was underpinned by increased consumer spending, surge in tech-related investments,[3] and spillovers from trade and production front-loading in anticipation of increase US tariffs. Moreover, trade negotiations, calibrated policy settings, and improved policy fundamentals[4] helped deliver a better-than-expected growth outcome. Nonetheless, growth across AEs and EMDEs was uneven. The growth in AEs decelerated due to slower growth in US, whereas growth in EMDEs edged higher led by India.

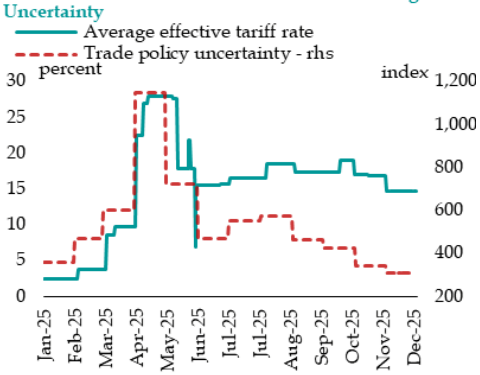
The recovery in global trade was supported by a combination of ease in US tariffs, reduced TPU, relocation of global supply chains, and greater adaptability by

Real GDP Growth — Figure 5.1



Source: IMF

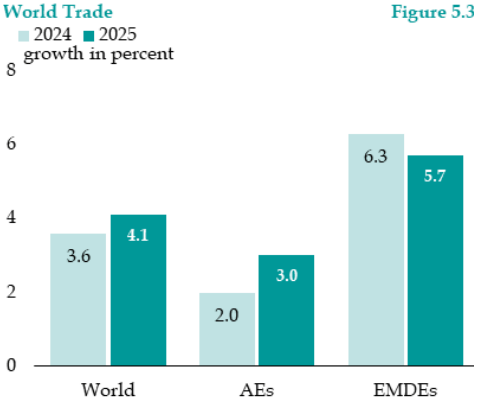
US Effective Tariff Rate and Trade Policy Uncertainty — Figure 5.2



Sources: The Budget Lab; World Uncertainty Index

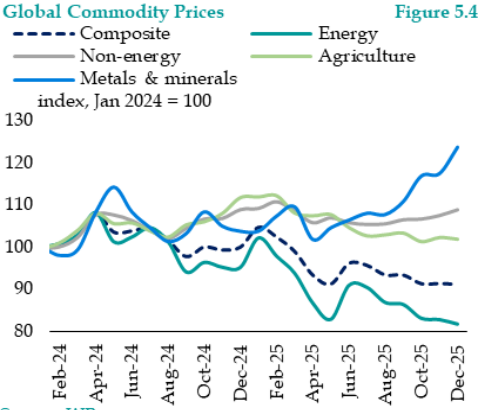
[1] In 185 decisions by 54 central banks during H1-FY26, there were 66 rate cuts, 117 pauses, and 2 rate hikes.
[2] Global FDI flows increased by 14 percent reaching US$ 1.6 trillion in 2025, primarily driven by EU, while developing economies witnessed disinvestment. *Source: UNCTAD, Global Investment Trend Monitor, No, 50, January 2026.*
[3] ICT or tech-related investment in AEs, especially in the USA, has notably increased in 2025. In US alone, real investment in the construction of data centers increased by 21 percent (annualised) in the second half of 2025. *Source: OECD Economic Outlook, December 2025 Volume 2025/2, No. 118.*
[4] EMDEs withstood recent global shocks better than in the past due to enhanced policy credibility and central bank independence, improved fiscal discipline, and deepening local currency markets. *Source: IMF, World Economic Outlook, October 2025, Chapter 2, Emerging Market Resilience: Good Luck or Good Policies*?

World Trade Figure 5.3



Source: IMF

Global Commodity Prices Figure 5.4



Source: WB

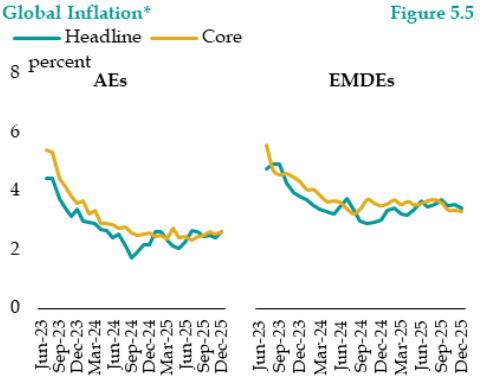
businesses (**Figure 5.2**).[5] Moreover, increased tech-related trade flows, largely driven by AEs, supported overall global trade growth (**Figure 5.3**).

Meanwhile, global commodity prices softened significantly, led by energy and agriculture commodity prices – largely reflecting increased global supply (**Figure 5.4**).[6,7] On the other hand, the prices of metals & minerals, and precious metals rose sharply.[8] Specifically, the prices of gold and silver surged to an all-time high due to increased demand and rising geopolitical uncertainty.

The persistence in global inflation during 2025 was due to sticky services inflation, labour wage pressures and spillovers from higher tariffs (**Figure 5.5**). Nevertheless, divergent inflation paths across AEs and EMDEs compared to their respective targets led to diverse monetary policy stances. While central banks in AEs reduced, those in EMDEs either increased or maintained the policy rate. The resulting ease in financial conditions (**Figure 5.6**) supported financial flows to EMDEs.[9]

These global developments had mixed implications for Pakistan's economy.

Global Inflation* Figure 5.5

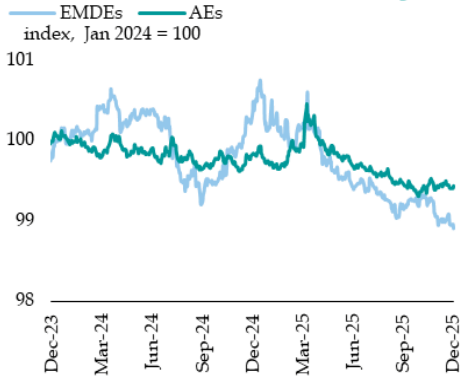


* Median inflation of 30 AEs and 44 EMDEs

Source: IMF

[5] National Bureau of Economic Research, Relocation of Global Supply Chains, The Digest, February 2026.
[6] Global oil inventories climbed to 8.2 billion barrels in 2025, the highest level since 2021. *Source: IEA, The Middle East and Global Energy Markets, accessed on March 11, 2026*
[7] Increased harvest in northern Hemisphere and ample beverages supply, besides global headwinds weighed on market prices of agriculture commodities. Source: World Bank, Food Security Update, December 2025
[8] As per World Bank, metals & minerals include aluminium, copper, iron ore, lead, nickel, tin, and zinc. While precious metals is a separate group that includes gold, silver, and platinum
[9] World Bank's Global Economic Prospects, January 2026.

Financial Conditions Figure 5.6



Source: Bloomberg

Lower global commodity prices helped contain the import bill, and steady global economic activity supported higher workers' remittance. Moreover, lower US tariffs on imports from Pakistan relative to some of the regional competitors supported key export segments. In contrast, the decline in global agriculture commodity prices, especially rice, together with intensified competition, increased pressures on Pakistan's exports. Meanwhile, the closure of western border further aggravated the situation.

5.2 Pakistan's Balance of Payments

Pakistan's balance of payments position strengthened further in H1-FY26. This was despite current account balance (CAB) turning into a deficit of US$ 1.4 billion during H1-FY26, from a surplus of US$ 0.9 billion during the same period last year **(Table 5.1)**. However, the underlying CAB i.e. excluding interest payments, still posted a surplus. The surplus in the non-interest current account balance and private inflows, though moderate, enabled SBP to make purchases to build FX reserves. Moreover, SBP further reduced the swap/forward position. The strengthening of external buffers helped maintain stability in foreign exchange market.

5.3 Current Account Balance

The deterioration in CAB was primarily driven by widening of trade in goods and services deficit. The deficit in primary income account slightly narrowed, mainly because of lower interest payments while repatriation of profits and dividends increased. Moreover, the secondary income account witnessed higher surplus, largely reflecting robust workers' remittances, that helped to finance major part of the combined deficit in trade in goods and services, and primary income accounts.

Trade (in Goods) Balance[10]

The trade deficit increased to US$ 19.3 billion in H1-FY26, up by about US$ 5 billion compared to H1-FY25. The widening in trade deficit was largely due to increase in imports, while exports also declined (**Figure 5.7**). Import growth was led by volumes, especially industrial raw materials, intermediate goods, and capital goods, reflecting strong industrial activity. Moreover, tariff rationalisation, also contributed to the increase in imports. On the other hand, decline in exports was due to both lower prices and volumes contributed to decline in exports **(Table 5.2)**. Although unit prices of both imports

[10] 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. For details on difference between these two data series, see Annexure of this report on Data Explanatory Notes.

Balance of Payments **Table 5.1**
million US$

	FY24	FY25	FY25		H1 - FY26
			H1	H2	
Current account balance	**-2,072.0**	**1,838.0**	**925.0**	**913.0**	**-1,361.0**
Balance on trade in goods	**-22,177.0**	**1,332.0**	**-11,584.0**	**-15,219.0**	**-15,866.0**
Exports (FOB)	30,980.0	32,343.0	**4,130.0**	**4,320.0**	**4,766.0**
Imports (FOB)	53,157.0	59,146.0	**5,747.1**	**5,539.1**	**6,496.0**
Balance on trade in services	**-3,110.0**	**-2,836.2**	**-1,617.1**	**-1,219.1**	**-1,730.0**
Exports of services	7,691.0	8,450.0	**4,130.0**	**4,320.0**	**4,766.0**
o/w ICT exports	3,223.0	3,814.0	1,865.0	1,949.0	2,236.0
Imports of services	10,801.0	11,286.2	5,747.1	5,539.1	6,496.0
Balance on primary income	**-8,986.0**	**-8,837.8**	**-4,688.9**	**-4,148.9**	**-4,643.0**
o/w Interest payments	5,546.0	5,051.0	2,595.9	2,454.9	2,467.0
Profit & dividends	2,215.0	2,220.0	1,226.0	994.0	1,559.0
Balance on secondary income	**32,201.0**	**40,315.0**	**18,815.0**	**21,500.0**	**20,878.0**
o/w Workers' remittances	30,251.0	38,300.0	17,847.0	20,453.0	19,736.0
Capital account balance	**195.0**	**168.0**	**82.0**	**86.0**	**74.0**
Financial account balance*	**-5,370.0**	**1,586.0**	**-644.0**	**-942.0**	**-1,423.0**
Direct investment (net)*^	-2,126.0	-2,462.0	-1,519.0	-943.0	-642.0
Portfolio investment (net)*	376.0	719.0	71.0	648.0	592.0
Other investment*	**-3,610.0**	**159.0**	**805.0**	**-646.0**	**-1,379.0**
Build-up in FX assets abroad*	**-381.0**	**82.0**	**-185.0**	**267.0**	**-264.0**
FX loans & liabilities	**3,229.0**	**-77.0**	**-990.0**	**913.0**	**1,115.0**
Central bank	999.0	0.0	0.0	0.0	0.0
Banks	**715.0**	**-1,536.0**	**-188.0**	**-1,348.0**	**429.0**
General government	**1,565.0**	**2,346.0**	**-353.0**	**2,699.0**	**668.0**
Disbursements	6,044.0	9,544.0	**2,582.0**	**6,962.0**	**3,010.0**
Amortisation	6,727.0	7,643.0	3,208.0	4,435.0	2,462.0
Other sectors	**-50.0**	**-887.0**	**-449.0**	**-438.0**	**16.0**
Disbursements	2,419.0	688.0	**272.0**	**416.0**	**742.0**
Amortisation	1,905.0	1,689.0	**832.0**	**857.0**	**859.0**
Net errors and omissions	**-631.0**	**152.0**	**60.0**	**92.0**	**428.0**
Overall balance	**-2,862.0**	**-3,744.0**	**-1,711.0**	**-2,033.0**	**-564.0**
SBP's liquid reserves (end-period)	**9,390.0**	**15,836.0**	**12,977.1**	**15,836.0**	**17,360.7**

