

# Export-Led Growth: Fixing the Macroeconomic Framework



## Introduction

Pakistan’s pursuit of export-led growth continues to be constrained by persistent structural challenges, including macroeconomic instability, low productivity, insufficient investment, and limited diversification across products and markets. As a result, export growth during STPF 2020–25 remained modest and inadequate to support meaningful structural transformation. Under the URAAN Pakistan framework, the export target has once again been set at USD 60 billion by 2029, underscoring the need to better align policy ambition with credible implementation and execution capacity.

**Figure 1: Pakistan’s Export Performance vs Policy Targets (STPF Period and URAAN 2029)**



Over the past decade, the economy has struggled to generate sustained growth, in large part because exports have remained stagnant (Mustafa et al 2023). Without a strong and diversified export base, the country has been unable to build the foreign exchange buffers needed to support investment, industrial upgradation, and long-term development.

Rather than expanding in line with regional trends, Pakistan’s exports have grown at a markedly slower pace than those of its peers. Between 2005 and 2024, Pakistan’s exports increased only 2-fold, rising from US\$16.05 billion to US\$32.46 billion. Over the same period, India’s exports expanded by 4.4 times, Bangladesh’s by 6.3 times, Indonesia’s by 3.1 times, and Vietnam’s by nearly 16-fold. This widening gap reflects Pakistan’s narrow export base, weak product diversification, and limited penetration into higher value-added segments.

**Figure 2: Benchmarking Pakistan’s Exports Against Regional Peers (USD Bn)**



Data Source: Trade Map

Export performance has also been highly volatile, characterized by prolonged periods of stagnation. While trade volumes expanded intermittently over the past decade, exports failed to establish a sustained growth trajectory. Between 1995 and 2024, Pakistan’s export-to-GDP ratio declined by an average of approximately 1.6 percent per year, falling from a relatively higher level in the mid-1990s to a significantly lower level in recent years. This persistent downward trend points to deep-seated competitiveness constraints, underscoring the need for comprehensive structural reforms rather than short-term, ad hoc policy interventions.

**Figure 3: Export-to-GDP Ratio: 30-Year Trend**



Data Source: WDI

Despite the Strategic Trade Policy Framework (STPF) 2020-25 setting an ambitious export target of US\$57 billion by 2025, actual exports remained around US\$32 billion, underscoring the persistence of structural constraints. In the course of STPF 2020-25 implementation, several trade promotions, market access, digital export, and branding initiatives were introduced, including Emerging Pakistan, initiatives targeting non-traditional exports and markets, Look Africa, Pakistan-Africa Trade Development Conferences, e-commerce and e-export platforms. While key initiatives, most notably Emerging Pakistan and Look Africa, were launched, they did not reach their full potential. Most complementary initiatives advanced only to partial or pilot-stage implementation, with uneven sectoral and regional coverage. Overall,

implementation remained largely concentrated at the initiation phase, with limited evidence of full-scale execution or sustained impact over the policy period.

**Figure 4: Pakistan's Top 5 Export Products - 2024**



Data Source: Trade Map

Pakistan's macroeconomic challenges are deeply intertwined with its export performance. The country's current economic landscape can be defined by significant structural imbalances that have hindered the country's ability to achieve sustainable growth and economic resilience. For years, the economy has struggled with stagnant exports, rising fiscal deficits, and a heavy reliance on external borrowing. While exports are critical for generating foreign exchange in most economies, Pakistan has depended on remittances, a non-manufacturing base, as its primary source of foreign reserves. This weak export performance, coupled with rampant imports, has left the country vulnerable to external shocks and deepened its twin deficits.

**Figure 5: Snapshot of Pakistan's Economy**



Data Source: State Bank of Pakistan (SBP), Pakistan Bureau of Statistics (PBS), Ministry of Finance, World Bank (WB), International Monetary Fund (IMF). **Note:** Total debt pertains to total debt and liabilities.

With an import-driven consumption economy, Pakistan faces numerous domestic and international challenges. The country's fiscal space is limited, exacerbated by high public expenditures and a narrow tax base. The tax system, reliant on indirect taxes and flawed devolution, has failed to generate sufficient resources for sustainable growth. Political instability, external pressures, and global commodity price fluctuations further complicate the situation. Pakistan's tax-to-GDP ratio of 11.1% is significantly lower than that of its regional counterparts, hindering fiscal stability and development spending.

