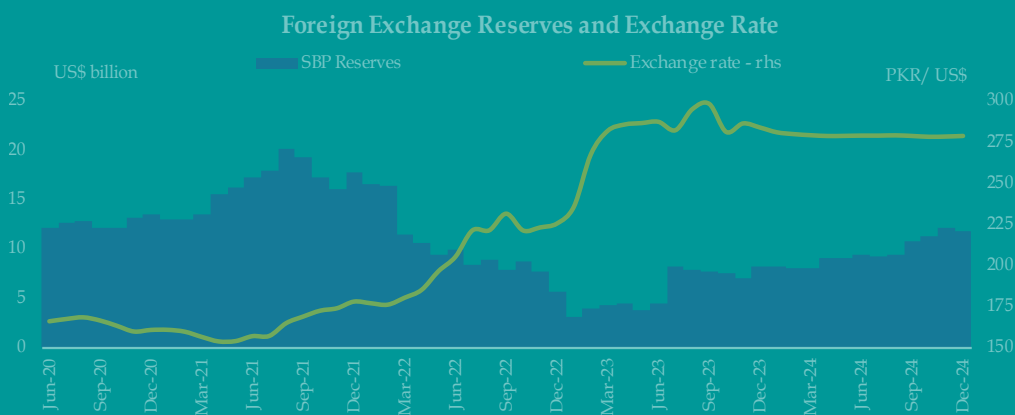




Balance of Payments

Pakistan's external sector showed marked improvement with the current account balance turning into a surplus, driven by robust growth in workers' remittances and exports that more than offset the increase in imports and repatriation of profits and dividends. The surplus in current account overshadowed weak official financial inflows. Moreover, net FDI increased and inflows in NPCs edged up. The current account surplus, together with disbursement of first tranche under IMF's EFF, led to a further build-up in foreign exchange reserves and induced much needed stability in the foreign exchange market.



5 Balance of Payments

5.1 Global Economic Developments

The global economic landscape gradually turned favorable towards the end of 2024. Specifically, global growth steadied, trade volumes recovered, commodity prices softened, inflation declined, and subsequent reduction in the policy rates by advanced economies (AEs) somewhat eased global financial conditions.

As per IMF estimates, the global economy grew by 3.2 percent in 2024, slightly lower than 3.3 percent last year (**Figure 5.1**). While growth in AEs ticked-up, supported by strong domestic demand and exports of goods, this slight dip was primarily due to slower growth in two of the major emerging market and developing economies (EMDEs), China and India. The former suffered due to property market crisis and lower consumer confidence, while high cost pressures led to a slower manufacturing output in the latter. Notwithstanding slower growth, EMDEs

continued to contribute more than 50 percent to the global GDP growth.

The steady growth, especially in AEs, was instrumental in stimulating cross-border trade. The global trade volumes, which contracted for the most part of 2023, recorded an expansion throughout 2024, with increase in new export orders for EMDEs including Pakistan (**Figure 5.2**). This suggests that ongoing geopolitical tensions have minimally disrupted trade volumes, primarily because of the creation of bilateral/ regional blocs. Consequently, trade has increased within the blocs instead of between them, which has somewhat reduced global supply chain pressures and alleviated adverse movement in the global commodity prices.¹

Overall global commodity price index declined by 3.9 percent in H1-FY25, mainly on account of improved supply of energy and food items (**Figure 5.3**). This was further complemented by dampened

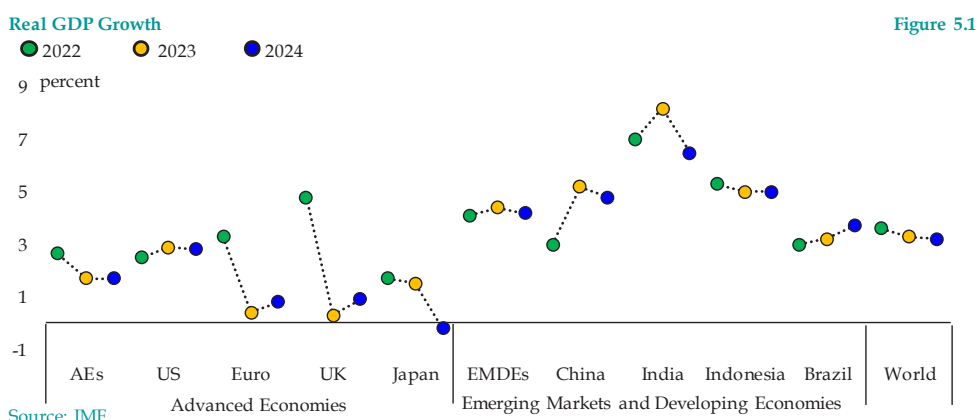


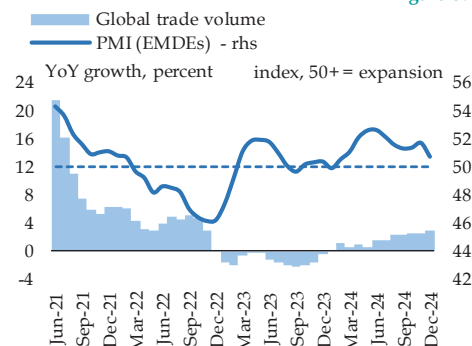
Figure 5.1

¹ IMF (2024). World Economic Outlook, October 2024, International Monetary Fund, Washington.

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Global Trade and PMI

Figure 5.2



PMI: Purchasing Managers' Index

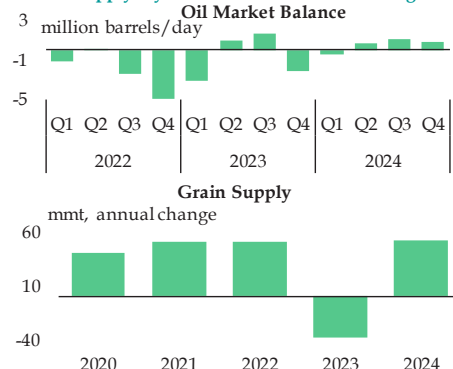
Sources: CPB World Trade Monitor and S&P Global

demand of iron and steel due to sluggish construction activity in China.

The decline in commodity prices and lagged impact of monetary tightening cooled down inflationary pressures in both the AEs and EMDEs, despite some upward price pressure in services sector. In several AEs, inflation has remained close to targets due to aforementioned favorable demand and supply factors. A similar pattern was observed in majority of EMDEs, although there was a slight uptick in inflation

Global Supply Dynamics

Figure 5.3



Oil market balance = supply - demand in each quarter
Supply = opening stocks + prod. in the crop season

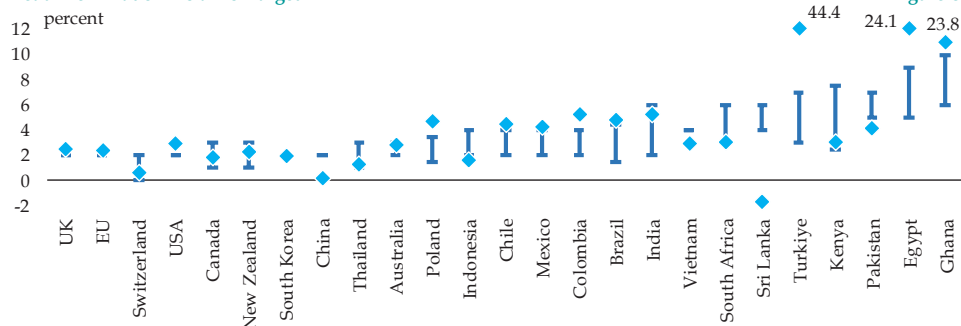
Sources: EIA and USDA

outturns in some countries towards the end of 2024 (Figure 5.4).

Accordingly, both the AEs and EMDEs continued to ease monetary policy stance, keeping in view their inflation targets. The response was more synchronized in AEs as inflation in these economies approached their targets relatively faster than those in EMDEs. In some of the EMDEs, wage growth and higher demand for services have even led to an increase in core

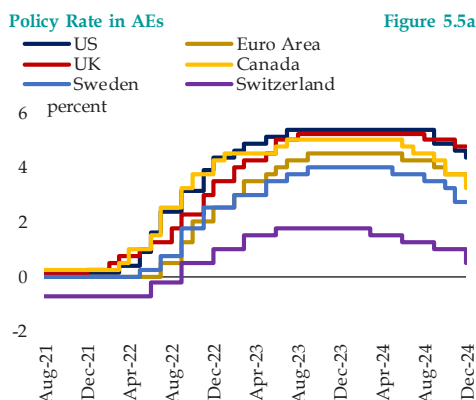
Headline Inflation vis-à-vis Target

Figure 5.4



Note: vertical lines refer to the range of inflation target as announced by concerned authority and marker refer to the Dec-2024 inflation (YoY) reading

Sources: tradingeconomics, country websites, and Bloomberg



Sources: tradingeconomics and Bloomberg

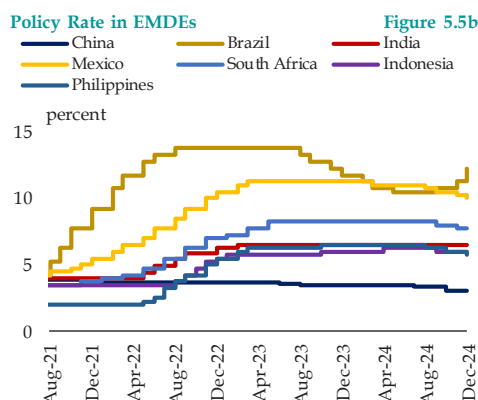
inflation. As a result, some of the central banks paused further monetary easing, with a few even raising the policy rates (Figure 5.5a & 5.5b).

The reduction in the policy rates by major AEs' central banks eased global financial conditions in H1-FY25. This had positive spillovers on emerging economies, specifically in the context of capital flows and exchange rate volatility.