*as per BPM6, negative sign means net FX inflow into Pakistan and vice versa. ^ net FDI inflows - net FDI outflows.
Source: SBP

and exports declined, the fall in export prices was relatively sharp, leading to deterioration in terms of trade.[11]

Exports

Merchandise exports declined by 9.0 percent to US$ 15.1 billion in H1-FY26 from US$ 16.6 billion in H1-FY25. The decline was mainly driven by food and other manufactures, amid closure of the western border, and intensified competition in food exports. This was partially offset by increase in exports of textile and petroleum products **(Figure 5.8).**

Relatively lower US tariffs on Pakistan's exports compared to the peers particularly benefitted Pakistan's textile exports. This is also evidenced from increase in Pakistan's share in US value-added textile imports by 0.8 percentage points during Aug-Dec 2025 (**Box 5.1**).

Food Exports

Food exports fell by 40.3 percent to US$ 2.4

[11] Pakistan's terms of trade deteriorated by 26.3 percent in H1-FY26 compared to H1-FY25. Sources: Haver; PBS.

Merchandise Exports Table 5.2

million US$

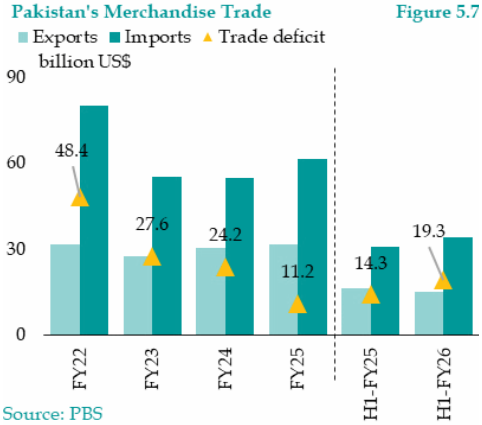
	H1-FY25	H1-FY26	Change		Volume Effect	Price Effect
			Absolute	Percent		
Exports	**16,631.4**	**15,138.6**	**-1,492.8**	**-9.0**	-	-
Textile: *Of which*	**9,084.6**	**9,167.1**	**82.5**	**0.9**	-	-
Apparel	4,610.0	4,815.5	205.6	4.5	194.8	10.7
Home textile	2,110.2	2,124.3	14.2	0.7	14.4	0.2
Non-textile: *Of which*	**7,546.9**	**5,971.0**	**-1,575.3**	**-20.9**	-	-
Food	3,960.0	2,364.9	-1,595.0	-40.3	-	-
Rice	1,875.3	939.9	-935.9	-49.9	-756.5	-179
Oil seeds	303.9	110.1	-193.8	-63.8	-206.0	12.1
Petroleum	271.7	442.2	170.5	62.8	-	-
Petroleum products	229.1	394.4	165.3	72.1	1.3	163.9
Other manufactures: *Of which*	2,159.2	1,984.3	-174.8	-8.1	-	-
Pharma	236.5	168.7	-67.8	-28.7	-62.8	-5.0
Plastic	263.0	148.1	-114.9	-43.7	-104.1	-10.8
Cement	167.5	173.2	5.7	3.4	-9.8	15.5
Footballs	111.5	130.7	19.2	17.2	-18.9	38.1

Source: PBS

billion in H1-FY26. Contraction in rice exports explains more than half of the decline in food group as well as total exports. Both falling global rice prices and volumes contributed to the decline in rice exports. Rice exports have been on decline since India's re-entry in the global rice market in H1-FY25, which intensified competition and exerted downward pressure on global rice prices.

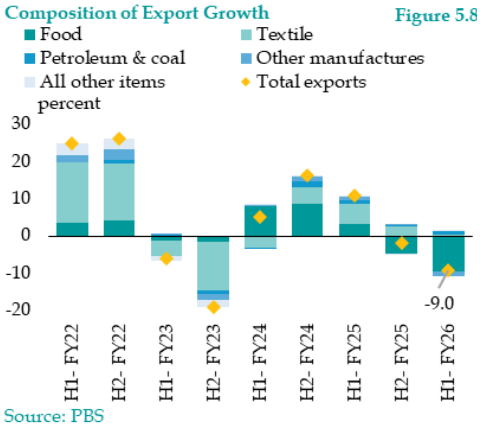
Moreover, rice exports to Indonesia and the Philippines declined owing to increased domestic production under their policy of self-reliance. Whereas Saudi Arabia and United Kingdom diverted their orders from Pakistan to India and US.[12] After rice, export of oil seeds was the second major contributor to decline in food exports. Export of oil seeds declined due to reduced demand of sesame seeds from China – world's largest importer of sesame

Pakistan's Merchandise Trade Figure 5.7



Source: PBS

Composition of Export Growth Figure 5.8



Source: PBS

[12] Share of UK's rice imports from India increased to 36 percent in 2025 from 30 percent recorded in 2024, while Pakistan's share decreased by 11 percent in 2025 from 23 percent recorded in last year. Source: COMTRADE.

Unit Prices and Quantum of Apparel Exports (H1-FY26) **Table 5.3**

Exports to US	Unit Value (US$/M²)*			Quantum (M²)*		
	H1- FY25	H1- FY26	% change	H1- FY25	H1- FY26	% change
World	3.1	3.1	-1.6	23,717	22,950	-3.2
Vietnam	3.8	3.7	-4.3	1,882	2,070	10.0
Philippines	3.8	4.5	20.2	55	44	-18.6
India	3.3	3.4	1.8	583	533	-8.6
Thailand	3.2	3.5	9.1	123	125	1.3
Bangladesh	3.2	3.1	-2.7	1,061	1,086	2.4
Pakistan	3.1	2.9	-7.0	319	386	20.9
Exports to EU-27	**Unit Value (Euro/kg)**			**Quantum (kg)**		
	H1- FY25	H1- FY26	% change	H1- FY25	H1- FY26	% change
Philippines	11.3	11.9	5.3	7,582	7,119	-6.1
Thailand	9.1	8.8	-3.3	29,209	32,228	10.3
Vietnam	6.8	7.7	13.2	78,427	75,708	-3.5
India	3.2	2.7	-15.6	197,154	230,129	16.7
Bangladesh	13.3	12.2	-8.3	13,882	14,660	5.6
Pakistan	4.3	4.2	-2.3	17,919	18,654	4.1

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

Source: SBP Staff calculation based on Otexa; Eurostat

seeds. This was because China diverted orders to Ethiopia and Sudan due to better quality and higher oil content.[13]

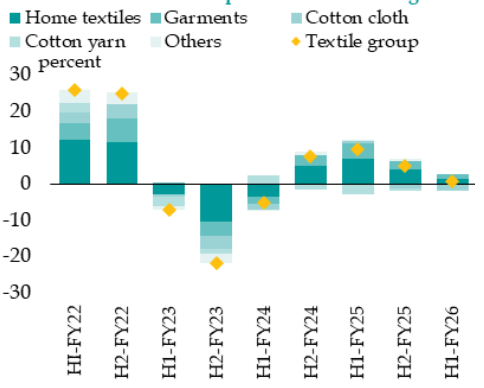
Textile Exports

Exports of textiles increased marginally by 0.9 percent, largely on the back of value-added textiles, particularly knitwear and readymade garments (**Figure 5.9**).[14] The increase in export of knitwear benefitted from higher unit values, whereas export of readymade garments was volume-driven as its unit prices declined. In contrast, exports of cotton yarn and cloth decreased due to lower domestic cotton production as well as decreasing global demand and cotton prices.

This is worth highlighting that the volume of apparel exports to major markets like the US and EU expanded (**Table 5.3**), while their unit values declined. The increased competition from major competitors, particularly China, significantly decreased export prices, which partially explains this divergence. Moreover, underlying domestic structural constraints also limit Pakistan's export competitiveness.

This underscores the need for strategic and technological upgrading across the textile

Contribution to Textile Exports **Figure 5.9**



Source: PBS

[13] Last year, Pakistan had benefitted from both higher demand from China amid supply disruptions from Sudan, Ethiopia, and Myanmar - alongside removal of a 9 percent import duty by China Source: WAP USDA (2025).

[14] These include knitwear, bedwear, and readymade garments.

Merchandise Imports **Table 5.4**
million US$

	H1-FY25	H1-FY26	Change		Volume Effect	Price Effect
			Absolute	Percent		
Imports	**30,785**	**34,439**	**3,654**	**11.9**	**-**	**-**
Food, *of which*	**3,802**	**4,630**	**828**	**21.8**	**-**	**-**
Palm oil	1,539	1,983	444	28.8	255.7	188.1
Sugar	2	174	173	-	296.9	-124.4
All other food items	1,025	1,385	360	35.1	**-**	**-**
Energy, *of which*	**8,088**	**7,986**	**-102**	**-1.3**	**-**	**-**
POL	2,970	3,122	152	5.1	406.4	-254.4
Crude	2,690	2,992	302	11.2	493.4	-191.4
LNG	1,888	1,358	-530	-28.1	**-**	**-**
LPG	536	513	-22	-4.1	**-**	**-**
Machinery, *of which*	**4,464**	**5,163**	**699**	**15.7**	**-**	**-**
Electrical	1,526	1,341	-185	-12.1	**-**	**-**
Textile	229	307	79	34.4	**-**	**-**
Power generating	359	393	34	9.3	**-**	**-**
Telecom	999	1,315	316	31.6	**-**	**-**
Textile, *of which*	**3,389**	**3,370**	**-19**	**-0.6**	**-**	**-**
Raw cotton	1,136	721	-416	-36.6	104	-519.7
Other textile items	1,156	1,403	247	21.4	**-**	**-**
Agro chemical, *of which*	**4,928**	**5,373**	**445**	**9**	**-**	**-**
Fertilizer manufactured	440	429	-11	-2.6	43.8	-13.1
Other chemicals	2,478	2,662	184	7.4	**-**	**-**
Miscellaneous, *of which*	**522**	**604**	**83**	**15.8**	-	**-**
Rubber tyres	80	115	35	43.6	41.2	-6.3

Source: PBS

value chain. In this context, the transition from a linear to a circular textile production model is emerging as a critical pathway to enhance product differentiation, meet tightening sustainability and traceability requirements, and unlock new sources of value addition (**Box 5.2**).