The country has sought 25 IMF programs over 78 years, the highest in South Asia, underscoring its persistent struggle to address fiscal deficits. Public sector spending is largely consumed by current costs like debt servicing, subsidies, and pensions, leaving limited room for investment in sectors critical for industrial and export growth. This lack of investment hampers economic expansion and stifles long-term development.

The external sector remains unstable, with remittances cushioning external shocks, but this reliance is unsustainable in the long run. The failure to broaden the tax base has led to increased borrowing, further restricting funds for development projects. Delays in structural reforms, coupled with weak coordination between fiscal, monetary, and trade policies, have contributed to this stagnation. To overcome these challenges, a more equitable and efficient system, along with robust policy frameworks and structural reforms, is crucial. A shift to a more action-oriented export strategy, backed by tighter coordination across institutions and a more integrated policy mechanism, aiming for US\$60 billion by 2029, will be essential to transforming the economy into a dynamic, export-led powerhouse, paving the way for prosperity in an increasingly interconnected global economy.

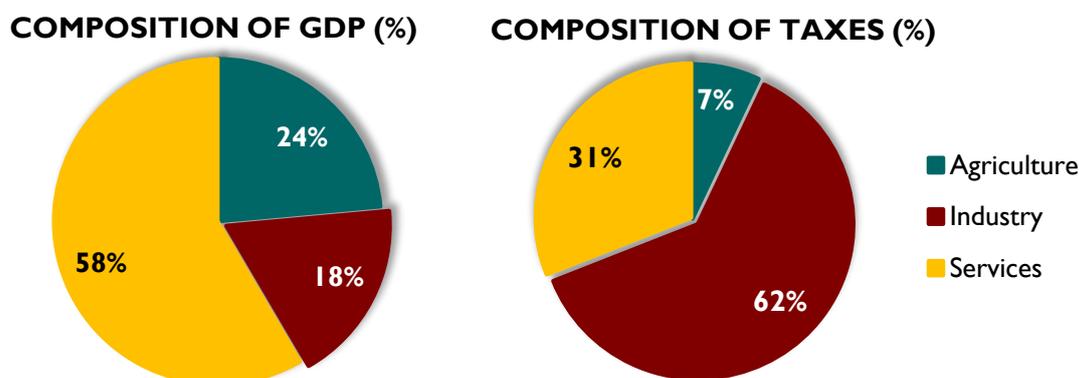
**Priority I: “Macroeconomic reforms, mobilize resources, and promote public financial management for an export-led growth economy”**

**Efficient Resource Mobilization**

**Fiscal Devolution and Bringing Equity in Sectoral Tax to GDP Ratios**

The tax burden on different sectors of the economy is not commensurate with their contribution to GDP. The agriculture and services sectors play a significant role in the country’s GDP while contributing relatively less to tax revenues. On the other hand, the industrial sector is overly burdened (62% tax contribution) in comparison to its contribution to GDP (18%). The unfair tax regime has hindered industrial growth, with the under-taxation of key sectors highlighting a lack of horizontal equity in the system. Pakistan has been gradually transitioning from a manufacturing hub to a trading country. Rising import bills, along with the narrow export base, limited employment opportunities, and twin deficits, are some of the major consequences of premature deindustrialization.

**Figure 6: Comparison of Sectoral Contribution to GDP vs Contribution to Tax**



Data Source: Pakistan Economic Survey (2024-25) and Pasha (2022)