As global investors sought higher returns, their risk appetite strengthened, which translated into increased capital flows to EMDEs. This also created room for some of the EMDEs to access international capital markets for raising funding at reduced cost. The low and stable sovereign spreads even enabled some economies with weak credit ratings to issue sovereign bonds.

5.2 Pakistan's Balance of Payments

Pakistan's balance of payments (BoP) continued to improve as current account balance (CAB) turned into a surplus, offsetting significantly lower financial



Sources: tradingeconomics and Bloomberg

inflows during H1-FY25 (Table 5.1). The turnaround in the current account is largely attributed to a sustained increase in workers' remittances and volume-driven exports. The surplus in CAB, combined with the disbursement under the IMF's EFF, contributed to the build-up of FX reserves, and induced stability in the foreign exchange market.

Both domestic and global factors underpinned the improvement in CAB. Steady growth in the global economy and increased trade volumes boosted demand for Pakistani labour abroad and exports. Additionally, growing digitisation in the gulf region, and various initiatives by the government and the SBP provided a boost to IT exports and remittances.

The combined impact of these factors alleviated pressures emanating from growth in imports and increase in primary income deficit. Import of both goods and services grew sharply, outpacing exports. As a result, the trade in goods and services balance deteriorated. Further, the primary income deficit substantially widened due

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Pakistan's Balance of Payments

Table 5.1

million US\$

	FY23	FY24	FY24		H1-FY25	H1-FY25 over H1-FY24
			H1	H2		Abs. change
Current account balance	-3,275	-2,072	-1,611	-461	1,160	2,771
Trade in goods	-24,819	-22,177	-10,260	-11,917	-11,636	-1,376
Exports	27,876	30,980	15,155	15,825	16,297	1,142
Imports	52,695	53,157	25,415	27,742	27,933	2,518
Services balance	-1,042	-3,110	-1,538	-1,572	-1,500	38
o/w ICT exports	2,596	3,223	1,456	1,767	1,865	409
Primary income balance	-5,765	-8,986	-4,052	-4,934	-4,545	-493
o/w interest payments	4,612	5,546	2,817	2,729	2,676	-141
Secondary income balance	28,351	32,201	14,239	17,962	18,841	4,602
o/w Workers' remittances	27,333	30,251	13,436	16,815	17,847	4,411
Capital account balance	375	195	109	86	78	-31
Financial account balance*	468	-5,370	-4,961	-409	-515	4,446
Direct investment (net)*^	-670	-2,126	-1,064	-1,062	-1,422	-358
Portfolio investment (net)*^	1,012	376	-71	447	70	141
Other Investment	135	-3,610	-3,821	211	837	4,658
Build-up in FX assets abroad	-964	-381	-451	70	-238	213
FX loans & liabilities	-1,099	3,229	3,370	-141	-1,075	-4,445
Banks	1,241	715	150	565	-122	-272
General government	-2,085	1,565	2,137	-572	-353	-2,490
Disbursements	9,891	6,044	2,887	3,157	2,582	-305
Amortization	11,660	6,727	2,843	3,884	3,208	365
other liabilities (net)	-316	2248	2093	155	273	-1820
Other sectors	-255	-50	84	-134	-600	-684
Disbursements	398	2,419	644	1,775	275	-369
Amortization	1,663	1,905	786	1,119	831	45
other liabilities (net)	1,010	-564	226	-790	-44	-270
Net errors and omissions	-850	-631	-453	-178	-42	411
Overall balance	4,218	-2,862	-3,006	144	-1,711	1,295
SBP's liquid reserves (end-period)	4,445	9,390	8,233	9,390	11,732	
PKR/US\$ app(+)/dep(-) in % (end-period)	-28.4	2.7	1.5	1.3	-0.1	

*as per BPM6, negative sign means net FX inflow into Pakistan and vice versa ^FDI (net) = net FDI inflows - net FDI outflows

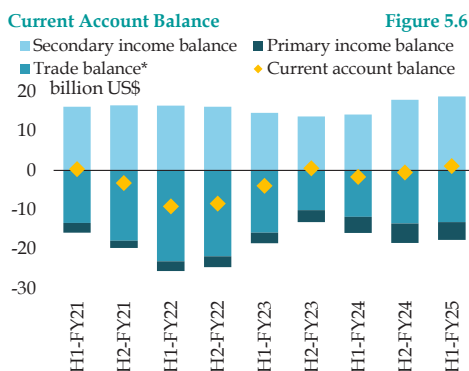
Source: SBP

to increased repatriation of profits and dividends.

Nevertheless, sustained increase in remittances and Information and Communication Technology (ICT) exports are encouraging developments from the perspective of diversification in sources of foreign exchange earnings. However, for a sustainable external account, it is imperative to fully exploit the economy's

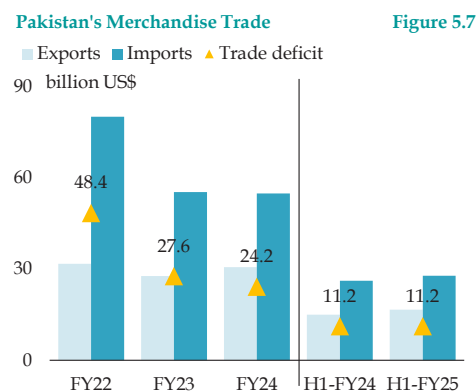
export potential by scaling up efforts for diversifying export basket and enhancing productivity.

The net financial inflows, however, remained considerably lower compared to the last year. This was mainly because of official loan disbursements falling short of commitments. The private inflows, on the other hand, edged up during H1-FY25.



5.3 Current Account

CAB posted a surplus of US\$ 1.2 billion in H1-FY25 compared to a deficit of US\$ 1.6 billion in the corresponding period last year. This improvement in CAB was mainly on the back of a sizable increase in workers' remittances, while trade and primary income balances deteriorated (Figure 5.6).

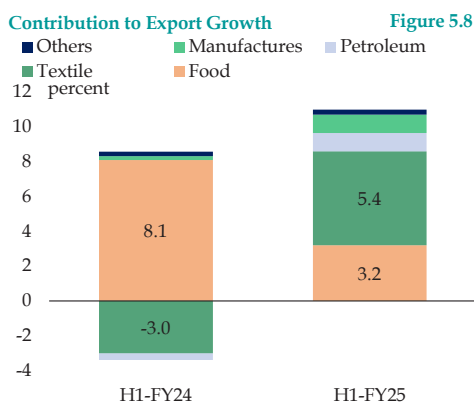


Trade (in goods) Balance²

Merchandise trade deficit remained stagnant at last year's level (Figure 5.7). Exports maintained last year's growth momentum, supported mainly by an increase in exports of high value added textiles, rice, petroleum, pharma and plastics. However, the gains in exports were offset by a significant rise in imports, mainly textile, machinery, agri and chemical related.

Exports

Exports, as per PBS data, posted a double-digit growth during H1-FY25, largely driven by higher volumes (Table 5.2). The growth also remained broad-based with major contribution coming from textile group, followed by food, petroleum products, and other manufactures (Figure 5.8).



² The analysis in this section is based on customs data reported by the Pakistan Bureau of Statistics. The information in this section does not tally with the payments or BOP data. To understand the difference between these two data series, see Annexure on Data Explanatory Notes.

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Merchandise Exports

Table 5.2

million US\$

	H1-FY24	H1-FY25	Change		Volume and Price Effect	
			Absolute	Percent	VE	PE
Exports	14,985.9	16,631.4	1,645.6	11.0	-	-
Textile	8,283.2	9,084.6	801.3	9.7	-	-
Apparel	3,871.8	4,610.0	738.2	19.1	309.7	428.5
Home textile	1,877.2	2,110.2	233.0	12.4	223.9	9.1
Cotton yarn	588.5	365.1	-223.4	-38.0	-223.9	0.5
Raw Cotton	53.4	0.6	-52.8	-98.8	-52.8	0.0
Non-textile	6,701.3	7,546.9	844.2	12.6	-	-
Food	3,478.9	3,960.0	481.1	13.8	-	-
Rice	1,637.9	1,875.3	237.5	14.5	310.6	-73.1
Basmati	367.5	433.8	66.4	18.1	112.7	-46.3
Non-basmati	1,270.5	1,441.5	171.1	13.5	220.4	-49.3
Oil seeds	364.1	303.9	-60.2	-16.5	61.0	-121.3
Sugar	21.1	342.6	321.5	-	381.7	-60.2
Petroleum	114.2	271.7	157.5	137.9	-	-
Petroleum products	102.4	229.1	126.7	123.8	-	-
Other manufactures	2,001.7	2,159.2	157.8	7.9	-	-
Pharma	154.8	236.5	81.8	52.8	60.1	21.6
Plastic	178.9	263.0	84.1	47.0	43.1	41.0
Cement	135.9	167.5	31.5	23.2	46.0	-14.4

Source: PBS

Textile exports

Textile exports rose by 9.7 percent in H1-FY25, against a decline of 5.0 percent last year. The growth in textile exports primarily stemmed from value added textiles, apparel and home textiles. Two major developments contributed to this turnaround. First, protests-related disruptions in industrial activity in Bangladesh diverted orders to other textile producers in Asia, including Pakistan. Second, stable exchange rate and reduced domestic uncertainty helped Pakistani exporters in securing larger orders at better negotiated prices.