Non-Food And Non-Textile Exports

Plastic materials and pharma exports declined

The decline in exports of plastic products was due to falling global prices amid excess supply, as China redirected its exports to other markets following imposition of US tariffs.[15] Moreover, the increase in US tariffs on imports from Pakistan also impacted Pakistan's plastic exports, as shipments to the US declined. Furthermore, shipments to Canada also declined.[16] The lower exports of pharma products reflect weaker demand from East Asian markets and closure of the western border.

Cement exports increased marginally compared to a sharp rise last year

The slight increase in cement exports was primarily due to increase in unit values, as export volumes saw a contraction in H1-FY26. There was a notable decline in exports to Afghanistan and Bangladesh, due to closure of western border and weaker demand, respectively. Nevertheless, cement manufacturers have started exploring new markets,

[15] European union official website. Source: https://eur-lex.europa.eu/eli/reg_impl/2025/2333/oj/eng

[16] The Canadian International Trade Tribunal found dumping of polyethylene terephthalate, originating from Pakistan, and China, resulting in provisional duties ranging from 84.5 percent to 128.8 percent with effect from June 17, 2025. Source: https://citt-tcce.gc.ca/en/news/tribunal-initiates-inquiry-polyethylene-terephthalate-china-and-pakistan

particularly focusing on African destinations such as Kenya and Cameroon.

Among other manufacturers, export of sports goods increased by 11.1 percent during H1-FY26, mainly driven by higher demand for footballs from the EU countries hosting international football tournaments.

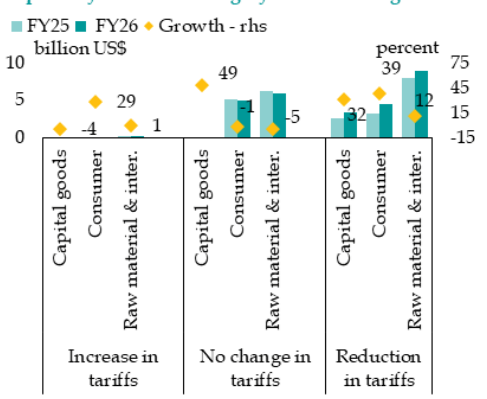
Imports

Imports grew by 11.9 percent during H1-FY26, compared to 17.9 percent growth in the same period of last year. The moderation in import growth mainly owes to softer global commodity prices, which partially offset the increase in import volumes **(Table 5.4).** In overall terms, imports of all groups increased, except for energy and textiles.[17]

Moreover, recent tariff rationalisation under the National Tariff Policy 2025-2030 changed the composition of import growth in H1-FY26.[18] Growth was stronger in groups where tariffs were reduced for a larger number of tariff-lines, especially in consumer goods, transport equipment and food items. A similar pattern was observed in the import of machinery, metals and transport-related items, which accounted for a sizeable share of tariff-line reductions under the tariff rationalisation policy (**Figure 5.10a&b**).

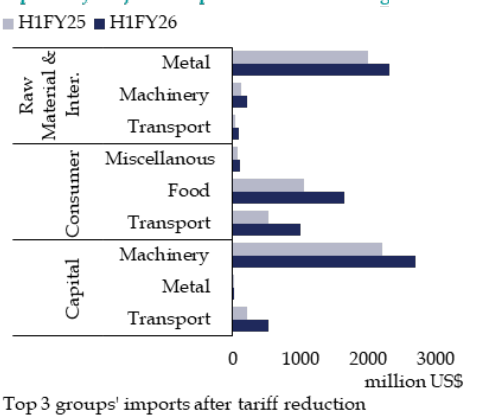
On the other hand, the impact of increase in tariffs was uneven. Tariff increases were largely confined to selected consumer goods, including foods, textiles, and other finished items. Imports of consumer goods, for which domestic alternatives existed, slightly decreased, whereas imports of essential and specialised food items remained steady, indicating relatively less elastic demand.

Imports by Economic Category **Figure 5.10a**



Sources: SBP; FBR

Imports by Major Groups* **Figure 5.10b**



* Top 3 groups' imports after tariff reduction

Sources: SBP; FBR

[17] National Tariff Policy 2025-2030 envisages gradual moderation in import growth by 2030. Accordingly, the current pace of imports remains aligned with the policy trajectory, as import expansion is expected to ease progressively.

[18] The average tariff rate approved in Federal Budget 2025-26 was (i) custom duty to decrease from 11.9 to 11.3 percent (ii) additional custom duty to reduce from 3.7 percent to 1.8 percent (iii) regulatory duty to reduce from 4.6 to 3.7 percent.

Food Imports

Food imports increased significantly by 21.8 percent to US$ 4.6 billion during H1-FY26, primarily driven by higher imports of palm oil and '*all other food items*'.[19] Palm oil imports rose owing to both higher prices and volumes, while imports of soybean oil, tea and pulses declined driven by lower volumes.[20]

Global palm oil prices increased due to higher demand as prices of competing vegetable oils surged.[21] Moreover, lower-than-expected production in Indonesia and Malaysia tightened global supply, further adding to price pressures. Import volumes also expanded due to rising domestic demand for vanaspati ghee, cooking oil, bakery fats, feed industry and instant foods where palm oil is a key input.

Imports of '*all other food items*' increased mainly due to higher import of oil seeds, following the National Biosafety Committee's approval of genetically modified canola, rapeseed and soybean seeds.[22] Additionally, imports of *other food preparations* such as seasoning, emulsifiers, and active yeasts also rose sharply, increasing by 60 percent in value terms and 70 percent in quantum terms during H1-FY26 compared to last year. This is consistent with growth in retail sales of processed foods.[23]

Energy imports declined slightly

A slight decline in energy imports was mainly due to softening global oil prices,[24] while import volumes increased across all categories except liquefied natural gas (LNG) and liquefied petroleum gas (LPG). The imports of crude oil and petroleum products rose in line with higher domestic demand. The reduction in LPG imports may reflect expanded domestic storage and terminal infrastructure,[25] which allows suppliers to efficiently distribute greater volumes of LPG from local producers. While lower LNG imports were due to subdued demand leading to the deferment of Qatar's LNG cargoes under net proceed differential (NPD) arrangement.[26]

Declining global raw cotton prices trimmed the textile import bill

The decline in textile imports was largely due to lower international cotton prices, while quantum increased on account of lower domestic cotton production. In addition, lower crude oil prices improved the cost-competitiveness of polyester, dampening global demand for cotton.

Modernisation and capacity growth underpinned higher machinery imports

Import of machinery registered a broad-based growth across most segments, except for electrical machinery, which declined due to falling solar panel prices.

[19] All other food items constitute around 30 percent of the total food imports.
[20] Prices of soybean seeds declined in international markets mainly due to higher production in South America.
[21] Based on Jul-Dec HS-8 level PBS data, the unit price of palm oil is around US$ 1.06/kg, lower compared to soyabean oil (US$1.09/kg), sunflower oil (US$ 1.2/kg), vegetable oil (US$ 2.1/kg), margarin oil (US$ 2.3/kg), and virgin oil (US$ 3.4/kg)
[22] Oilseeds and Products Update 2025, US Department of Agriculture, Foreign Agriculture Service
[23] Pakistan Processed Food Industry Report: TDAP.
[24] As per World Bank, average price of brent decreased from US$ 77.4 in H1-FY25 to US$ 66.4 in H1-FY26.
[25] An investment of Rs 6.6 billion was made in LPG's infrastructure. Source: PACRA (2024).
[26] NPD is a pricing mechanism in LNG contracts where the seller adjusts the volume or timing of cargoes based on differences between contracted LNG prices and prevailing market rates.

The increase in machinery import reflects ongoing digitalisation, IT modernisation and capacity expansion. For instance, rise in agricultural machinery imports was on the back of government's initiatives aimed at promoting farm mechanisation.[27]

Similarly, construction machinery imports strengthened in tandem with the recovery in construction activity. In the telecom sector, higher infrastructure requirements, driven by network fiberisation, rising international bandwidth capacity, and the forthcoming 5G spectrum rollout, further supported growth in telecom equipment imports.[28]

Imports of transport group increased significantly

The increase in import of transport group broadly mirrors trends in domestic production and sales of automobile vehicles, which increased across most transport categories. Moreover, the tariff on CBU motor cars was reduced on average by 15 percent, its imports increased by only US$ 37.5 million in H1-FY26. The import of CKD motor cars, however, rose sharply by US$ 580 million although the average tariff was reduced by only 1 percent in this category.[29]

Import of used cars also rose sharply following relaxation of regulatory restrictions; for instance, allowing commercial import of vehicles up to five years old. As result, the share of used cars in total transport imports rose from 62 percent to 67 percent.[30]

FY26 also witnessed a structural shift away from pure internal combustible engine (ICE) models to EV models. This transition also aligns with Pakistan's broader climate and energy objectives, including transport-related emissions.[31] As local capability for electric vehicle components is currently limited, it has led to higher reliance on imported CBUs, CKD kits, batteries, power electronics, and specialised parts. Moreover, Pakistan's auto market has expanded with the entry of several new Chinese-led NEV brands primarily through CBU launches alongside announced localisation plans.

Imports of agriculture and other chemicals increased

The increase in imports of agricultural and other chemicals was led by plastic materials, fertilizers, chemicals and medicinal products. Plastic materials imports rose in line with higher industrial activity, particularly in packaging, construction and consumer goods, with their demand being sensitive to international commodity price trends.

Fertilizer imports increased due to higher DAP prices, though the import volumes were lower as DAP inventories were considerably higher this year. Import of chemicals also rose due to their use as

[27] Agriculture department of South Punjab. https://agriculturesouthpunjab.gop.pk/punjab-green-tractor-scheme-phase-3/ ; CM Punjab Hi-Tech Farm Mechanisation Financing program, https://cmhightech.punjab.gov.pk/

[28] Fibersation of network sites increased, while installed international bandwidth reached 17.2 Tbps, and total data usage climbed to 27,727 petabytes. Source: Pakistan Telecommunication Authority, Annual Report 2025

[29] As per SBP staff calculations based on PBS and FBR data.