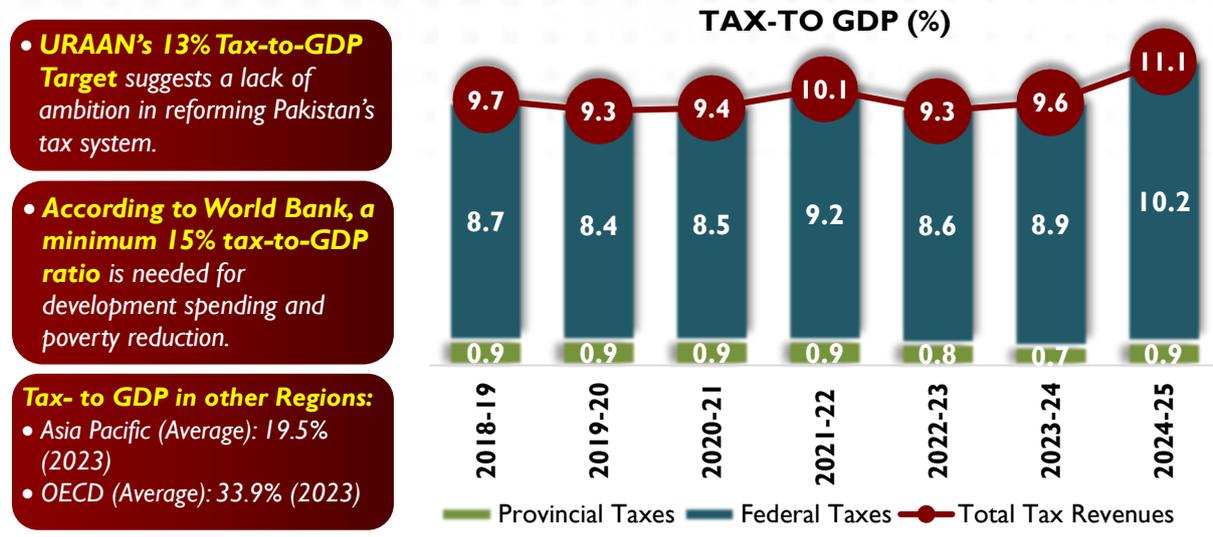
Despite agriculture and services playing a significant role in Pakistan's GDP, both sectors contribute minimally to direct taxes (7% and 31%, respectively). Additionally, the reliance on indirect taxes (50.7% in FY25), which are inflationary and regressive, exacerbates inequality, disproportionately affecting lower-income groups.

**Bringing Under-Tax Sectors into the Tax Net**

Pakistan’s tax-to-GDP ratio remains one of the lowest in the world, signaling those significant portions of the economy are under-taxed or completely outside the tax net. While certain sectors face multiple overlapping taxes, many others remain largely unaccounted for,

contributing to the inefficiency of the tax system. A 13% tax-to-GDP target set by URAAN still falls short of the World Bank’s recommended minimum of 15%, which is seen as essential for achieving sustainable development. The failure to expand the tax base results in a heavy reliance on borrowing and cuts in development outlays, hindering the country’s ability to address its fiscal deficit.

**Figure 7: Pakistan Tax Progress, URAAN’s Tax-to-GDP Target and International Benchmarks**



Data Source: URAAN Pakistan, Choudhary et al. (2024), OECD, Pakistan Economic Survey 2024-25, Fiscal Operations

### AGRICULTURE SECTOR



• Agricultural income taxation has long remained far below its potential. Before the IMF’s 25th program deadline for Pakistan, provinces adopted varied agricultural income tax structures, with top rates ranging from 15% to 17.5. Although these laws have since been amended, bringing them in line with other taxes, their implementation remains weak. For FY 2024–25, Sindh and Punjab have effectively reverted to earlier, lower rates, contrary to the IMF’s mandated increases. Moreover, despite the IMF’s requirement to include livestock in the tax net, only Punjab has introduced a livestock tax, while other provinces have not followed suit.

### RETAIL SECTOR



• The retail sector contributes 17.84% to GDP (PES, 2025) but only 4% of the total tax revenue (Express Tribune, 2024). Despite efforts like POS Integration and Track & Trace System, challenges such as low adoption, integration issues, and resistance to digitalization persist (CDPR, 2023).

### REAL ESTATE SECTOR



• The real estate sector is potentially contributes to 5.9% to GDP (PES, 2025), but revenue collection remains under potential due to massive undervaluation and underreporting of property transactions, high informality, and absence of effective regulations (Afghan, 2023). Additionally, the real estate regulatory authorities overlaps with existing CDAs (PIDE, 2022), adding another burden yet remaining inactive (Mettis Global, 2025).



## BANKING SECTOR

• For years, the banking sector in Pakistan has remained under-taxed due to preferential rates, exemptions on government securities, and the under-taxation of windfall returns. Although the advance-to-deposit ratio (ADR) tax and tax on windfall profits from foreign exchange were introduced, banks exploit loopholes by adjusting lending portfolios or charging higher fees on large deposits, reducing their tax contributions despite substantial profits.