Despite the increase in textile exports, the unit values of Pakistan's apparel exports

remained lower compared to the regional peers (**Table 5.3**). This may be indicative of low quality of Pakistan's exports, as well as a higher ratio of cotton in textile manufacturing. It may be noted that demand for man-made fiber (MMF) based textiles is increasing in the international market. Moreover, MMF is relatively cost-effective, resource efficient, and has less labor-intensive production processes (**Table 5.4**).³

Pakistan's textile sector also struggles with low Total Factor Productivity (TFP) and underdeveloped capabilities in high-fashion and technical textiles. This results in a skewed focus on men's apparel exports, which fetch lower unit prices

³ SBP (2018). The State of Pakistan's Economy, Third Quarterly Report FY18, State Bank of Pakistan, Karachi.; AR (2023). The rise of MMF, Apparel Resources, Available at: www.apparelresources.com/business-news/manufacturing/the-rise-of-mmf/, Accessed on February 14, 2025.

Unit Prices of Apparel Exports (H1-FY25) Table 5.3

Exports to US	% change	Unit Value (US\$/M ²)
World	-1.7	3.2
Sri Lanka	-1.4	4.5
Thailand	-6.4	3.4
Philippines	-10.0	4.0
Cambodia	-1.8	3.4
India	-4.0	3.3
Vietnam	0.2	3.9
Bangladesh	-2.1	3.3
Pakistan	3.9	3.0
Exports to EU-27	% change	Unit Value (Euro/KG)
Philippines	-10.2	30.6
Thailand	9.3	37.3
Vietnam	-3.6	26.5
India	-5.0	19.3
Bangladesh	-0.6	14.6
Pakistan	-0.9	12.1

Source: SBP staff calculation based on Otexa and EuroStat

compared to women apparel.⁴ This also corroborates the findings on labor productivity of Asia's garment sector, in which Pakistan is the lowest. Notably, the countries with higher unit values have invested in making their production processes more capital intensive.⁵

Export of low value-added textiles fell sharply⁶

Decline in domestic cotton production pushed the domestic prices above import parity. This resulted in negligible raw cotton exports during H1-FY25. Yarn exports also fell sharply in H1-FY25 as

Regional Comparison of Apparel Exports - 2024 Table 5.4

	MMF - Quantum Terms	MMF - Value Terms	Overall Unit Price (US\$/M ²)	W&G Unit Price
US				
World	56.0	44.7	3.2	4.7
Sri Lanka	51.7	52.0	4.3	7.2
Thailand	38.8	57.4	3.3	5.8
Philippines	39.2	57.1	3.9	7.5
Cambodia	51.7	38.0	3.4	5.0
India	22.8	17.9	3.4	6.1
Vietnam	60.7	56.5	3.7	4.9
Bangladesh	29.3	25.0	3.2	4.2
Pakistan	9.7	20.6	3.0	5.3

*W&G stands for Women & Girls' Apparel

Source: SBP staff calculation based on Otexa

upstream textile segments, such as spinning and weaving, faced additional challenges. These included removal of zero-rating for local supplies under the export facilitation scheme (EFS), and higher energy and operational costs.⁷

Non-textile exports

Food exports remained on an upward trajectory

Food exports increased for the second consecutive year, with rice maintaining its position as the leading contributor (Table 5.2).⁸ Unlike last year, the growth was driven by higher volumes, as most rice exporters adjusted to lower prices after India's re-entry in the global rice market (Figure 5.9).⁹ Additionally, record-high

⁴ Hussain, S.T., Malik, K.Z., Khan, U., Faheem, A., Nabi, I. & Hamid, N. (2013). A comparative analysis of the garments sector of Pakistan, International Growth Center.

⁵ ILO (2022). Employment, wages and productivity trends in the Asian garment sector, International Labour Organization, Geneva.

⁶ Domestic cotton production in H1-FY25 faced significant challenges due to pest infestations, heatwaves and erratic rainfalls in South Punjab, leading to late harvesting and poor quality.

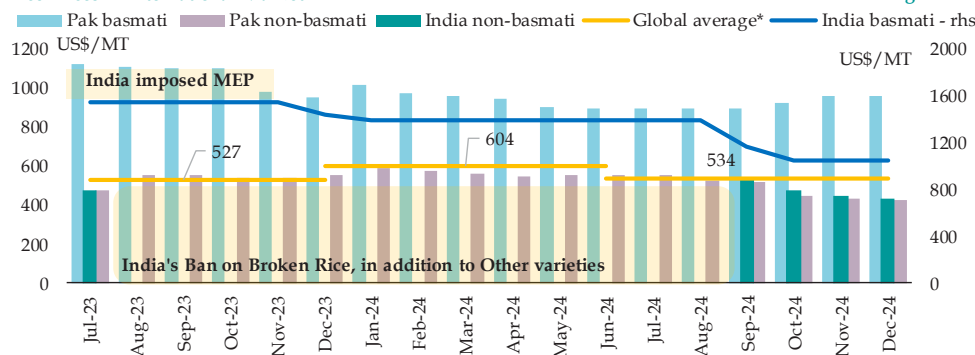
⁷ APTMA Blog. Available at www.aptna.org.pk/category/industry/. Accessed on February 12, 2025. Moreover, as per APTMA, over 40 percent of spinning mills have ceased operations.

⁸ Rice makes up around 47.4 percent of total food exports and 24.8 percent of total non-textile exports.

⁹ As per SBP staff calculation based on PBS (July-Dec) data, the unit values across all rice categories have decreased compared to last year.

Rice Prices in International Market

Figure 5.9



*global average includes both basmati and non basmati

Sources: FAO and WB

global rice stocks, supported by robust production, kept international prices in check.¹⁰

Within rice, basmati exports increased by 18.1 percent in H1-FY25. Pakistan mainly exported basmati rice to Kazakhstan, Saudi Arabia, Afghanistan, Yemen, and Oman during H1-FY25. Increase in exports to Kazakhstan was supported by Pakistan's price advantage over India. Exports to Saudi Arabia was the outcome of trade advocacy resulting in a Saudi commitment to source 20 percent of its rice imports from Pakistan. Similarly, Business to Government (B2G) collaborative efforts created export opportunities to Oman.¹¹

The exports of non-basmati rice also increased from US\$ 1.3 billion to US\$ 1.4 billion. Within the non-basmati rice, *irri* mainly contributed to this increase, as its exports to Afghanistan, Philippines, Indonesia and Kenya rose during H1-FY25. The increase in export to Philippines may be attributed to their lower domestic production.¹² In case of Kenya, the demand for Pakistani rice increased owing to its zero-tax policy on rice shipments till November 30, 2024.¹³

During H1-FY25, Pakistan also exported sugar amounting to US\$ 343 million, against almost insignificant exports last year (Figure 5.10).¹⁴ Additionally, sugar

¹⁰ USDA (2025). Rice Market Outlook. United States Department of Agriculture, Washington D.C.

¹¹ Officials from Oman committed to facilitate procurement processes for Pakistani rice.

¹² VIS (2024). Rice Sector Report, VIS Credit Rating Company Limited, Karachi.

¹³ Kenya Gazette (2024). The Kenya Gazette Vol. CXXVI - No. 75 dated 31st, May 2024 Available at: www.kra.go.ke/images/publications/Gazette-Importation-of-Grade-1-White-Milled-Rice-Duty-Free.pdf. Accessed on January 5, 2025. In addition, Pakistani rice exporters secured export contracts at the International FoodAg due to B2B and B2G efforts of TDAP. (Source: Official TDAP X-account Available at: https://x.com/official_tdap/status/1824468283472457926)

¹⁴ Economic Coordination Committee (ECC) of Cabinet allowed an export quota of sugar in June 2024. The export quota was later revised upward, based on frequent sugar stock reports submitted to ECC by the Committee on Monitoring Sugar Export. SBP had also advised the authorized dealers to facilitate the sugar exporters in light of MOI&P (O.M) F. No.1(6)/2022-23-CAO dated June 26, 2024 through EPD circular letters: No. 04 of 2024 dated July 1,

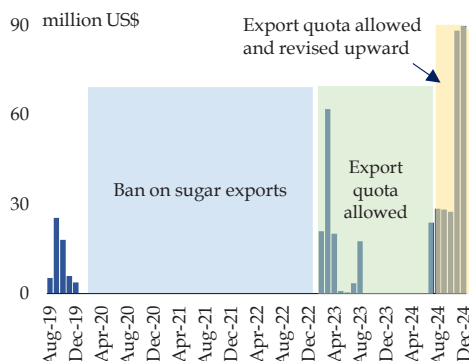
exports to Tajikistan benefitted from B2G arrangement.¹⁵

Among other food items, exports of fish almost remained unchanged, while export of oilseeds declined significantly in H1-FY25. In case of oil seeds, exports of sesame seed to Vietnam, Saudi Arabia, and Egypt dropped. A significant decline of 25.7 percent was recorded for China due to re-entry of Sudanese and Ethiopian suppliers in the market.¹⁶ Moreover, higher production of oilseeds globally, particularly in Brazil and Argentina, put downward pressure on prices.¹⁷

On fish exports, analysis reveals that the country's annual fishery export earnings have averaged US\$ 400 million during the last decade, far lower than the export earnings of other similar coastal countries (Figure 5.11a). Pakistan's fish export destinations have remained largely

Sugar Exports

Figure 5.10

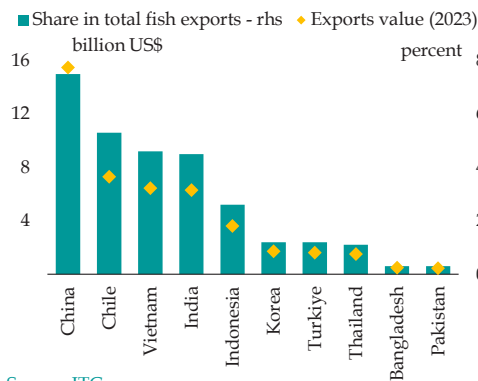


Sources: PBS and ECC

unchanged over the years resulting in a higher market concentration. Moreover, unit prices have remained much lower than the regional peers (Figure 5.11b). In this context, **Box 5.1** discusses key factors behind this underperformance and recommendation to harness the large potential in Pakistan.