[30] As of Jul-Dec FY26 compared to Jul-Dec FY25.

[31] New Energy Vehicles Policy 2025-2030, Ministry of Industries & Production: Islamabad

Trade in Services **Table 5.5**

million US$

	FY25	H1-FY25	H1-FY26	Change	
				Absolute	Percent
Services balance	**-2,646.7**	**-1,617.1**	**-1,769.7**	**-152.6**	**9.4**
Exports	**8,406.9**	**4,089.8**	**4,774.7**	**684.9**	**16.7**
Transport, of which	958.7	460.0	463.2	3.2	0.7
Sea freight	94.6	54.5	49.4	-5.1	-9.4
Air passengers	403.2	201.3	210.4	9.1	4.5
Travel, *of which*	728.8	358.6	426.6	68.0	19.0
Education exp.	19.2	9.6	9.3	-0.3	-3.1
Other (personal)	685.4	335.0	408.4	73.4	21.9
ICT Services, *of which*	3,815.0	1,867.3	2,236.8	369.5	19.8
Software consultancy services	1,107.9	550.1	602.0	51.9	9.4
Freelance Services	984.9	429.4	804.0	374.6	87.2
Export/Import of computer software	589.2	295.4	321.8	26.4	8.9
Imports	**11,053.5**	**5,619.3**	**6,544.3**	**925.0**	**16.5**
Transport, *of which*	4,645.5	2,411.1	2,662.5	251.4	10.4
Sea freight	2,278.9	1,126.0	1,206.4	80.4	7.1
Air passengers	1,418.5	777.8	840.9	63.1	8.1
Travel, *of which*	2,407.2	1,154.0	1,730.0	576.0	49.9
Education exp.	623.7	345.2	358.7	13.5	3.9
Other (personal)	1,757.2	793.1	1,355.6	562.5	70.9

Source: SBP

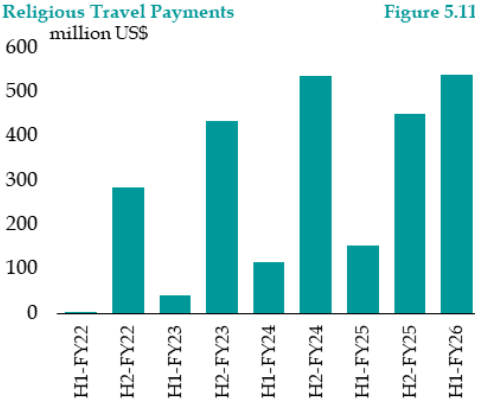
intermediate inputs in industries including manufacturing of garments.

Trade in Services

The services account deficit widened to US$ 1.8 billion in H1-FY26 from US$ 1.6 billion recorded last year. This was mainly due to higher import payments related to travel, transport, and financial and government services that outweighed a considerable increase in export of information, computer, and telecommunications (ICT) services **(Table 5.5).**

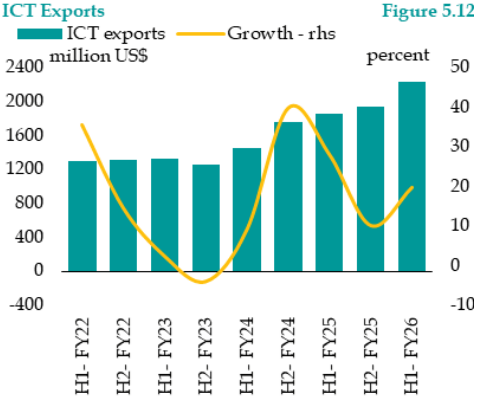
A sizeable increase in travel services imports was mainly on account of religious and other personal travel **(Figure 5.11)**. Payments for religious travel rose sharply reflecting the early announcement of the Hajj policy, which required the applicants to deposit hajj dues by December 2025. In addition, other personal travel - including private tourism – also increased, driven by higher number of outbound travellers, greater reliance on foreign airlines, and relatively stable domestic economic conditions. Similarly, payments for transport services increased by 10.4

Religious Travel Payments **Figure 5.11**



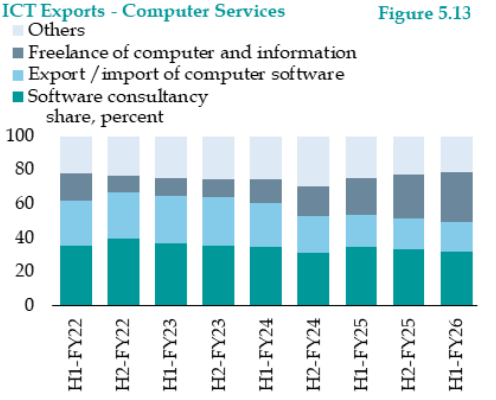
Source: SBP

ICT Exports **Figure 5.12**



Source: SBP

ICT Exports - Computer Services **Figure 5.13**



Source: SBP

percent, mainly due to higher merchandise imports. The increase in payments was somewhat contained by the declining global freight charges, which almost halved in H1-FY26 compared to the same period last year.[32]

The ICT exports, constituting around half of the total services exports, continued to provide a major support to the services account balance. ICT exports rose to an all-time high of US$ 2.2 billion in H1-FY26. Notably, IT exports emerged as the second largest contributor to Pakistan's exports of goods and services, after knitwear exports.[33] This signifies the increasing importance of the sector for country's FX inflows **(Figure 5.12)**.

Exports of computer and telecommunication services accounted for 84 and 16 percent of the total ICT exports, respectively. In computer services exports, freelancing, software consultancy services, and exports of computer software were the major contributors **(Box 5.3)**. Moreover, the composition of computer services exports has changed over years, partly due to the rise of remote work platforms and increased global demand for outsourced digital services **(Figure 5.13)**.[34]

Growth in ICT exports reflects expansion of Pakistan's online labour force[35] and sustained global demand for digitally delivered services. Rising exports from other knowledge-intensive segments, including R&D, professional management and trade-related consultancy, have also complimented the surge in ICT exports. These trends reflect diversification and move into more specialised and skill-intensive services exports.

Primary Income Balance

Primary income balance recorded a lower

[32] Freight index of a 40 feet container dropped to 2,105 in H1-FY26 from 4,334.2 last year. Source Bloomberg.
[33] ICT exports have more than 14 percent share, following knitwear with 17.6 percent share in total exports during H1-FY26. Source: SBP
[34] Report on Outsourced Digital Workplace Service Market by Future Market insights inc. Source: https://www.futuremarketinsights.com/reports/outsourced-digital-workplace-service-market
[35] According to Labor Force Survey 2024-25, 2.3 million (2.9 percent of overall employment) Pakistanis are digitally employed or Gig Workers.

deficit of US$ 4.6 billion in H1-FY26, compared to US$ 4.7 billion in the same period last year. This improvement largely owes to lower interest payments, while profits and dividend repatriation increased compared to the last year (**Figure 5.14**).

Repatriation of profit and dividends increased by US$ 333 million in H1-FY26, with higher repatriation from financial business, power, and food sectors due to improved profitability.[36] These three sectors collectively represented more than half of the total repatriated amount in H1-FY26.

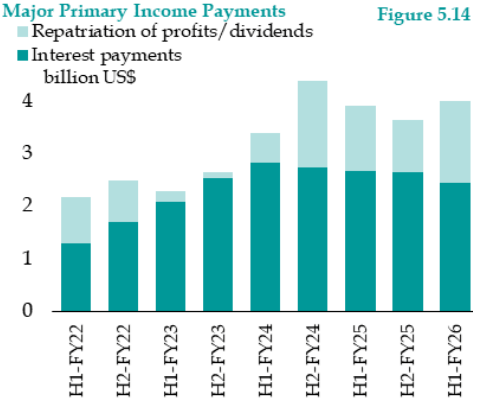
Secondary Income

The secondary income surplus increased by US$ 2.1 billion, reaching US$ 20.8 billion in H1-FY26. This was primarily driven by record high workers' remittances in H1-FY26 (**Figure 5.15)**. Remittance inflows increased from all major corridors except for USA, reflecting the confluence of external and domestic factors.[37]

On external front, strong economic activity in the Gulf countries - especially non-hydrocarbon activity - boosted labour demand. On domestic front, various initiatives under the Pakistan Remittance Initiative (PRI) have facilitated the increased remittance inflows. In this context, it is important to highlight that Exchange Companies (ECs) are now allowed, in addition to commercial banks, to receive SAR 20 for each transaction worth US$ 200 and above.[38]

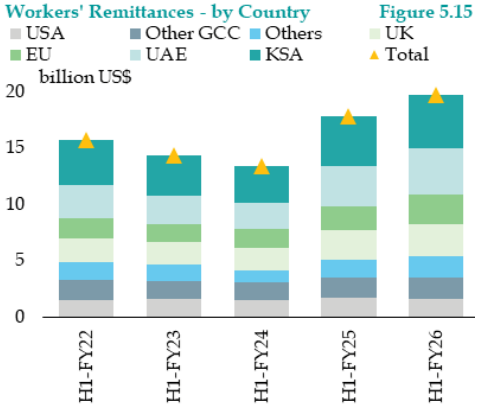
Moreover, SBP also mandated ECs for digital disbursement of workers' remittances through Raast.[39] This is aimed at enhancing cost efficiency, along with accelerating the shift to cashless economy

Major Primary Income Payments — Figure 5.14



Source: SBP

Workers' Remittances - by Country — Figure 5.15



Source: SBP

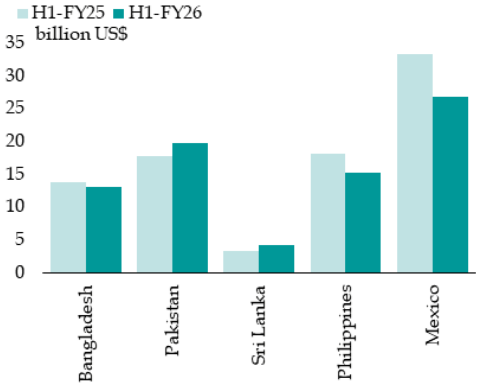
[36] After tax profit of the financial businesses, primarily foreign banks, increased by around 7 percent in H1-FY26 compared to same period of last year. Moreover, profitability of foreign companies in food sector has also increased. Source: SBP

[37] Due to falling workers' remittances from the US, its share in total remittances has also declined since FY24. This also reflects increased remittances inflows from the U.A.E and EU countries. Particularly, higher remittance inflows from the EU region points to changing migration dynamics, including new destinations in the region.

[38] EPD Circular Letter No. 09 of 2024, and EPD Circular No. 04 of 2025

[39] Raast is Pakistan's first digital payment system for end-to-end payments.