### Unlocking Provincial Potential through Effective Local Governments

Effective local governments can substantially boost resource collection by enhancing tax administration and expanding the tax base. One key revenue source, widely regarded as the primary revenue for local governments globally, is the Urban Immovable Property Tax (UIPT). In Pakistan, despite its significant potential, UIPT remains largely underutilized, contributing only around 0.03% of the country's GDP in FY26. UIPT collection in Pakistan's cities remains well below its potential, resulting in revenue levels lower than those of comparable cities in other countries (Board, 2022). Pakistan's property tax rates, ranging from 0.15% to 0.75% of the property's value, are relatively competitive when compared to those in other countries (HBFC, 2024). Despite property tax being designated as a responsibility of local governments through legislative acts or official notifications in some provinces, it is still collected by the provincial Excise and Taxation Departments (PRAC, 2025). Motor vehicle taxes are also collected by provincial departments, rather than by local governments. The figure below outlines the principal revenue sources for local governments, which include revenue sharing from federal and provincial governments. Under the 7th NFC Award, grants in lieu of Octroi and Zila Tax, which previously accounted for a major share of local revenues, were merged into the federal divisible pool, effectively reversing the devolution intent of the 7th NFC. Before this arrangement, these grants were transferred directly from the federal government to local governments under the Distribution of Revenues and Grants-in-Aid Ordinance 2006, based on one-sixth of GST collection (Dagha, 2025).

**Figure 8: Sources of Revenue for Local Governments in Developing Countries**

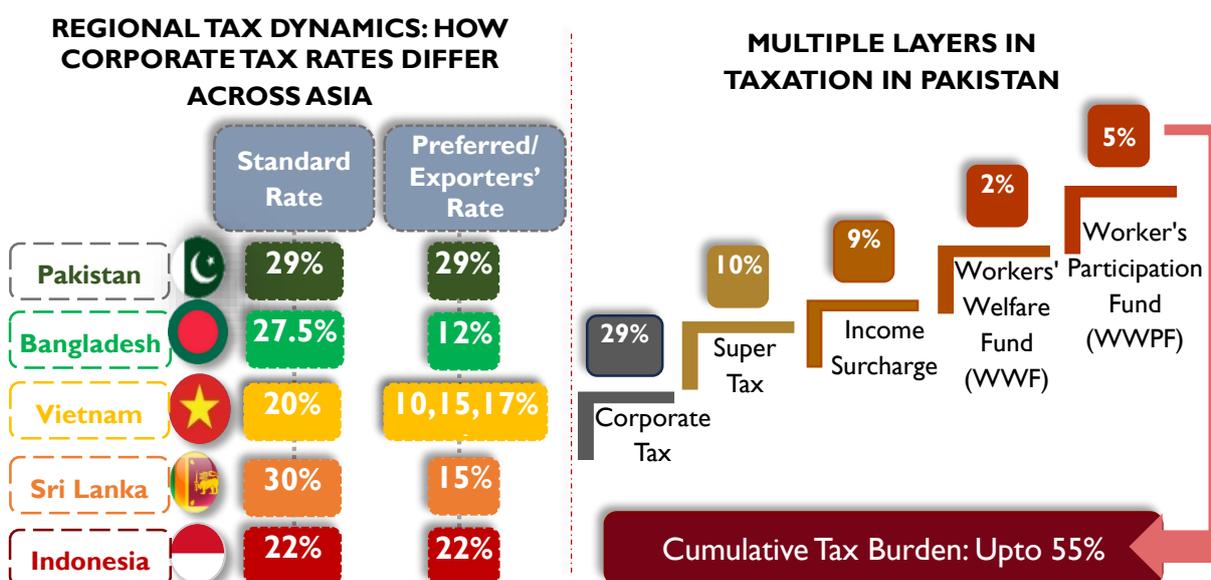


Data Source: Devas (2008)