Fish Exports: Value and Share

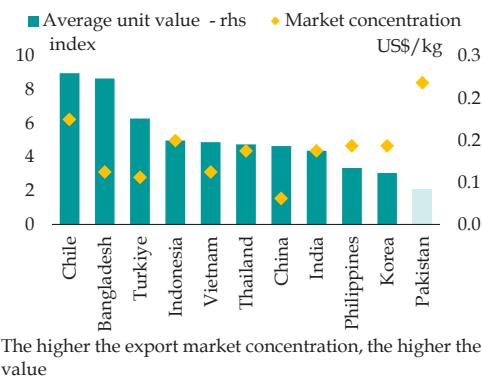
Figure 5.11a



Source: ITC

Fish Exports: Trade Indicators

Figure 5.11b



The higher the export market concentration, the higher the value

2024 for 150,000 MT; No. 08 of 2024 dated September, 30, 2024 for 100,000 MT; No. 13 of 2024 dated October, 18, 2024 for 40,000 MT.

¹⁵ Under a bilateral arrangement, Pakistan Sugar Mills Association facilitated export to Tajikistan.

¹⁶ Pakistan had benefitted last year from both higher demand from China amid supply disruptions - from Sudan, Ethiopia, and Myanmar - alongside removal of a 9 percent import duty by China.

¹⁷ USDA (2025). World Agricultural Production, United States Department of Agriculture Circular Series February, 2025.

Other non-food exports

Furnace oil exports increased in H1-FY25 due to a favorable change in the energy mix in recent years (**Figure 5.12**). Gradual replacement of costly furnace oil based power plants with coal-fired plants, and reliance on other cheaper sources has led to an excess of furnace oil in the country.

Exports of cement is maintaining the trend

Cement exports increased in H1-FY25, mainly destined to Afghanistan. Export viability also improved amid decrease in international coal prices.¹⁸ Moreover, the industry also explored new markets with export of clinker to Gabon and Yemen.

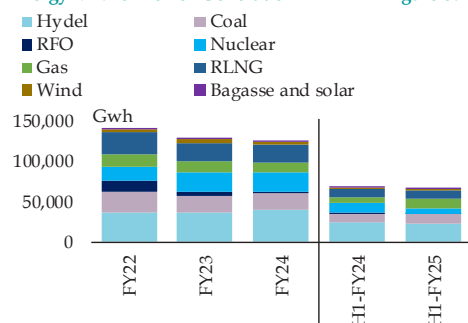
Exports of other manufactures picked up

Pharma exports increased to \$237 million, up by 52.8 percent during H1-FY25 against

a decline of 12 percent last year. The increase was driven by both volume and price effects. The former was due to expanded market access, particularly in Congo, Guyana, Djibouti, Kenya and Sudan¹⁹, under the Engage Africa Policy, while the latter reflects improved availability of raw materials.²⁰ Exports to established markets - Afghanistan, Cameroon, Thailand, Philippines, Uzbekistan and Turkmenistan - also increased during the period under review.²¹

Similarly, exports of plastic materials increased, primarily because of higher demand for polypropylene in China, Bangladesh, Kenya, Jordan and Mozambique.²² Expandable and General Purpose Polystyrene plastic saw significant growth in exports due to an increase in global demand for lightweight and sustainable packaging.

Energy Mix for Power Generation **Figure 5.12**



RFO: Refined furnace oil, RLNG: Regasified liquefied natural gas

Source: NEPRA

Imports

Imports, as per PBS data, grew by 6.4 percent during H1-FY25 compared to a contraction of 16.2 percent last year. The growth was broad-based as imports of all major groups, except for food, increased in H1-FY25 (**Figure 5.13**). Though global commodity prices moderated, import volumes, particularly of raw materials, grew in line with some pick-up in domestic economic activity (**Table 5.5**).

¹⁸ According to World Bank, global prices of coal decreased from \$146/MT in June to \$121/MT in December 2024.

¹⁹ These countries provide a good export opportunity as their regulatory requirements are comparatively less stringent. Notably, Pakistan's export products are of low quality which limits its ability to access high-end markets.

²⁰ Over 90 percent of raw material used in pharma is imported. Source: ICAP (2024). Pharmaceutical Industry.

²¹ Key insights drawn from Xevant, Quartz, IDP Analytics.

²² The demand for polypropylene comes from its diverse applications such as packaging, automotive, and construction.

Merchandise Imports

Table 5.5

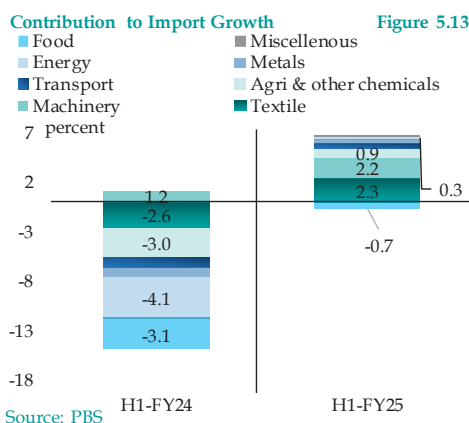
million US\$

	H1-FY24	H1-FY25	Change		Volume and Price Effect	
			Absolute	Percent	VE	PE
Imports	26,137.4	27,806.2	1668.8	6.4	-	-
Food	3,957.2	3,780.2	-1,77.0	-4.5	-	-
Wheat	397.1	0	-397.1	-	-397.1	0
Tea	336.4	314	-22.4	-6.7	-38.8	16.4
Soybean oil	91.1	124.9	33.7	37.1	45.7	-11.9
Palm oil	1,388.1	1,539.7	151.5	10.9	90	61.6
Dry fruits	38.4	86.3	47.9	124.8	31.9	16.1
Energy	8,005.8	8,085.9	80.1	1.0	-	-
POL	3,193.8	2,970.3	-223.6	-7.0	-267.8	-491.3
Crude	2,611.2	2,690.4	79.2	3.0	421.7	-342.6
LNG	1,853.0	1,889.1	36.1	1.9	-	-
LPG	347.7	535.9	188.3	54.2	-	-
Machinery	3604.1	4170.1	566.0	15.7	-	-
Electrical	1136.2	1491.5	355.3	31.3	-	-
Textile	68.8	105.9	37.1	53.9	-	-
Power generating	209.6	332.2	122.6	58.5	-	-
Textile	1301.9	1,914.5	612.6	47.1	-	-
Raw cotton	191.7	488.6	297	154.9	374.6	-77.6
Other textile items	347.7	596.7	249	71.6	-	-
Agro chemical	4,240.5	4,487.6	247.1	5.8	-	-
Fertilizer manufactured	314.9	440.3	125.4	39.8	66.4	59.0
Others	460.5	491.6	31.2	6.8	-	-
Rubber tyres	43.6	80.1	36.3	83.3	54.1	-17.8

Source: PBS

Energy imports increased slightly

In H1-FY25, imports of crude oil, liquefied natural gas (LNG) and liquefied petroleum gas (LPG) increased, while imports of petroleum products registered a slight decline. The rise in LPG imports reflects its growing demand as an alternate fuel for domestic and commercial use, especially as domestic natural gas production continues to decline. Recently, due to this rise in demand, LPG infrastructure also attracted substantial investment in capacity enhancement.²³



²³ An investment amounting to Rs 6.6 billion was made in LPG's infrastructure. Source: PACRA (2024).

Textile Imports in H1

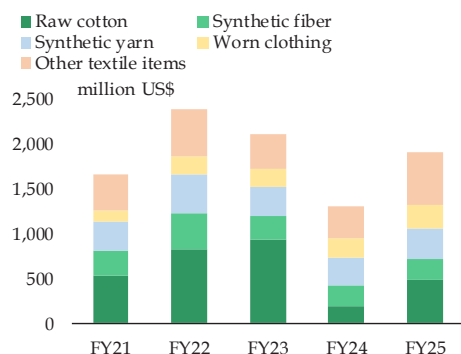


Figure 5.14

Source: PBS

Food imports declined

The decline was mainly due to lower imports of wheat and other food items.²⁴ However, the imports of soybean seeds increased due to volume effect.²⁵ It was particularly pronounced in the last two months of H1-FY25, after the government allowed import of genetically modified soybean seeds in October 2024.

Machinery Imports

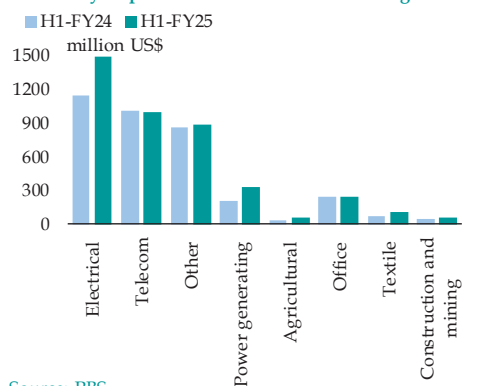


Figure 5.15

Source: PBS

²⁴ All other food items constitute around 26.8 percent of the total food imports.

²⁵ Prices of soybean seeds declined in international markets mainly due to higher production in South America, particularly Argentina.

²⁶ Enhanced credit facility for solarisation of tube wells; laser land levellers; solar based cold storage and high efficiency irrigation system for water management; and distribution of 53 implements. Source: FAO

Palm oil imports also increased during H1-FY25, driven by both higher volume and prices. Global palm oil prices rose due to lower production in Indonesia and Malaysia, while domestic demand increased from industries like pharmaceuticals, soap, cooking oil and confectionary items which contributed to the volume growth (**Chapter 2**).

Textile imports increased, reflecting lower domestic cotton production

Increase in import of raw cotton was the direct result of the decline in domestic cotton production and a rebound in apparel exports. This also led to an increase in domestic prices of yarn, resulting in higher yarn imports (**Figure 5.14**).