Remittance Inflows in Peer Countries **Figure 5.16**



Sources: Haver; SBP

by a greater use of digital payment systems (**Box 5.4**).[40]

This is worth highlighting that increased remittance inflows to Pakistan contrast the slowdown observed in some selected economies in H1-FY26, (**Figure 5.16**). While increased labour demand in Gulf countries is same, the difference lies in expanded coverage of incentives provided by the SBP and the government.[41]

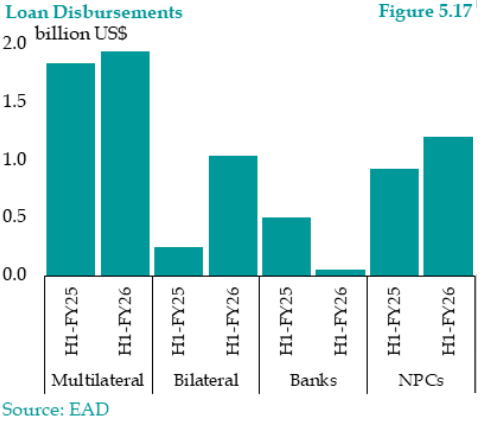
5.4 Financial Account

The financial account recorded net inflows of US$ 1,423 million in H1-FY26, more than twice the inflows of US$ 644 million in the corresponding period last year. The financial inflows continued to be dominated by official disbursements – net of repayments, both from bilateral and multilateral sources **(Figure 5.17)**. Around 98.6 percent of the official disbursements comprised of program loans. Multilateral and bilateral grants, amounting to US$ 29.0 million and US$ 31.7 million respectively, were meant for flood rehabilitation, climate resilience, health, and social protection.

Meanwhile, bilateral loans amounted to US$ 1,041 million, including US$ 600 million under the Saudi oil facility.[42] Multilateral loans were recorded at US$ 1,938 million, majorly from the World Bank followed by the Islamic Development Bank.[43]

As of end-December 2025, net repatriable liabilities under RDAs rose to US$ 2,231 million, of which, Naya Pakistan Certificates (NPCs) attracted US$ 1,202.1 million. Notably, inflows in Islamic NPCs increased, reflecting growing preference for Shariah-compliant investment options. This was despite downward revision in

Loan Disbursements **Figure 5.17**



Source: EAD

[40] SBP now allowed ECs to disburse home remittances in beneficiary's accounts/wallets maintained with Banks/MFBs/EMIs digitally through Raast. Source: EPD Circular Letter No. 02 of 2026.
[41] Lower remittance flows to Philippines, and Mexico were due to unfavourable market conditions in the US - the largest destination in terms of workers remittances and number of workers.
[42] This has been disbursed under Saudi Arabia's approved $1 billion oil facility for Pakistan for FY26.
[43] International Islamic Trade Finance Corporation (ITFC) arranged the largest syndicated financing for Pakistan over the last 3 years. The proceeds of the financing will be used for energy import to meet Pakistan's energy needs.

rates on NPCs in February 2025, which might still be attractive given lower global interest rates.[44] Additionally, tax incentives and smooth repatriation processes have further supported higher inflows.

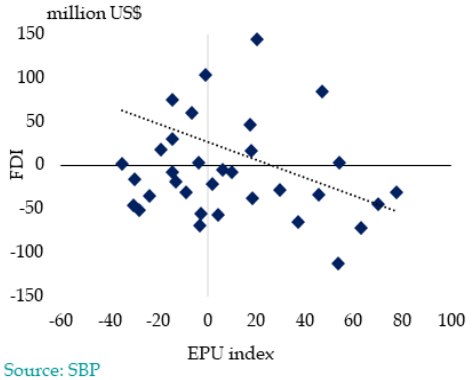
FDI declined amid persistent policy and governance gaps

Net foreign direct investment (FDI) was recorded at US$ 642 million in H1-FY26, substantially lower compared to US$ 1,519 million in the corresponding period of last year. The decline reflects persistent governance and policy uncertainties, which continue to weigh on foreign investment (**Figure 5.18**).[45]

FDI remains concentrated in financial business, leaving efficiency-seeking productive sectors behind

Financial business and power remained the principal recipients of foreign direct investment. The *financial business* was the only major sector to record a higher net inflow, US$ 401.5 million in H1-FY26 compared to US$ 368.2 million in last year. These inflows were primarily due to: (i) the expansion of Islamic banking, attracting capital inflows from Kuwait and UAE, and (ii) continued inflows related to the licensing of the digital banks.[46] This trend is also consistent with global FDI dynamics, which, excluding conduit financial centre effects, have declined significantly for the last two consecutive years.[47]

Economic Policy Uncertainty and FDI Inflows in Pakistan **Figure 5.18**



Source: SBP

In contrast, net FDI inflows to power sector declined sharply from US$ 780.2 million to US$ 430.5 million in H1-FY26, mainly due to fall in investment in hydropower projects from US$ 509 million to US$ 199 million in H1-FY26. These inflows were largely sourced from China, accounting for nearly three-quarters of total FDI in hydel power, followed by Republic of Korea (**Figure 5.19a&b**).

While some projects recorded lower inflows, others including Suki Kinari Hydropower project, posted net outflows due to loan repayments. The regulatory uncertainty might have weighed on investment inflows. Nepra's July 2025 tariff review for Suki Kinari approved only partial tariff adjustments limited to debt

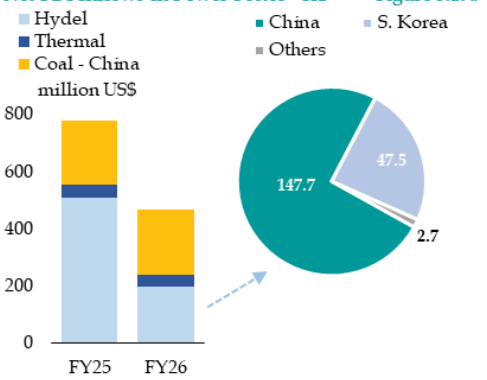
[44] Finance Division vide Gazette Notification No. S.R.O. 33(I)/2025 dated January 16, 2025, and S. R. O. 174(I) 2025 dated February 12, 2025

[45] SBP staff calculation suggests that one percent increase in EPU is estimated to reduce investment by 0.28 percent on average within a quarter in Pakistan.

[46] The literature suggests that financial-business capital inflows are more strongly procyclical and more responsive to changes in macroeconomic condition. Source: Reinhardt, D. and Dell'Erba, S. (2013) Not all Capital Waves are Alike: A Sector-level Examination of Surges in FDI Inflows, CEPR

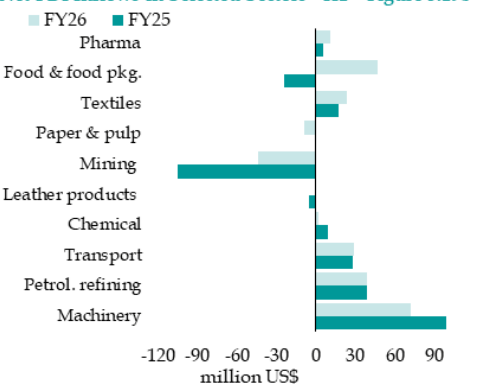
[47] As per UNCTAD World Investment Report 2025 global FDI declined by more than 10 percent in 2023 and 11 percent in 2025. The preliminary data for H1-CY2025 indicates a further 3 percent decrease in global FDI.

Net FDI Inflows in Power Sector - H1 **Figure 5.19a**



Source: SBP

Net FDI Inflows in Selected Sectors - H1 **Figure 5.19b**



Source: SBP

servicing[48], with full-revenue recovery still under review. This may have delayed capital inflows into hydropower projects still in the pipeline, including the Kohala hydropower project.

Moreover, a combination of structural, financial, and policy-related factors also explains the decline in FDI inflows in hydropower. Weak financial health of DISCOs raises concerns over timely payments.[49] This is compounded by policy and tariff uncertainties, including ongoing power purchase price and contractual reforms, which created ambiguity in revenue streams for investors. Furthermore, the declining share of hydropower in the generation mix and rising per-unit cost,[50] also weakens projected returns. In contrast, FDI inflows in coal-based projects, predominantly China-led, remained steady.[51]

The FDI inflows into machinery and electric equipment (*including grid and transmission upgradation*) slowed as multiple projects faced execution delays, which has led investors to defer investments.[52] Meanwhile, oil and gas exploration posted net outflows of US$ 10.8 million compared to inflows of US$ 88.3 million last year. These outflows reflect delayed upstream investment decisions, coupled with global energy firms divesting from low-margin downstream operations and geographies, consistent with broader global portfolio rebalancing towards high-return markets.[53] Mining and quarrying also recorded net FDI outflows in H1-FY26, like last year.

[48] NEPRA (2025). No. NEPRAIRJADG(Tariff)/TRF-232/SKHPL-2013. This NEPRA decision reviews the tariff for the project after it began commercial operations in September 2024, allowing temporary adjustments mainly for debt servicing due to exchange rate and inflation changes, while the full tariff adjustment remains under review.
[49] Off-takers financial health is one of the key metrics foreign investors consider when investing in power-related, capital-intensive projects. Source: Hydropower Special Market Report 2021. Analysis and forecast to 2030, IEA)
[50] Decoding the FY26 Power Purchase Price FY26, Renewable First Report
[51] This trend is consistent with China's continued dominance in global coal-based projects as over 70 percent of the upcoming global coal-based projects are being commissioned by China. Source: Index box website
[52] Anecdotal evidence suggests that Pakistan has secured multilateral financing for upgradation, but the disbursement has been constrained by shortfalls in rupee counterpart funding.
[53] Based on assessment of companies' financial statement analysis and other key sectoral reports.

Fresh inflows have been delayed amid on-going project-specific and regulatory developments. In particular, the phase-I cost revision of Reko Diq project, undertaken to incorporate inflationary adjustments and updated production parameters, necessitated a reassessment of equity valuation and internal rates of return.[54] This has postponed financial closure and the induction of new investors.

In parallel, the suspension of the Balochistan Mines and Minerals Act 2025[55] has added to the near-term regulatory uncertainty. Consequently, the lag in mining sector inflows reflects transactional and sequencing considerations rather than diminished investor appetite.

Nevertheless, some export-oriented sectors, including textiles, food & food packaging, and pharma recorded modest net FDI inflows. These were largely associated with current technological upgradation in textiles, capacity enhancement in food, and improving API capacity in pharma sector. These inflows coincided with rising machinery imports and higher domestic capital formation in these sectors, suggesting that foreign investors view domestic investment commitments, local project feasibility and preparedness, and local co-investment partners as critical precursors to their investment decisions.