## Multiplicity of Taxes Increasing Overall Burden and Complexity

The multiplicity of taxes has increased the cost of compliance for both taxpayers and officials. The effective tax rate for the corporate sector goes up to 55 percent (29% normal tax + 10% Super Tax + 9% Surcharge + 2% Workers' Welfare Fund + 5% Workers Participation Fund). High tax rates and high compliance costs deter multinationals from investing in Pakistan, while peer countries offer simplified tax regimes with lower rates to attract investment. Moreover, the tax litigation backlog, with approximately Rs. 4.7 trillion in pending tax revenue claims further exacerbates the issue, creating an environment of uncertainty. This ongoing litigation ties up resources, discourages timely payments, and leaves businesses with a sense of insecurity about their financial obligations.<sup>1</sup>

**Figure 9: Regional Tax Dynamics & Multiple Layers in Taxation in Pakistan**



Data Source: Income Tax Ordinance (2001), Companies Profits (Workers Participation) Act 1968, Workers Welfare Fund Ordinance 1971, PwC, Sri Lanka's Inland Revenue Department.

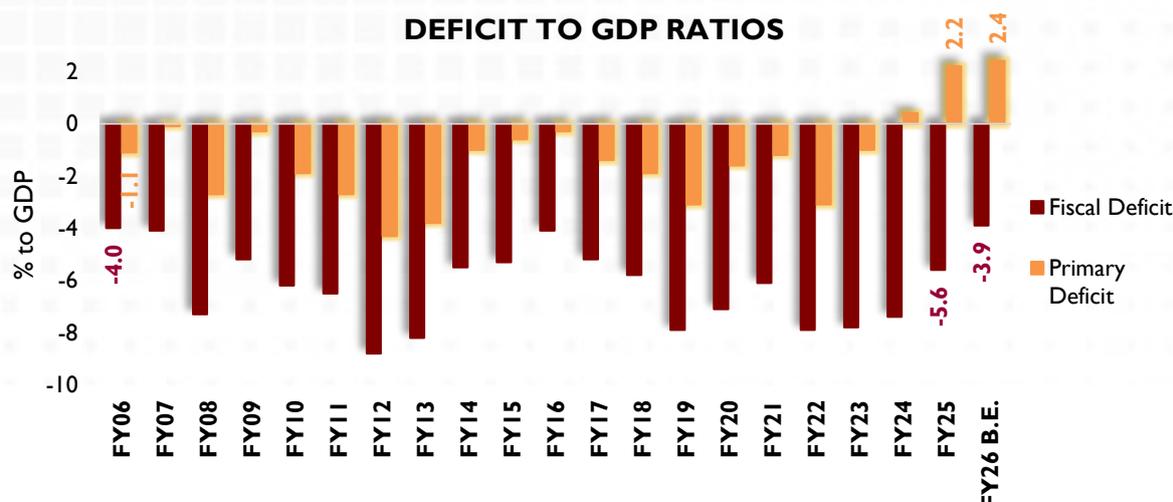
**Note:** For Bangladesh, Exporters rate can further be reduced to 10% in case of LEED-certified companies and fulfillment of other requirements. For Sri Lanka: 45% in the case of cigarette exports. Vietnam Rates (10, 15, 17%) are reduced rates and are not explicitly for exporters.

## Improving the Fiscal Discipline

Pakistan continues to suffer from a high fiscal deficit and is mired in a debt trap. The government's efforts of fiscal consolidation through both expenditure management and resource mobilization remained futile in curbing fiscal deficits. In addition, fiscal policies that are linked with political economy often led to sub-optimal allocation of already scarce economic resources. Recurrent political turmoil, volatile international commodity and oil prices, and stringent IMF conditionalities have all worsened Pakistan's fiscal position. After improving since FY19, the fiscal deficit widened again to 7.9% of GDP in FY22, even as consolidation efforts were underway; the government now projects a reduced deficit of 3.9% of GDP in FY26. The figure below shows fiscal and primary deficits as a share of GDP, highlighting how, during IMF programmes, efforts to curb inflation have often coincided with a deterioration in the overall fiscal balance.