Machinery imports saw a broad-based increase

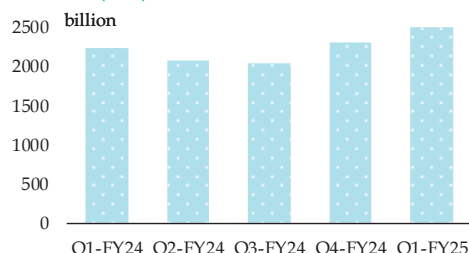
Imports of machinery saw a broad-based growth of 15.7 percent in H1-FY25 (**Figure 5.15**). The import of machinery is driven by activity in some of the large industries (especially textile); rising solarization (increase in imports of solar panels and batteries) to address power outages and benefit from lower cost; schemes to mechanize agriculture sector.²⁶

Imports of transport group picked up

Within transport sector, imports of SKD/CKD gained momentum with the ease in FX constraints and start of local

Global Revenue Passenger
Kilometre (RPK)*

Figure 5.16



*RPKs is a measure of the volume of passengers carried by an airline; it is used as measure of travel demand. RPK = number of revenue passengers * distance traveled

Source: IATA

assembly of electric vehicles. The improved FX position also facilitated the increase in CBUs with the clearance of backlog at ports. Moreover, domestic production and sales have also increased in almost all transport categories, with auto financing playing a positive role.²⁷

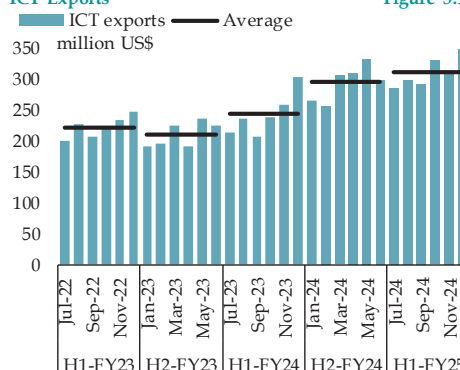
Trade in Services

The trade in services account recorded a slightly lower deficit in H1-FY25 compared to last year. The improvement was supported by higher exports of ICT services, which was partly offset by increase in imports of services (**Table 5.6**). The rise in services imports was led by payments for air transport, travel, and technical services related to trade and other businesses.

Increase in air transport payments was attributed to rise in international passenger travel (via foreign carriers) and

ICT Exports

Figure 5.17



Source: SBP

elevated airfares (**Figure 5.16**).²⁸ Similarly, growth in import payments for travel was mainly attributed to increased education and religious travel, indicated by a higher number of people performing Umrah compared to last year.²⁹

On the other hand, exports of ICT services maintained the upward trajectory, registering a 28.1 percent growth in H1-FY25 (**Figure 5.17**). The growth was supported by policy measures introduced by the SBP and the government. These measures included the introduction of a new equity investment category for IT firms and allowing IT companies to invest in multiple foreign entities without jurisdictional limits. Moreover, the SBP raised the retention limit for Exporters' Specialized Foreign Currency Accounts (ESFCA) from 35 to 50 percent, enabling exporting firms to reinvest more earnings into their operations abroad. Meanwhile, stable exchange rate incentivized IT

²⁷ Auto-financing posted an increase of Rs 5.0 billion against net retirement of Rs 42.5 billion in H1-FY24.

²⁸ Average cost of one-way fare increased by 2 percent in 2024 compared to a decline around 8 percent last year

²⁹ General Authority for Statistics, Saudi Arabia. Available at: www.stats.gov.sa/en/statistics-tabs/-/categories/124334?tab=436312&category=124334, Accessed on: February 06, 2025

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Trade in Services

Table 5.6

million US\$

	FY23	FY24	H1		Change in H1-FY25 over H1-FY24	
			FY24	FY25	Absolute	Percent
Services balance	-1,043.2	-3,111.6	-1,538.0	-1,500.3	37.7	-
Exports	7,595.4	7,687.3	3,680.9	4,085.4	404.5	11.0
Transport: of which	926.6	767.4	373.7	460.2	86.5	23.1
Sea freight	143.8	61.6	26.6	54.4	27.8	104.3
Air passengers	415.1	445.2	211.5	200.9	-10.6	-5.0
Travel: of which	971.5	758.1	365.0	358.5	-6.5	-1.8
Education exp.	11.6	21.3	11.4	9.6	-1.8	-16.2
Other (personal)	946.4	701.6	339.1	333.6	-5.5	-1.6
ICT Services: of which	2,596.8	3,223.2	1,455.6	1,865.0	409.4	28.1
Software consultancy services	760.2	870.6	405.6	549.9	144.3	35.6
Other computer services	730.4	1,140.0	454.3	733.2	278.9	61.4
Computer software	598.1	631.9	311.3	295.2	-16.1	-5.2
Call centers	229.8	263.7	120.0	155.1	35.1	29.3
Telecommunications services	264.4	299.2	158.6	112.9	-45.7	-28.8
Imports	8,638.0	10,798.9	5,218.9	5,585.7	366.8	7.0
Transport: of which	4,058.1	4,676.1	2,423.6	2,409.7	-13.9	-0.6
Sea freight	2,632.5	2,642.9	1,455.1	1,125.0	-330.0	-22.7
Air passengers	892.5	1,295.1	649.4	777.7	128.3	19.8
Travel: of which	1,877.1	2,266.9	1,021.0	1,153.0	132.0	12.9
Education exp.	359.3	519.6	292.9	344.7	51.8	17.7
Other (personal)	1,501.0	1,069.8	607.5	687.1	79.6	13.1

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

Source: SBP

exporters to repatriate a larger share of their proceeds to Pakistan.

In addition, Pakistani IT firms' active engagement in international platforms further pushed ICT exports. These included recognition of Pakistan as Tech Destination of the Year 2024 by GITEX Global in Dubai Fair; participation in London Tech Week and the Pak-US Tech Investment Conference at Stanford University, which showcased the country's innovative capabilities and attracted global investors.³⁰ Furthermore, the

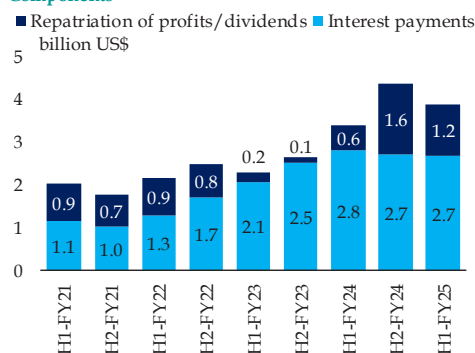
accomplishment of winning 10 awards at the Asia Pacific ICT Alliance in Brunei Darussalam underlined Pakistan's growing reputation in the global IT ecosystem.³¹

Primary Income

The deficit in primary income account widened by US\$ 493 million to US\$ 4.5 billion in H1-FY25. This increase is primarily attributed to higher repatriation of profits and dividends, as interest payments declined marginally (Figure 5.18).

³⁰ PSEB (2024). Pakistan Named as Tech Destination of the Year, Pakistan Software Export Board, Available at: www.techdestination.com/wp-content/uploads/2025/01/Pakistan-Recognized-as-the-Tech-Destination-of-the-Year-1.pdf, Accessed on: February 06, 2025; <https://techdestination.com/pak-us-tech-investment-conference/>; <https://techdestination.com/wp-content/uploads/2025/01/QUARTERLY-NEWSLETTER-4.pdf>

³¹ APICTA (2024). APICTA Awards 2024 List of Recipients, Asia Pacific ICT Alliance Awards, Available at: www.apicta.org/apicta-2024-brunei/, Accessed on: February 10, 2025

Primary Income Payments: Major Components**Figure 5.18**

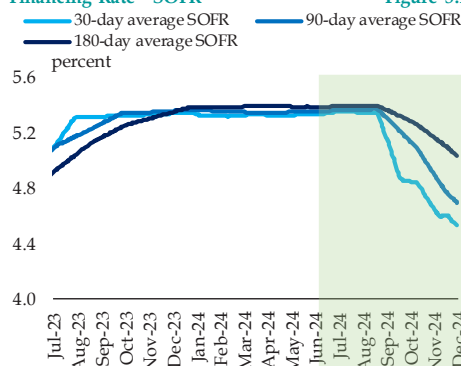
Source: SBP

The payments under repatriation of profits and dividends picked-up pace with the improvement in external account during H1-FY25. Food sector remained the major contributor to these outflows, followed by financial business and power sector.

Interest payments fell by US\$ 141 million in H1-FY25 compared to same period last year. This decline could be traced to decreasing global interest rates, as reflected by trends in Secured Overnight Financing Rate (SOFR) since September 2024 (**Figure 5.19**).³²

Secondary Income

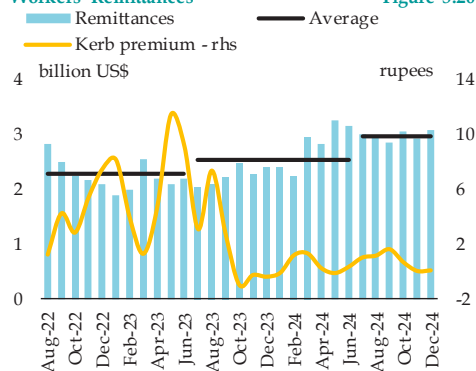
Within the secondary income account, almost entire improvement emanated from workers' remittances, which have been rising consecutively for the last 15 months in YoY terms. Cumulatively, remittances grew by 32.8 percent in H1-FY25 over same period last year (**Figure 5.20**). This growth was supported by various policy

Financing Rate - SOFR**Figure 5.19**

Source: Fed New York

initiatives as well as favorable conditions in both the host and domestic economies. As a result, there was a broad-based increase in inflows from all major remitting corridors.