FPI outflows were dominated by debt-repayments and profit-taking

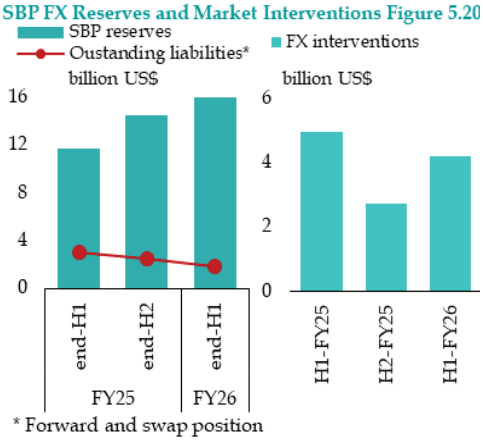
Net FPI saw an outflow of US$ 592 million during H1-FY26, compared to an outflow of US$ 71 million in the corresponding period of last year. This was largely due to the repayment of US$ 500 million Eurobonds maturing in September 2025.[56]

As per the National Clearing Company of Pakistan Limited (NCCPL), foreign investors sold US$ 753.5 million worth of holding in fertilizer, oil & gas exploration, food, textile, OMCs, power, banks and cement sectors. This occurred despite a promising equity market returns in H1-FY26.[57]

5.5 Foreign Exchange Reserves and Exchange Rate

Foreign exchange reserves, held by SBP, increased to US$ 16.1 billion at end-December 2025, compared to US$ 14.5

SBP FX Reserves and Market Interventions Figure 5.20

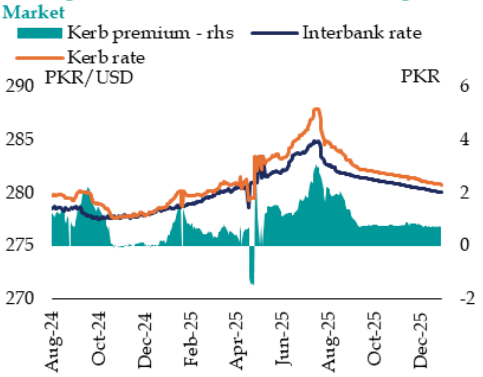


* Forward and swap position

Source: SBP

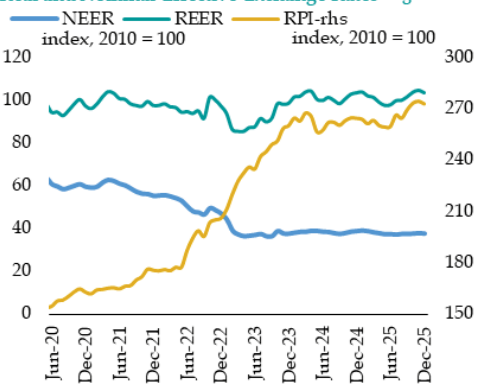
[54] London Stock Exchange website: Increase in Committed Expenditure Reko Diq Project -| LSE
[55] Associate Press of Pakistan
[56] The 10-year bond that was issued in 2015.
[57] The KSE-100 index increased from 78,445 at end-June to 174,054 by end-December 2025. As per Bloomberg data, Pakistan's Stock Exchange was among the best-performing markets in Asia/Pacific region in US dollar terms in 2025.

Exchange Rate: Interbank and Kerb Market **Figure 5.21**



Source: SBP

Real and Nominal Effective Exchange Rates **Figure 5.22**



Source: SBP

billion at end-June 2025.[58] The build-up in FX reserves, despite current account deficit, was mainly driven by SBP's FX purchases, amid moderate private inflows, besides increased foreign (official) financial inflows.[59]

Meanwhile, SBP further reduced the outstanding forward and swap position,[60] indicating a visible improvement in the quality of FX reserves (**Figure 5.20**). The build-up of external buffers continues to support stability in foreign exchange market, despite a moderate current account deficit in H1-FY26.

The PKR/USD exchange rate hovered around 281.7 PKR/USD through H1-FY26. Moreover, the kerb premium, the gap between the interbank and kerb market exchange rates, also narrowed, stabilizing below the historical level of Rupee 1 (**Figure 5.21**).

The real effective exchange rate (REER) index trended upward during much of the H1-FY26, rising from 98 at end-June to 103.7 at end-December 2025. This appreciation in real exchange rate largely reflected higher domestic inflation relative to the trading partners as indicated by the rising trend in relative price index (RPI) (**Figure 5.22**).

Box 5.1: US Tariff Hikes and Pakistan's Textile Exports

United States, the world's largest economy, plays a pivotal role in global trade and value chains. Any change in US trade policy has far-reaching spillovers, particularly for the economies like Pakistan, whose exports are concentrated and weakly diversified. Textile exports account for around 55 percent of Pakistan's merchandise exports. As of FY25, the US was Pakistan's single largest destination with more

[58] Foreign exchange reserves held by commercial banks remained steady at around US$ 4.7 billion at end-December 2025, compared to US$ 4.8 billion at end-June 2025.
[59] SBP made net purchases of US$ 4.1 billion during Jul-Dec 2025.
[60] Outstanding forward/swap position reduced to US$ 2.0 billion in December 2025, compared to US$ 2.5 and US$ 3.0 billion in June 2025 and December 2024 respectively.

than 30 percent of its total textile exports. This concentration amplified Pakistan's exposure risks to shifts in US trade policy.

This box assesses the implications of recently announced US tariff hikes on its textile imports from different countries. It explores how these tariffs reshape the composition of US textile imports across regional exporting countries and what these shifts imply for Pakistan's relative position vis-à-vis its peers. Tariff differentials may influence trade patterns through several transmission channels, including changes in relative price competitiveness, sourcing adjustments by US buyers toward lower tariff suppliers, and the reconfiguration of global supply chains.

Change in US Tariffs on Textile and Textile Exports to US **Table 5.1.1**

percent

Country	Applied Tariff	New Tariff*	Increase in Tariff	Share in US Textile Imports - 2024
Cambodia	10.0	19.0	9.0	4.3
Pakistan	9.6	19.0	9.4	3.6
Vietnam	9.4	20.0	10.6	15.2
Thailand	8.9	19.0	10.1	1.1
India	9.1	25.0	15.9	8.9
China	9.0	34.0	25.0	24.2
Bangladesh	10.0	20.0	10.0	7.0

Sources: Otexa; tradecomplianceresourcehub.com

* Tariffs implemented as of August 2025

Reallocation of US textile imports: winners, losers, and Pakistan's position

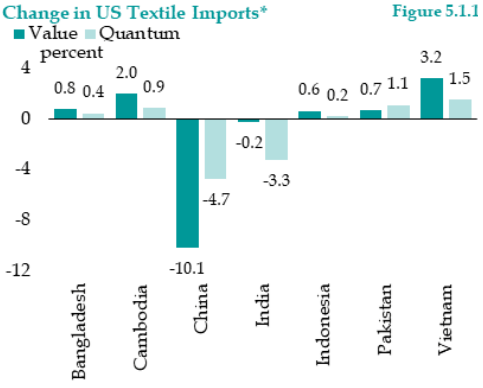
The recent US tariff increases have been relatively smaller for Pakistan than for several competing textile exporters (**Table 5.1.1**). Rather than inducing a uniform contraction in US textile imports, these asymmetric tariff changes have resulted in a reallocation of imports across supplier countries (**Figure 5.1.1**).

Vietnam has emerged as the principal beneficiary, recording a 2.7 percentage point increase in its share of US textile imports, in value terms, during Aug–Dec 2025 relative to the same period last year. By contrast, China experienced a pronounced erosion of its market position, with its share declining by more than 10 percentage points in value and 6 percentage points in volume terms, reflecting the combined effects of substantially higher tariffs and broader trade frictions.

In contrast to other countries, India's response to increase in tariffs shows a divergent pattern in terms of value and quantum. India's share in US import volumes declined by 1.8 percentage points; while it increased by 1.1 percentage points in value terms, implying better competitiveness among other factors.

Pakistan has also registered a modest improvement in its market position, with its share of US textile imports increasing by 0.7 percentage points, in value terms This gain appears to be driven primarily by relatively lower tariff on Pakistan vis-à-vis higher tariffs on other suppliers. The durability and traction in Pakistan's recent gains, however, would depend on two factors: the speed with which competing exporters reconfigure their supply chains and Pakistan's own ability to improve underlying competitiveness beyond temporary tariff advantages. In addition, to capitalize on such opportunities, Pakistan also needs to address domestic supply-side constraints and limitations, including production capacity constraints,

Change in US Textile Imports* **Figure 5.1.1**



* Change in share for Aug-Dec 2025 from Aug-Dec 2024

Source: Otexa and SBP Staff calculation

availability and cost of raw materials, energy and input costs, and the sector's limited penetration into higher value-added textile segments.

A World Bank (2016) [ii] simulation demonstrates that a relatively modest price shocks, such as a 10 percent increase in Chinese export prices, can lead to significant reallocations of US textile imports from South Asian competitors, including Pakistan. However, the extent to which Pakistan can capitalize on such shifts depends critically on exporters' cost structures and their adjustment capacity, particularly in terms of scalability, supply chain flexibility, and responsiveness to rapidly changing global fashion demand. Furthermore, non-tariff barriers such as stringent quality standards, complex certification requirements, compliance with labour and environmental regulations, and inefficient customs procedures, substantially constrains the realisation and sustainability of these potential gains.

* *The contribution of Ana Khattak and Muhammad Nafees is acknowledged in writing this box*

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i. The White House Executive Orders available at https://www.whitehouse.gov/presidential-actions/2025/07/further-modifying-the-reciprocal-tariff-rates/ accessed on August 6, 2025
ii. Acevedo, G.L. and Robertson, R. (2016). Stitches to Riches? Washington D.C: World Bank
iii. Kee, H.L. et al. (2009). The Economic Journal, Issue. 119, pp. 172–199. Note: It is important to note that NTMs differ NTBs in that NTMs are an all-encompassing category, covering both measures that can facilitate trade and those that may restrict it, whereas NTBs refer specifically to trade-impeding measures.
iv. SBP (2024). State of Economy Report, Chapter 5, Half Yearly report, Karachi: SBP

Box 5.2: From Linear to Circular: A Strategic Priority for Pakistan's Textile Value Chain

Globally, textile industry is transitioning away from linear 'take-make-waste'[61] models towards more circular systems. A circular system focuses on recycling, i.e. using recycled materials as production inputs,[62] and ensuring traceable material flows. This shift is driven by newer regulations, buyers demand, and cost pressures. Currently, only 1 percent of clothing is recycled globally, while 75 percent is discarded, underscoring the scale of lost economic value.[i] Meanwhile, the global second-hand[63] and recycled market is expanding rapidly.[ii] Estimates show that using recycled polyester cuts energy use by up to 50-70 percent compared to using virgin materials.[iii]

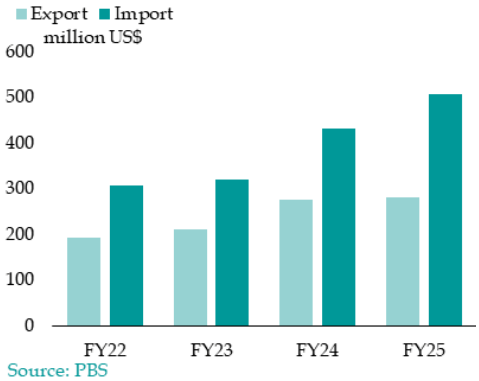
Why this matters for Pakistan's textile sector?