<sup>1</sup> Asad, M. (2025). FBR fails to expedite recovery in tax cases. DAWN. Available at: <https://www.dawn.com/news/1917000/fbr-fails-to-expedite-recovery-in-tax-cases>

Figure 10: Chronic Fiscal Stress:Trends in Fiscal and Primary Deficits



Data Source: Pakistan Economic Survey (PES) and Budget in Brief

### Debt Management Strategy

Pakistan ranks among the most heavily indebted countries, with government debt and liabilities reaching Rs. 92.7 trillion (of which Rs. 79.1 trillion is Gross Public Debt), equivalent to 81.5% of GDP in September 2025. Key drivers behind this rising debt burden include persistent fiscal deficits, the high cost of debt servicing, and the depreciation of the local currency over the years, which has inflated the value of external debt. Over the past two decades, Pakistan's fiscal deficit has ranged between 4.0% and 8.8% of GDP. Moreover, imprudent debt management policies have contributed to the accumulation of debt, while double-digit policy rates have further increased debt servicing costs. According to Pasha (2021), Pakistan could have avoided approximately 38% of its debt servicing costs in 2018-19 and about 27% in 2019-20 with a more prudent debt management strategy.

The rapid buildup of domestic debt suggests Pakistan may need to consider restructuring options. Currently, domestic debt interest payments make up 87.7% of total interest payments, whereas overall debt servicing is budgeted to be 74.1% of federal net revenues in FY26, up from 50.8% in FY14. High policy rates over the past two years have driven significant banking sector profitability, with profits increasing by 30.4% in FY24 and 11.8% in FY25<sup>2</sup>, reflecting the sector's gains from elevated borrowing costs.

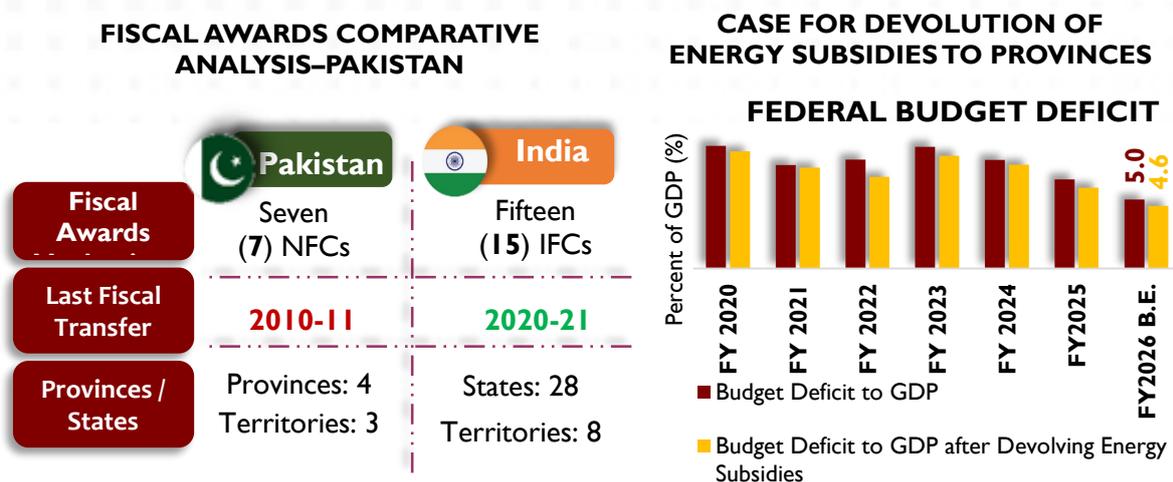
### National Finance Commission (NFC) Awards

The 7<sup>th</sup> National Finance Commission (NFC) Award in 2009 handed over 57.5 percent of the federal resources to provincial governments to enable them to take up the extra burden of governmental activities related to the subjects transferred under the 18<sup>th</sup> Constitutional Amendment. While the resource transfer was immediate, the federal government failed to fully devolve a load of subjects in a similar proportion. Efforts to conclude the 8<sup>th</sup>, 9<sup>th</sup>, and 10<sup>th</sup> NFC awards also remained futile in building consensus, and the 7<sup>th</sup> NFC has still been operational for the past 15 years. While the revenues were wholly devolved to the provinces, the liabilities remained with the Federal Government. A key example is BISP, which remains federally run even though social protection is now a provincial function; its allocations have

<sup>2</sup> SBP Governor's Annual Report 2024-2025. <https://www.sbp.org.pk/reports/annual/Gov-AR/pdf/2025/Gov-AR.pdf>

grown by about 11.2% CAGR (FY10-26), further straining the federal budget. Even the subjects under the domain of the Council of Common Interests (CCI) were also kept to be funded by the Federal Government rather than a common divisible pool. Such an unfair division of federally collected revenues has turned the Federation bankrupt now, with all its non-debt servicing needs being funded through loans, while the provinces have lavished and surplus budgets.