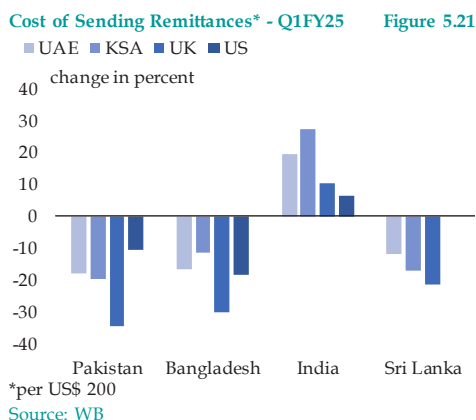
The policy measures introduced last year have been showing results, with the impact becoming more pronounced in H1-FY25.³³ As a result, kerb premium decreased, which helped attract remittances through

Workers' Remittances**Figure 5.20**

Source: SBP

³² SOFR is a broad measure of the cost of overnight borrowing collateralized by U.S. Treasury securities in the repurchase agreement (repo) market.

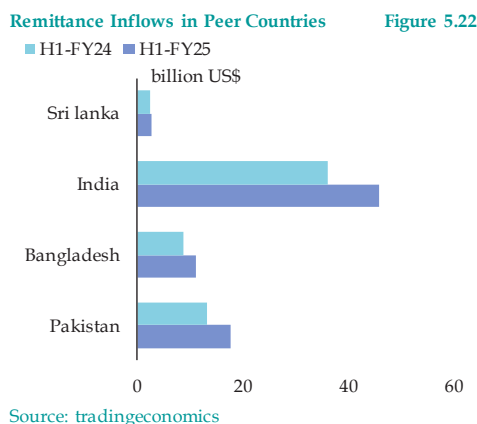
³³ These measures included: i) disbursements of inward home remittances by exchange companies as sub-agent of banks; ii) closure of B-category exchange companies; and, iii) crackdown on illegal trading of forex.



formal channels. To build on these measures, the SBP further incentivized the banks and exchange companies by introducing incremental T.T charges.^{34,35}

In addition, strong economic activity in host countries, supported by new infrastructure projects, enhanced the demand for labor in the gulf region.³⁶ For instance, Saudi Arabia's mega construction and transportation projects created employment opportunities for emigrants. Consequently, the number of workers going abroad from Pakistan (as well as Bangladesh and Sri Lanka) has been on rise in recent years.

In addition, improved labour market dynamics and declining inflation in



advanced economies such as the US, UK and EU increased savings, are boosting remittances from these regions.³⁷ Meanwhile, the cost of sending remittances from these countries declined significantly, which further helped to improve the inflows (**Figure 5.21**). It is worth mentioning that a similar trend in remittances was visible in peer countries as well (**Figure 5.22**).

5.4 Financial Account

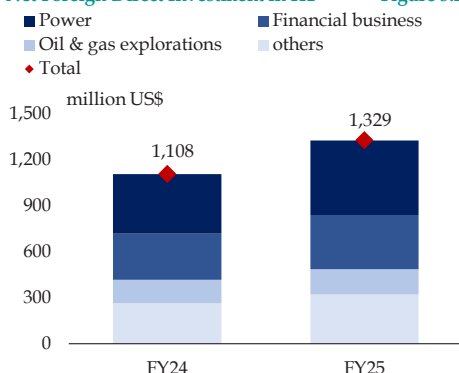
The financial account recorded lower net inflows of US\$ 0.5 billion in H1-FY25, compared to net inflow of US\$ 5.0 billion in the corresponding period of last year. This was largely because of lower-than-committed disbursement of official loans

³⁴ Now banks receive a fixed reimbursement of SAR 20 for transaction of US\$ 100 or higher. Furthermore, a variable component of SAR 8 per incremental transaction is provided for maximum of 10 percent or US\$ 100 million growth in remittances over the last year, and SAR 7 per incremental transaction for growth exceeding the thresholds. (Source: EPD circular Letter No. 09 of 2024).

³⁵ In case of exchange companies, a fixed rate of PKR 2 against US\$ 1 surrendered and variable rates of PKR 3 per US dollar for up to 5 percent growth or US\$ 25 million increase from previous year, and PKR 4 per US dollar for growth exceeding these thresholds. (Source: EPD circular Letter No. 10 of 2024).

³⁶ WB (2025). Global Economic prospects, World Bank, Washington DC.

³⁷ USDL (2025). The Employment Situation – February 2025, US Department of Labour, Available at: www.bls.gov/news.release/pdf/empisit.pdf, Accessed on: March 10, 2025

Net Foreign Direct Investment in H1 **Figure 5.23**

Source: SBP

and higher amortization of external debt. Alternatively, private inflows saw an uptick. Notwithstanding the slight improvement, there are several factors at play that are holding back private inflows (Box 5.2).

Foreign Direct Investment in Pakistan

Net foreign direct investment (FDI) increased in H1-FY25. Although an improvement from the last year, sector-wise data shows that it remains concentrated in power (hydel and coal), financial business (banks including microfinance and investment banks), and oil and gas exploration (Figure 5.23).

A major part of investment in the power sector came from China as work on coal and hydel based power projects picked up pace in the wake of improved energy generation mix. In addition, there were inflows in transmission and distribution segment of the power sector. This was followed by FDI inflows in different

financial institutions sourced from the Middle East, UK, and US.

FDI in oil and gas exploration during H1-FY25 mainly originated from Hong Kong, which owns a high-growth upstream energy company. Some inflows in domestic oil exploration and refinery companies were also seen from Hungary, Malta, Lebanon, and UK.

Besides these usual FDI-attracting sectors, China also made greenfield investment in its Pakistani chapter of multinational home appliances and consumer electronics company. There was also a greenfield inflow in a rubber and tire company from the UAE for developing a manufacturing facility in the Sindh.

Foreign Portfolio Investment

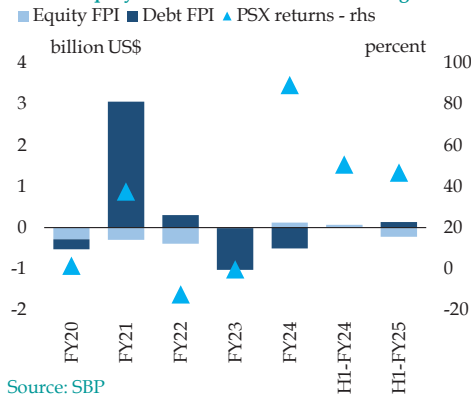
Net foreign portfolio investment (FPI) saw an outflow of US\$ 70 million in H1-FY25, compared to an inflow in the corresponding period of last year. However, there was a contrasting trend within its major components (Figure 5.24).

The equity market recorded net outflows during H1-FY25, against inflows in the same period last year. As per the National Clearing Company of Pakistan Limited (NCCPL), foreign investors sold US\$ 186.8 million worth of holding in, fertilizer, oil & gas exploration, food, OMCs, power, banks and cement sectors. This was despite a promising equity market return of around 47 percent in H1-FY25.³⁸ The benchmark 100-index soared to new height due to a

³⁸ The KSE-100 index increased from 78,445 in end-June to 115,126 by end-December 2024.

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FPI and Equity Market Performance Figure 5.24



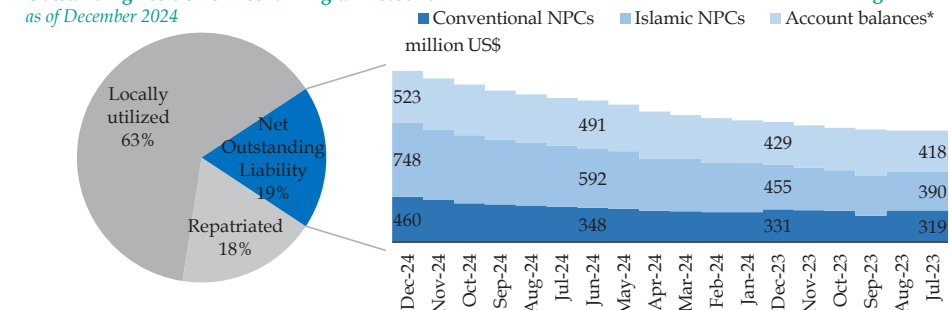
host of factors, such as: signing of a new IMF-EFF program; rating upgrade by Fitch to CCC+; increased weightage of 5 percent in MSCI with the addition of new scrips;³⁹ improved overall macroeconomic outlook; and sustained global monetary easing. Foreign investors were net sellers as they booked profits given higher stock market returns during H1-FY25.

Conversely, domestic debt market attracted net inflows in H1-FY25. The investments were mostly in short-term government securities (MTBs) and Naya Pakistan Certificates (NPCs) via Roshan Digital Accounts (RDA). The consistent increase in RDA inflows is driven by relatively higher returns, tax benefits, smooth repatriation, and Sharia-compliant options. In addition, besides diaspora's demand for secure and profitable investments, successful global marketing and awareness campaigns also played a key role in driving growth.

As of end December 2024, the net repatriable liabilities under RDAs rose to \$1,731 million, indicating the overseas Pakistanis' interest in the domestic economy. This constitutes around 19 percent of overall RDA funds, which can be repatriated, consumed, or invested in Pakistan. Approximately 63 percent of the total RDA inflows have been utilized in

Outstanding Position of Roshan Digital Account
as of December 2024

Figure 5.25



*including Roshan equity investments and other liabilities (outstanding position in government securities like T-bills, Sukuk, real estate, mutual funds, etc. but exclude NPCs)

Source: SBP

³⁹ Total number of companies in frontier markets index increased from 20 to 21 while in Small Cap index it improved from 56 to 67.

local economy, and are no more an obligation, while the remaining 18 percent has already been repatriated (Figure 5.25).