Pakistan's textile sector stands at a strategic inflection point. More than 60 percent of textile exports rely on cotton-based inputs, energy-intensive production processes and less-differentiated products, which limit competitiveness.[iv] Besides these factors, rising input costs, outdated machinery, limited adoption of sustainable practices, and fragmented supply chains further constrain competitiveness of the sector. The limited competitiveness is compounded by market concentration with over 80 percent textile exports destined to just three destinations, i.e. the EU, the UK, and the US. These markets are rapidly tightening sustainability, traceability[64] and circularity requirements through binding regulatory frameworks,

[61] It is a linear economic system where natural resources are extracted ("take"), manufactured into products ("make"), and eventually discarded as waste ("waste") after a short period of use.
[62] Waste valorisation is the process of recovering value from waste by converting it into new products, or inputs for production.
[63] Second-hand clothing market is projected to grow at CAGR 10.3 percent from 2026 to 2034. The resale market to double by 2030. Source: Market Data Forecast report website: Second-Hand Clothing Market Size, Share, 2034; ZIPDO Education Report 2026 website: Resale Industry: ZipDo Education Reports 2026
[64] Traceability in recycling is the systematic documentation and tracking of materials throughout the entire waste management chain, from origin and collection to processing and final, high-value reuse.

including the EU's Eco-design for Sustainable Products Regulation,[65] expanding state-level climate disclosure laws in the US, and ESG-aligned procurement and reporting mandates in the U.K. and Canada. These evolving regulations pose risks to Pakistan's export competitiveness as circular economy practices are increasingly becoming a prerequisite for market access requirements and a critical factor for export resilience. In this context, certification for recycled products is emerging as a commercial differentiator.[66]

Imports and Exports of Second-hand Clothing in Pakistan — Figure 5.2.1



Source: PBS

Pakistan's textile waste[67] and recycling potential

Pakistan generates an estimated 1.7 million tons of textile waste annually. If 50 percent of this waste (850,000 tons) were effectively collected and recycled through a formal system, and assuming the average unit value of US$ 1.4/kg [v] for recycled bleached fibers, Pakistan could unlock a significant economic opportunity of around US$ 773 million. Even using mechanical recycling[68], which is currently dominant in Pakistan and yield around 65 percent of usable fiber after sorting and processing losses, this would translate into an annual export-equivalent value of US$ 773 million. Beyond direct economic gains, scaled domestic recycling would:

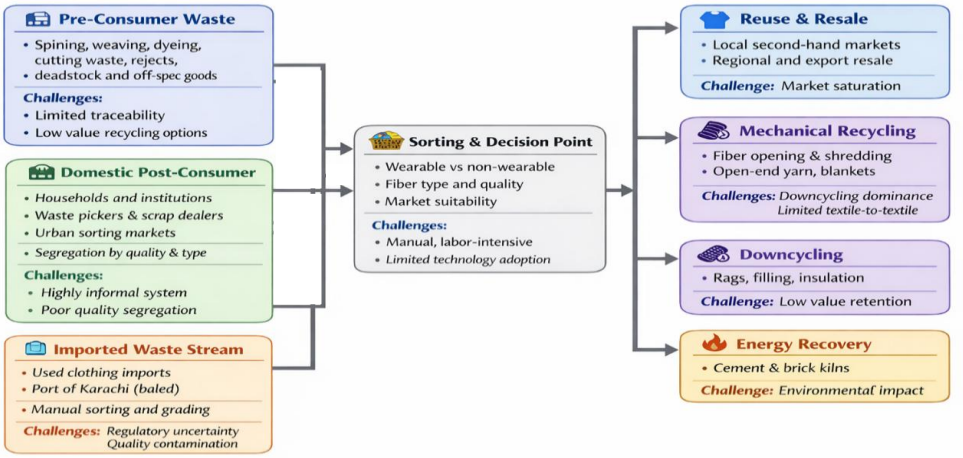
- Reduce reliance on imported virgin fibers[69]
- Lower energy consumption
- Mitigate exposure to carbon pricing mechanisms such as EU's CBAM
- Improve compliance with buyer-led ESG and traceability requirements

Pakistan also imports second-hand textile. Around 50 percent of these imported second-hand textiles are recycled domestically, while the remaining are exported to low-income countries (**Figure 5.2.1**).[vi] In Pakistan, second-hand textiles is gaining traction since 2021, as the country imported used textiles worth US$ 180 million but re-exported worth US$ 266 million after sorting and processing, illustrating a significant potential of value-addition through domestic upgrading.[70] However, recent trends show a widening technology gap that may impact fully exploiting the untapped potential for value-addition through scaling domestic sorting, grading recycling, and upgrading of manufacturing capabilities of second-hand textiles.

The key challenges across each stage of textile circularity are shown in **Figure 5.2.2** that maps Pakistan's textile waste value chain.[viii] The current mechanical recycling produces low-quality fibers and cannot

[65] Eco-design for Sustainable Products Regulation mandates Digital Product Passports for textiles by 2027, requiring verifiable data on recycled content, origin, chemical compliance, and lifecycle impacts.
[66] Firms certified under Cradle to Cradle (C2C) and Global Recycled Standard (GRS) have been shown to secure 15-30 percent price premiums for recycled products and achieve up to 40 percent faster qualification with major international retailers compared to non-certified competitors. Source: Fumao fabric website: https://fumaofabric.com/what-is-the-grs-certificate-for-clothing-manufacturers
[67] Textile waste comprises a combination of pre-consumer waste (scraps from manufacturing), post-consumer waste (discarded garments and textiles), and imported waste, which predominantly consists of second-hand clothing.
[68] Mechanical recycling physically shreds textile waste into fibers for reuse but produces shorter, lower-quality fibers and cannot handle blended fabrics effectively.
[69] The quality of recycled fibres often depends on the method of recycling—mechanical or chemical—and the type of material being recycled.
[70] Destinations of Dutch Used Textiles: Uses and Risks after Export 2023

Integrated Textile Waste Flows and Challenges in Pakistan **Figure 5.2.2**



Source: SBP Staff based on Hussain, M. et al. (2025). Comprehensive Overview of the Pakistan Textile Waste Industry

process mixed-fabric textiles, while informal handling and a fragmented recycling value chain results in low traceability. The absence of a national Digital Product Passport (DPP) or traceability framework further limits material tracking and circular integration. Around 90 percent of collected textile waste is downcycled into low-value products (mops, stuffing, industrial rags), reflecting a strong downcycling bias. The lack of technical training further constrains quality recovery.

In addition to these structural inefficiencies, the management of imported textile waste introduces further constraints. Contamination arises from non-textile materials mixed within imported clothing bales, which reduces the potential of waste valorisation. As a result, reuse and resale channels are unable to absorb all wearable textiles, while mechanical recycling yields lower quality fibers unsuitable for high-value applications such as apparel and garments. Fragmented and informal waste valorisation rarely enables textile-to-textile (T2T) recycling.[vii] Consequently, a significant share of residual waste is diverted to energy recovery, which offers only limited value capture compared to material recycling. Persistent gaps in policy, finance, and technology prevent full realisation of the value embedded in textile waste.

Policy interventions that can expand Pakistan's textile export frontier

To unlock the potential value of textile waste, positioning Pakistan as a regional leader in export-oriented textile recycling and promote a sustainable and competitive textile sector, it is suggested to:

- Develop a National Textile Circularity Roadmap aligned with EU ESPR/DPP timelines with phased targets for recycled content, formal collection rates, and real-time waste-flow tracking.
- Train and certify waste handlers and recyclers to professionalize collection and processing.
- Allow controlled, quality certified second-hand textile imports specifically for recycling. Accelerate investment in chemical recycling and AI-based sorting systems.
- Mandate T2T closed-loop programs for export-oriented manufacturer/retailers on the lines of Interloop[71]

[71] Interloop website: Waste and Circularity - Interloop, Interloop has partnered with Reverse Resources (RR) and National Textile University (NTU) to improve textile to textile recycling, traceability, and waste management across the supply chain.

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

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i. Gitnux (2025). Sustainability in the Fashion Industry Statistics Report
ii. Data Bridge website. *Global Textile Recycling Market Size, Share, and Trends Analysis Report – Industry Overview and Forecast to 2032*
iii. Gitnux (2025). Sustainability in the Fashion Industry Statistics Report
iv. SBP (2025). The State of Economy Report, Chapter 5 External Sector, Half Yearly Report, Karahi: SBP; ZipDo Education Report 2026 website: Pakistan Textile Industry: ZipDo Education Reports 2026
v. The value of recycled fibers, ranges from US$ 0.8 to US$ 1.60 per kg. Therefore, we assume the value to be US$ 1.4/kg. Source: Hussain, M. et al. (2025). Comprehensive Overview of the Pakistan Textile Waste Industry
vi. ETC CE Report 2023/4. EU exports of used textiles in Europe's circular economy
vii. SMEP website: Textile Waste Traceability: Using data to revolutionise textile waste management and recycling – SMEP

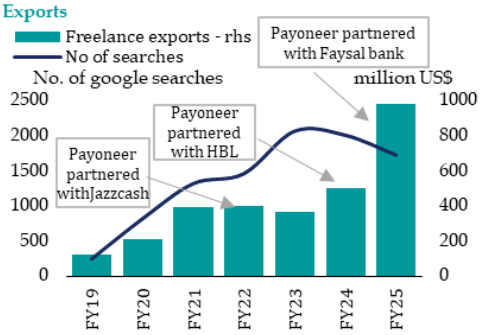
Box 5.3: Freelancing in Pakistan: Current Trends, Potential and Constraints

Freelancing, also called gig economy[72], has emerged as one of the fastest-growing segments of international trade in services, driven by platformisation, remote work adoption, and demand for cost-competitive digital skills. The freelancing sector offers a rare convergence of employment generation, export diversification, and financial inclusion.[73] It absorbs educated youth outside the formal labour market. It is expected to be a US$ 2.5 trillion market by 2030.[74] Freelancers are predominantly young, with around 60 percent under the age of 30.[75]

Pakistan has positioned itself as one of the leading suppliers in this sector[76], bringing US$ 985 million in FY25, which has almost tripled in the last three years. When combined with broader IT and ITes, digital exports exceeded US$ 3.8 billion in FY25, highlighting the role of freelancing as a stable source of foreign exchange earnings.