**Figure 11: Fiscal Awards Comparative Analysis & Case for Devolution of Energy Subsidies to Provinces**



Data Source: Ministry of Finance, Indian Finance Commission, Various Issues of Federal Budget & Authors' Calculation

As a result, the government has limited or no fiscal space for expenditure without resorting to borrowing. It is important to note that certain provincial subjects, such as agriculture and energy subsidies, fall under provincial jurisdiction. However, since electricity and gas are part of the Federal Legislative List (Part II),<sup>3</sup> sharing the burden of energy subsidies between the federal and provincial governments, based on the 7th NFC formula, could reduce the federal deficit-to-GDP ratio from 5.0% to 4.6% in FY2026, as illustrated in the figure above.

### Pension Reforms

The increasing pension liabilities, even with low coverage, have become a concern for the government. On average, public-sector pensions have grown annually by 16.4% over FY16-FY26. The federal government allocated Rs. 1,055 billion for pensions in the fiscal year 2025-26, which is equivalent to 105.5 percent of the Federal PSDP. The government has recently introduced a series of pension reforms aimed at improving fiscal sustainability and shifting towards a more contributory system. In response, the government has introduced a series of pension reforms aimed at enhancing fiscal sustainability and transitioning towards a more contributory system. Key measures include the introduction of a defined-contribution (DC) scheme for all new hires, with future increases tied to the CPI and efforts to discourage premature retirements. Additionally, a 5% tax has been levied on high-earning pensioners (those under 70 with pensions above Rs 10 million), family pensions have been capped at 10 years after death, and multiple pensions are no longer allowed<sup>4</sup>. However, in a significant policy reversal, the ban on dual pensions, which required retired public servants rejoining government

<sup>3</sup> Federal Legislative List Part II is the domain of Council of Common Interest – a constitutional body for inter-provincial coordination as well as coordination between provinces and federation.

<sup>4</sup> Express Tribune. (2025). Govt introduces significant pension reforms to reduce burden. The Express Tribune. Available at: <https://tribune.com.pk/story/2550262/govt-introduces-significant-pension-reforms-to-reduce-burden>

service to choose between their pension and salary, has been withdrawn<sup>5</sup>. Moreover, the contributory pension scheme, initially in effect from June 2025 (although first announced in the 2022-2023 budget), has now been postponed until 2026.<sup>6</sup> However, these reforms still apply to a relatively narrow segment of the country's total workforce, as the coverage in the informal sector of these pensions is poor (PIDE, 2025). It is estimated that only about 15 percent of the elderly population receives pensions.<sup>7</sup>

### State-Owned Enterprises (SOEs)

The State-Owned Enterprises (SOEs) in Pakistan are mainly concentrated in the four sectors, including power, finance, manufacturing & mining, and transport & communication. The table below reflects that the net budgetary impact of all SOEs has reached Rs. 926.5 billion in 2025-26, which accounts for 14.3 percent of the budget deficit FY26.