FX Loans and Liabilities

There was a net repayment of official external loans of around US\$ 1.1 billion during H1-FY25, compared to a net incurrence of loans and liabilities worth US\$ 3.4 billion in the same period last year. This was because of increase in amortization of external debt, while disbursements from multilateral and bilateral sources remained lower than last year (Figure 5.26).

Most of the disbursements (~ 50 percent) during H1-FY25 consisted of program loans from multilateral creditors. Specifically, ADB disbursed US\$ 500 million under 'Climate and Disaster Resilience Enhancement Program' to enhance Pakistan's resilience to disasters triggered by natural hazards and the impact of climate change.

Around US\$ 226 million were disbursed jointly by ADB, IDA, and IDB for housing reconstruction and rehabilitation projects in flood-affected areas of Sindh. ITFC also provided US\$ 240 million to be utilized by PSO, PARCO, and PLL for import of crude oil, refined petroleum products, and LNG.

There were inflows of around US\$ 125 million in power sector from ADB, AIIB, and IBRD for improving transmission, distribution, and evacuation of power programs. For health, IDB and France provided funds of more than US\$ 100 million for polio eradication and resilience programs. Similarly, IDA disbursed US\$ 25 million under the umbrella of 'National Health Support Program' for effective quality family planning services in Punjab.

Among other bilateral loans, China disbursed a sum of approximately US\$ 100 million for Pakistan's first multi-mission satellite (PakSat-MM1), which became operational in October 2024. This high-power satellite is meant to play a pivotal role in the socio-economic uplift of the

Borrowing Plan and Disbursements Pattern

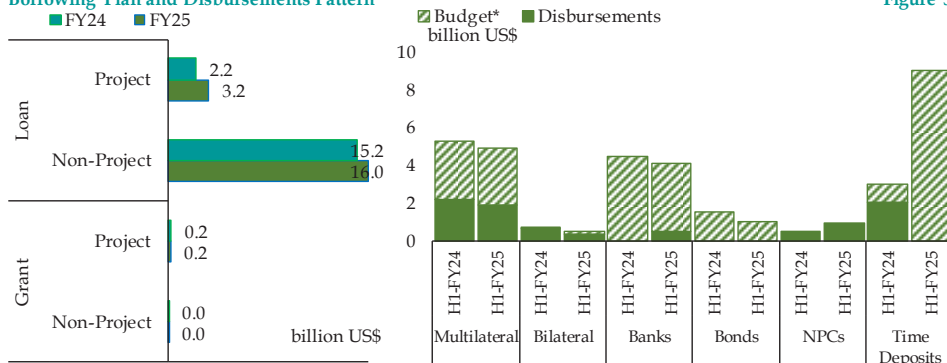
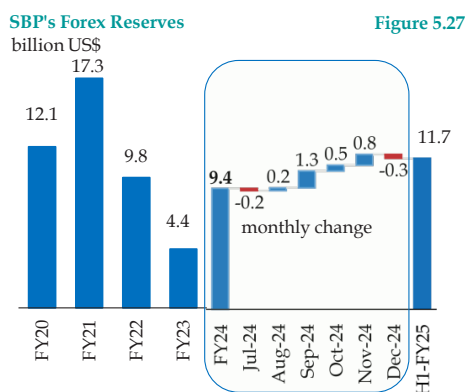


Figure 5.26

Source: EAD

* Budget amount is for complete fiscal year.



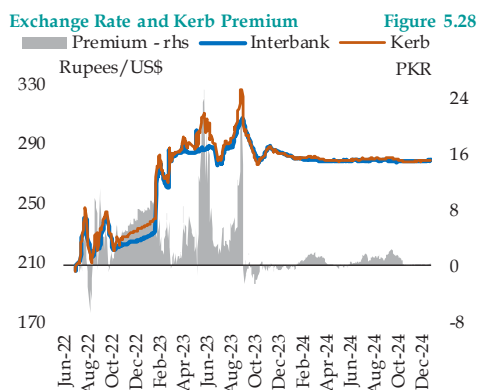
Source: SBP

country by providing internet connectivity in remote areas of Pakistan. Above all, the country received first tranche amounting to US\$ 1.0 billion from IMF after securing a 37-month Extended Fund Facility during the period.

5.5 Foreign Exchange Reserves and Exchange Rate

The country's foreign exchange (FX) reserves continued to strengthen in H1-FY25, primarily on account of build-up in SBP's liquid reserves. Specifically, the favorable current account balance provided the SBP an opportunity to purchase US\$ 5.0 billion from the interbank market during H1-FY25. It is worth highlighting that these purchases were primarily aimed at strengthening country's external buffers, besides meeting external obligations. In addition, the inflows from multilateral sources, including IMF, also supported SBP reserves.

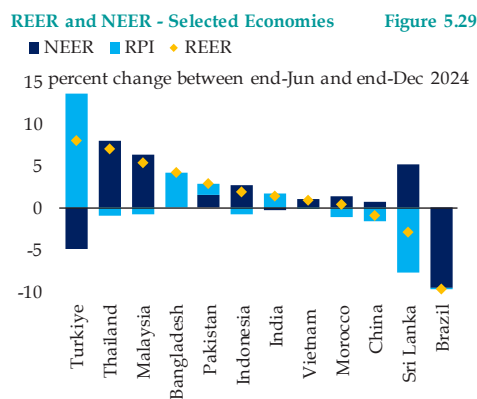
As of end-December 2024, the SBP reserves rose to US\$ 11.7 billion from US\$ 9.4 billion at end-June 2024 (Figure 5.27). Resultantly,



Source: SBP

the import coverage ratio improved to 2.1 months' from 1.6 months' at end-June 2024. In addition, the SBP reduced its outstanding position of forward/swap book by another US\$ 455 million, further improving the quality of forex reserves compared to end-June 2024 position.

These developments have had a positive spillover in foreign exchange market. The exchange rate of Pak rupee against USD remained broadly stable around PKR 278/US\$ through H1-FY25. The kerb premium also remained negligible. There was, however, a brief period of uncertainty



Source: Haver Analytics

during Q1-FY25 due to the delay in approval of IMF program amidst gap in external financing arrangements. The kerb premium somewhat increased during this period but eventually alleviated after the IMF Board approved a \$7 billion Extended Fund Facility (EFF) for Pakistan on September 25, 2024 (**Figure 5.28**).

Pakistan's real effective exchange rate (REER) index rose from 100 at end-June to

103.7 by end-December 2024. This REER appreciation was driven by higher domestic inflation compared to its trading partners, reflected in higher relative price index (RPI). In the countries where RPI had increased, NEER depreciated to maintain its competitiveness. In contrast, Pakistan's NEER witnessed a marginal appreciation in line with improvements in the external account (**Figure 5.29**)

Box 5.1: Tapping the Trade Potential of Fisheries through Aquaculture^{40*}

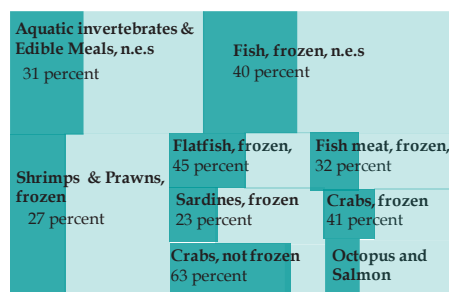
Pakistan is a maritime country with an Exclusive Economic Zone (EEZ) of about 240,000 sq. km.⁴¹ The vast EEZ has immense potential to increase export receipts, particularly from its partially tapped fisheries sector (**Figure 5.1.1**). Pakistan's diversification frontier indicates a high likelihood of developing competitiveness in fisheries export through value addition and improvement in its complexity rank (**Figure 5.1.2**).

The main reasons for not being able to fully exploit the fisheries' export potential include compliance gaps, and traditional processing and preservation methods.⁴² Lack of modern fishing vessels also limit productivity as it increases the cost per kg of fish due to low catch volumes. Against this, Pakistan's fish export unit prices remain significantly lower than regional peers, which is indicative of lower value-addition. Moreover, most of the marine catch is concentrated within EEZ I (12 nautical miles from the coast), leading to overfishing and depletion of high value species like shrimp. The country's EEZ II (35-200 nautical miles) also remains underutilized.⁴²

Besides addressing the aforementioned challenges and its underutilized maritime zone, Pakistan should also prioritize production of fisheries through aquaculture. Pakistan accounts for less than 0.1 percent of total global aquaculture production and has utilized only 1 percent of its available water resources for aquaculture, though Asian economies contribute around 92 percent to the total global aquaculture production (**Table 5.1.1**).ⁱⁱ Other economies have made strategic investments in aquaculture products where they possessed a competitive advantage. For instance, India has invested in shrimp aquaculture, which is the largest

Export Potential of Fisheries

Figure 5.1.1



The darker shaded area represent realised export potential while the lighter shaded areas represent unrealised export potential in the specific product.
Source: ITC Trade Map

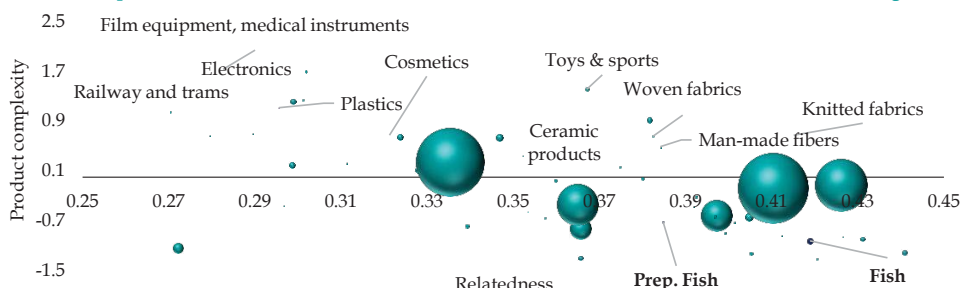
⁴⁰ Aquaculture is the breeding, rearing, and harvesting of fish, shellfish, algae, and other organisms in all types of water bodies.