As per a recent survey, a Pakistani freelancer earns around US$ 5000 per year.[77] While this estimate differs from official statistics, the gap may partly reflect structural factors such as the use of international payment platforms, varying levels of financial inclusion, and the fact that only a relatively small share of freelancers currently maintain accounts with the local banks.[78] Together, these dynamics highlight a clear pathway for income growth: moving up the value chain into specialised,

Google Searches for Fintechs and ICT Exports **Figure 5.3.1**



* No. of google searches for major Fintechs i.e. payoneer, Wise and paypal
Sources: SBP; Google

[72] The gig economy is a system of temporary, short-term, or contract positions for which companies employ freelancers or contractors. Source: Velocity Global
[73] *The Payoneer Freelancer Income Survey Benchmark Your Rates 2015.*
[74] Zipdo website: Freelancing: ZipDo Education Reports 2026
[75] WB (2023). Working Without Borders: The Promise and Peril of Online Gig Work, Washington DC; World Bank
[76] Pakistan is ranked 3rd on the Fiverr76 and 5th on Upwork.
[77] The freelancers' earning is calculated using a weighted average based on survey responses in the Pakistan Association of Freelancer (PAFLA) January 2024 Report.
[78] Only about 38,000 freelancers maintain local bank accounts as per the Prime Minister's Committee on IT Export Remittances.

knowledge-intensive freelancing segments, where stronger formal integration with financial systems and higher value creation tend to reinforce each other.

Initiatives to support freelancers' proceeds

Payment integration and financial access: Initiatives by different stakeholders include integration of global payment gateways with domestic financial institutions, which has supported the increase in freelancing proceeds **(Figure 5.3.1)**. For instance, initiative by Habib Bank Limited (HBL) to solve the payment issues of the freelancers through 'HBL's Freelancer Digital Current Account' and SadaPay enabled Apple Pay and Google Pay payments for freelancers by introducing SadaBiz accounts in October 2023.

Skill development and workforce expansion: The government initiated Digiskills.pk in 2018, wherein free online training to freelancers is being offered. Till date, it has delivered more than 4.5 million training in areas like animation and vlogging; graphic designing; digital marketing.[79] MoITT has initiated the National Freelancing Training Program (NFTP) in 2022 with a target to train 22000+ youth in different in-demand courses.

Foreign exchange and reporting facilitation: SBP has incentivised software exporters, including freelancers, by allowing them to retain up to 50 percent of their net FX earnings in their FCY accounts for making foreign payments conveniently. Moreover, SBP has revised the reporting formats for the electronic Proceed Realisation Certificate (ePRC) and Statement of PRCs (S-PRCs) to better assist IT exporters in reporting their foreign exchange income. SBP further simplified the export realisation procedures, whereby IT companies and freelancers are not required to submit Form "R" for every export transaction. Instead, they will provide a one-time declaration at the time of opening of new account.[80]

Despite supportive initiatives, Pakistan's freelancing ecosystem continues to face structural constraints

The major factors constraining Pakistan's freelancing ecosystem include systemic bottlenecks across payments, skills, infrastructure, regulations, internet connectivity and taxation.[81]

Payment frictions: While international platforms such as Payoneer, Wise, Xoom and Skrill operate in the country and can be linked to local bank accounts as well as mobile wallets, the absence of other widely used global payment services—most notably PayPal—continues to limit choice. As a result, Pakistani freelancers face greater transaction challenges, including fewer reliable payment channels, higher costs, and reduced flexibility compared to their counterparts in many other countries.

Skills and quality gaps: A large share of freelancers in Pakistan remain concentrated in low-to-mid value services, with limited penetration into high-value domains such as web designing, advanced data analytics, and product consulting etc. This concentration is a concern because high-value services not only generate greater foreign exchange earnings but are also expected to experience stronger global demand in the future.[82] At the same time, the rapid advancement of generative artificial intelligence (AI) presents a growing risk for freelancers engaged in routine digital tasks. This underscores the urgency of upgrading skills toward AI-complementary, knowledge-intensive services, where human expertise is more likely to be augmented rather than displaced by technological change.

[79] Ignite website: ignite.org.pk/. Ignite is a National Technology Fund, maintained by the government.
[80] EPD Circular Letter No. 06 of 2026
[81] Pakistan Freelancers association, PAFLA 2024
[82] Upwork. *website https://www.upwork.com/resources/highest-paying-freelance-jobs*

Infrastructure deficits: Limited device ownership, unreliable broadband,[83] and electricity outages undermine reliability in meeting project deadlines, which turns away new projects to other countries' freelancers.

Ambiguous tax treatment: Freelancers have long faced uncertainty in taxation of their earnings, as income from IT/ITes exports, freelance services, and foreign remittances could be variably classified as export proceeds, business income, or personal remittances. This ambiguity often led to double taxation as tax authorities treated total foreign inflows, included unrelated transfers, as taxable incomes. Moreover, only freelancers registered with Pakistan Software Export Board (PSEB) are eligible for the concessional 0.25 percent export tax and 100 percent tax credit on export earnings, while those outside this framework face uncertainty in tax filing, documentation and foreign exchange retention.

Beyond the forementioned factors, there is no formal, consistent mechanism for communication among stakeholders to effectively identify challenges, address limitations, and implement solutions at the local level. Addressing these gaps can create a more integrated ecosystem that may help Pakistani freelancers transition into higher-value, specialised segments, thereby enhancing income stability, boosting export earnings, and contributing more substantially to sustainable economic growth.

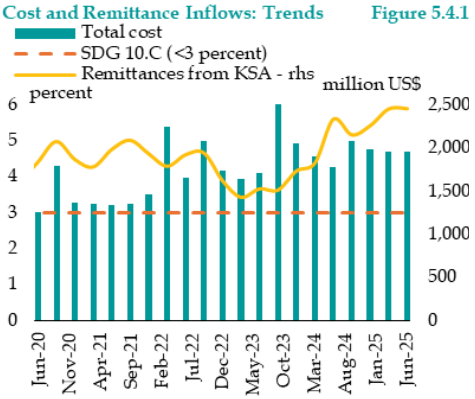
** The contribution of Ana Khatak and Muhammad Nafees is acknowledged in writing this box*

Box 5.4: Raast-Buna Integration: Bringing Efficiency in Remittance Inflows with Lower Cost

Empirical evidence suggests that remittance inflows are cost and time sensitive (**Figure 5.4.1**).[84] Lower transaction costs are associated with higher inflows via formal channels. The government and SBP have provided various incentives through Pakistan Remittance Initiative (PRI) and other regulatory support to attract inflows through formal channels. These incentives included schemes aimed to reduce transaction cost and enhance efficiency. This scheme helped increase the inflows significantly, but it required a sizeable fiscal space. For instance, Rs 65 billion was allocated to finance this scheme in FY25.

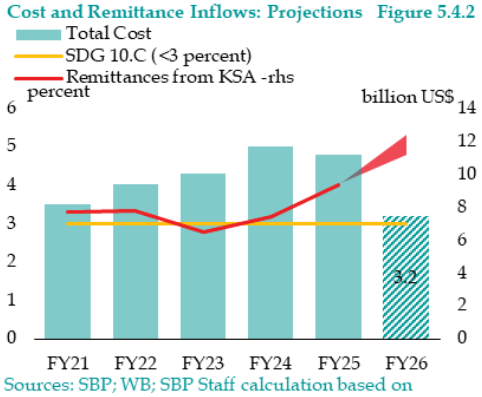
While these schemes help attract remittance inflows via formal channels by reducing transaction costs, these do not address the structural issues that lead to higher costs in important remittance corridors. For

Cost and Remittance Inflows: Trends Figure 5.4.1



Sources: SBP; UN; WB

Cost and Remittance Inflows: Projections Figure 5.4.2



Sources: SBP; WB; SBP Staff calculation based on Kpodar and Imam (2022)

[83] Special Section ICT Export and Tech Startups

[84] Kpodar, K., & Imam, P. A. (2024). How do transaction costs influence remittances? World Development, 177, 106537.

example, Pakistan's largest remittance inflows are originating from Saudi Arabia (KSA) where the transaction cost is also the highest **(Table 5.4.1).**

Major reasons for the higher cost are limited competition, regulatory requirements, operational and settlement costs and fragmented payment infrastructure.[85]

Cost of Remitting US$ 200 to Pakistan March 2025 **Table 5.4.1**

Major Corridors	Total cost (%)
Saudi Arabia	4.7
United States	4.4
Oman	1.9
United Kingdom	1.5
Australia	1.5
United Arab Emirates	1.4
Qatar	0.7
Kuwait	0.5

Source: WB

To resolve these issues, SBP along with Arab Monetary Fund (AMF) launched the Raast-Buna integration project. Raast is Pakistan's instant payment system. It serves as the core of the country's digital payments ecosystem, which enables faster, secure, and low-cost transactions.[86] Buna is a cross-border payment system established by the AMF in 2020, designed to facilitate efficient remittances across the Arab region.

The Raast-Buna integration specifically targets remittances from the Arab region to Pakistan aiming to bring efficiency and lower transaction cost by improving the structure. This project aims to lower the remittance cost to 3.2 percent, nearing the Sustainable Development Goal (SDG 10.C) target of 3 percent.[87,88] This reduction of around 1.5 percentage points would increase remittances from Saudi Arabia alone by US$ 0.5 to US$ 3 billion, if we account for both price and volume effects (**Figure 5.4.2**).[89]

Raast-Buna integration provides a more sustainable path to expand formal remittance inflows at lower transaction costs with enhanced efficiency by reducing issues rather than compensating for them through fiscal subsidies.

** The contribution of Muhammad Nafees is acknowledged in writing this box.*

[85] More 85 percent of the remittances are sent to Pakistan through commercial banks. The Saudi Monetary authority's regulations about the cross-border payment restrict funds to be sent through only authorised financial institutions, mostly commercial banks. This is not the case for other GCC countries.
[86] Raast-Buna eliminate the cost of prefunding Nostro accounts of the banks.
[87] www.sdgs.un.org/goals/goal10#targets_and_indicators
[88] This includes services charges BUNA would charge its member entities for transactions.
[89] It includes both price and volume effect; 1.5 percent decrease in cost saves directly around US$ 425 million. If it diverts 10 to 20 out of 30 percent of informal remittance inflows to the formal channels, the inflows may increase by around US$ 3 billion. These estimates are based on elasticity of transaction cost to remittance inflows presented in Kpodar and Imam (2024). They estimated that a 10 percent reduction in cost leads 2 percent increase in remittance inflow for panel of 71 countries over the period 2011-2020. WTO