⁴¹ An area of the ocean, (200 nautical miles), beyond a nation's territorial sea, where it has jurisdiction over its resources.

⁴² FAO website: www.fao.org/4/Y4849E/y4849e0a.htm accessed on January 13, 2025

Pakistan's Export Diversification Frontier

Figure 5.1.2



This shows the relationship between a product's technological complexity and its "relatedness" (a measure of how feasible it is to develop competitiveness in that product given Pakistan's current export basket) to other, higher complexity, potential products. The size of each scatter point indicates a product's relative trade value.

Source: Observatory Economic Complexity

contributor of its fisheries' exports.⁴³ Similarly, Chile has created a competitive edge in salmon production.ⁱⁱⁱ

Likewise, Bangladesh's fish production through aquaculture is about 16 times higher than Pakistan's, despite similarities in fish fauna and geological features between Bangladesh and Pakistan, where the former has in fact a lower surface area of water bodies (Table 5.1.1).

In Pakistan, feasibility studies indicate that saline inland aquaculture, particularly in the country's abundant saline and brackish waterbodies, holds significant potential, especially for high value species like shrimp, dangri, crab and tilapia.^{iv}

Though Pakistan has initiated limited inland aquaculture⁴⁴, it lacks a comprehensive inland aquaculture strategy. Currently, provincial departments are making interventions in silos and without addressing underlying cross-sectoral issues such as gaps in seed availability, technical expertise, aquaculture stock assessment, and limited sampling of areas, which limits the effectiveness of these efforts.^v

To expand aquaculture production, specialized market intelligence system may be established with the support of technical research teams. These teams may conduct an in-depth strategic market analysis, which will help identify export opportunities. In addition, Pakistan should explore emerging sub-sectors within the aquaculture, such as marine biodiversity-based products. For instance, the

Aquaculture Production

Table 5.1.1

	Surface Area of Inland Water Bodies	Coastline Length	Aquaculture Production		Aqua Production Per Hectare
	000 hectares	Km	(000 tons)		
			2015	2022	2022
China	175,310	14,500	43,748	52,884	0.3
India	314,070	7,000	5,341	10,230	0.0
Bangladesh	1,746	580	2060	2731	1.6
Thailand	223	3,219	921	1001	4.5
Vietnam	2,116	3,444	3462	5160	2.4
Pakistan	2,522	1,046	151	165	0.1
Malaysia	180	4,700	507	574	3.2

Sources: CIA FactSheet, and FAO

⁴³ Marine Products Exports Development Authority website

⁴⁴ Inland Aquaculture refers to farming or culture of aquatic animals and plants using inland (i.e. non-coastal) sources of saline waterbodies like groundwater, canals, ponds, reservoirs.

nutraceutical⁴⁵ global market size was valued at US\$ 438 billion in 2023, and is projected to reach US\$ 620 billion in 2030. This includes products like algae-derived compounds, which are increasingly being used in food, feed and packaging industries.

The growing demand for algae-based biodegradable and anti-bacterial packaging also presents a sustainable export opportunity. Seaweeds, such as kombu and nori, hold culinary, pharmaceutical, cosmetics and biofuel applications and Pakistan can easily tap into this sector as coastal belts are conducive for seaweed culture. The demand for marine-based collagen is rapidly increasing within the cosmetics and skincare industries, which also presents Pakistan with a significant opportunity to tap into this growing market. Pakistan is well-positioned to enter the export of such products, given its comparatively better readiness for such products on the export diversification matrix.^{vi} By venturing into such high-growth and sustainable sub-sectors, Pakistan can diversify its exports, reduce its reliance on traditional markets, and align its exports with the shifting global demand patterns.

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

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Box 5.2: Impediments to Foreign Private Investment in Pakistan*

Foreign private investment comprises of Foreign Portfolio Investment (FPI) and Foreign Direct Investment (FDI). FPI is non-residents' purchase of liquid financial assets (stocks, bonds, debt securities, dividends, and mutual funds) that are relatively easy to trade.ⁱ However, FPI is usually associated with increased market volatility, speculative attacks and sudden stops.⁴⁶ Accordingly, emerging economies, like Pakistan, prefer to attract FDI, which is of long-term and developmental nature.ⁱⁱ

FDI offers numerous advantages such as providing much-needed capital, facilitating infrastructure development, and creating job opportunities in host countries. FDI often brings advanced technologies and expertise that enhance productivity and force competition in the domestic market. Additionally, these investments can provide local companies with access to international markets and bring diversification in the economy.

FDI in Pakistan continues to trail behind the regional countries (**Figure 5.2.1**), despite a sizable market, strategic location, and untapped potential across various sectors. In Pakistan, FDI has remained at about

⁴⁵ It is broad umbrella term used to describe any product derived from food sources related to aquaculture.

⁴⁶ Stulz, R. M. (1999). Globalization, Corporate Finance, and the Cost of Capital. *Journal of Applied Corporate Finance*, Vol.12, No.3.

1.0 percent of GDP per year (on average) in the last decade, which is less than half of the EMDEs average of 2.7 percent on average, per year. In addition, a significantly large share of FDI inflows to Pakistan in recent decades is concentrated in power generation, banking, telecommunications and fast moving consumer goods (FMCGs). The focus of all such inflows is towards catering to domestic demand rather than boosting exports. Similarly, other private inflows (banks and other private sector) remained weak and did not grow in relation to GDP or increasing requirements to sustain higher level of development. Resultantly, the ability to finance even moderate level of CAD to GDP ratio i.e. around 2 to 3 percent of GDP, has worsened overtime.

FDI as percent of GDP



Figure 5.2.1

Source: WB

The relevant literature points to several factors inhibiting investment flows to Pakistan.⁴⁷ The critical among these are summarized as follows:

Political and economic instability: Frequent changes in government and policies discourage investors seeking long-term interests in the economy. This is particularly reflected by prevailing high economic policy uncertainty (Figure 5.2.2). Moreover, any disruption in economic reform process due to political transition also weakens investor confidence (Hanif, 2000).ⁱⁱⁱ

Earlier studies in this regard have highlighted that overall ease of doing business in Pakistan remains a challenge, specifically due to difficulties in registering businesses, securing permits, and enforcement of contracts and intellectual property rights. Additionally, high cost of complying with local regulations discourage foreign companies from entering the Pakistani markets (Ashfaq 1997).^{iv}

High taxation: Pakistan's high tax rates, especially the corporate income tax compared to peer countries, along with frequent changes in tax policies, create uncertainty and deter long-term planning (Figure 5.2.3). Additionally, the absence of tax incentives for foreign investors in critical sectors reduces the country's competitiveness in global markets.^v

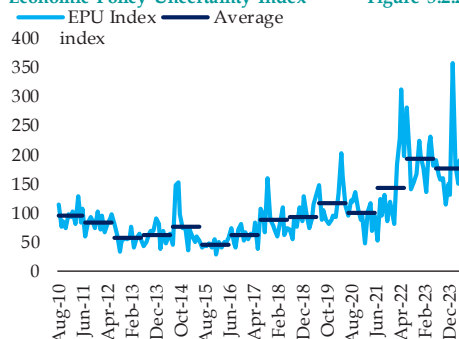
Lack of adequate infrastructure: Pakistan's transport, energy, and communication networks are underdeveloped, hindering industrial growth and

operational efficiency. Inefficiencies at ports and in logistics also affect export competitiveness.

Similarly, Pakistan also ranks low on digital infrastructure vis-a-vis peer countries (Table 5.2.1).⁴⁸

Economic Policy Uncertainty Index

Figure 5.2.2



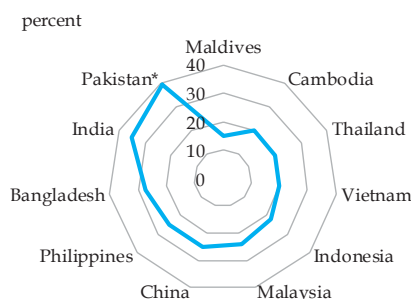
Source: Haver Analytics

⁴⁷ There are several factors under this head including political instability, security concerns, regulatory challenges, and inadequate infrastructure, which collectively create uncertainty for investors.

⁴⁸ Source: www.events.development.asia/system/files/materials/2024/11/202411-digital-infrastructure.pdf

Corporate Taxes

Figure 5.2.3



*including up to 10 percent super tax

Sources: MoF, PWC, and tradingeconomics

ICT Rankings: Selected Economies

Table 5.2.1

index	Thailand	Sri Lanka	India	Bangladesh	Nepal	Myanmar	Pakistan	Total countries
Network readiness index 2023	42	80	60	91	114	-	90	134
ICT development index 2023	39	112	-	130	-	123	142	169
GSMA mobile connectivity 2023	53	113	84	122	119	129	137	173
UNDESA E-Govt development index 2024	52	98	97	100	119	138	136	193
Economist inclusive internet index 2022	40	59	50	64	-	69	79	100
UNDESA telecom infrastructure index 2024	38	95	135	123	101	122	149	193

Source: Development Asia

Besides the aforementioned factors, security situation, legal system, property rights, and law & order situation are other crucial factors in attracting inward Foreign Direct Investment (FDI). According to the Overseas Investors Chamber of Commerce & Industry's (OICCI) Perception and Investment Surveys, investors regarded security and contract enforcement as major reasons behind the decline in foreign investment in Pakistan.⁴⁹ Addressing these issues is essential to attract foreign investment in the country.

* The contribution of Ravi Kumar is acknowledged in writing this box

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⁴⁹ This is a comprehensive survey, conducted biennially, covering investment conditions, regulatory landscape, business challenges, and other factors that assist or hinder ease of doing business, in comparison to comparable regional countries.