**Table 1: Budgetary Impact of SOEs over the years**

Amount in PKR Billion	2021-22	2022-23	2023-24	2024-25	2025-26 BE
<b>A. Revenue from SOEs</b>	<b>160.3</b>	<b>189.7</b>	<b>393.0</b>	<b>348.0</b>	<b>394.1</b>
Interest Payments	90.0	108.0	300.0	150.0	188.0
Dividends	70.3	81.7	93.0	198.0	206.1
<b>B. Cost of SOEs</b>	<b>1,741.9</b>	<b>1,118.2</b>	<b>761.2</b>	<b>1,449.1</b>	<b>1,320.7</b>
Contingent Liabilities	269.4	235.0	236.6	270.0	300.0
Grants to Railway & PSM	47.0	45.0	55.0	64.0	70.0
Subsidies	1,394.0	813.0	444.1	1,110.9	946.3
WAPDA/ PEPCO	989.0	677.0	348.5	1,015.5	910.1
Petroleum	377.0	102.0	50.6	18.4	1.2
TCP	-	-	-	-	-
PASSCO	7.0	4.0	10.0	12.0	20.0
Utility Store Corporation	21.0	30.0	35.0	65.0	15.0
Loans	31.5	25.2	25.5	4.2	4.3
State Engineering Corporation	0.03	0.01	0.03	0.03	0.03
PIA	20.0	15.0	15.0	-	-
Pakistan Steel Mills (PSM)	11.0	9.9	10.0	3.5	3.5
Mark-up Payment of Loan to PSM	0.5	0.3	0.5	0.7	0.8
Others	-	-	-	-	-
Equity in CPPA-G	-	-	-	-	-
<b>C. Net Budgetary Impact</b>	<b>1,581.7</b>	<b>928.5</b>	<b>368.2</b>	<b>1,101.2</b>	<b>926.5</b>
<b>% of Budget Deficit</b>	<b>29.8</b>	<b>14.5</b>	<b>4.4</b>	<b>14.8</b>	<b>14.3</b>
<b>% of GDP</b>	<b>2.4</b>	<b>1.1</b>	<b>0.3</b>	<b>1.0</b>	<b>0.7</b>

Data Source: Budget in Briefs of Various Issues and Pasha (2021)

The government needs to reassess its privatization policy, particularly when considering loss-making SOEs for privatization, in order to truly reduce the burden on the public exchequer, rather than targeting profit-making SOEs. Notably, PTCL was a leading telecom player and financially stable at the time of its privatization in 2005, yet its performance has fluctuated since then.<sup>8</sup> The first phase of SOE reforms announced by the government includes the privatization of three DISCOs: Islamabad Electric Supply Company (IESCO), Gujranwala

<sup>5</sup> Notifications at Ministry of Finance Website. Available at: <https://www.finance.gov.pk/circulars.html>

<sup>6</sup> Kiani, K. (2025). Double benefit restored for re-hired retirees. DAWN. Available at: <https://www.dawn.com/news/1962172>

<sup>7</sup> Qureshi, W.A. (2024). Securing the future. The News. Available at: <https://www.thenews.com.pk/tns/detail/1200764-securing-the-future>

<sup>8</sup> Munir, K.A. (2012). Privatisation of PTCL: A lesson for policymakers. The Express Tribune. Available at: <https://tribune.com.pk/story/349491/privatisation-of-ptcl-a-lesson-for-policymakers>

Electric Power Company (GEPCO), and Faisalabad Electric Supply Company (FESCO), with IESCO and GEPCO exhibiting minimal transmission and distribution losses.<sup>9</sup>

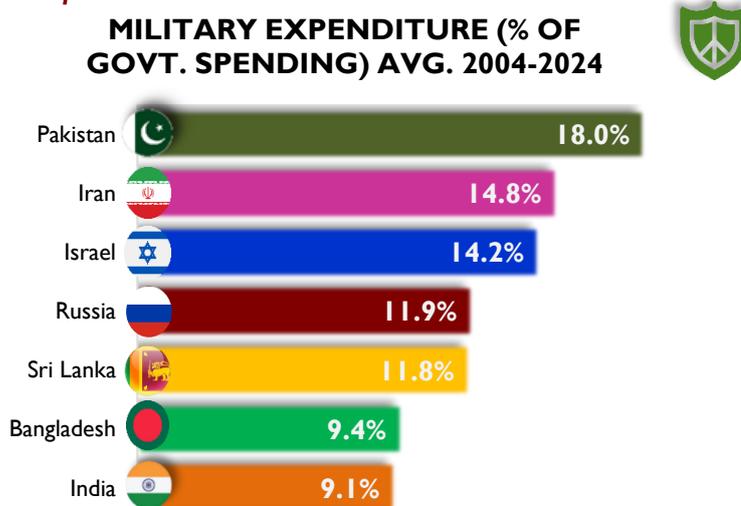
### Modernizing Pakistan's Bureaucracy for Greater Efficiency

Pakistan's bureaucracy still relies on outdated, cumbersome filing methods with long command chains for approvals, leading to delays and inefficiencies. This outdated system requires more human resources, slowing down decision-making processes and hindering the timely implementation of policies. According to the World Bank, starting a business in Pakistan takes an average of 16.5 days, placing the country low in the Ease of Doing Business Index (2019), highlighting inefficiencies in administrative procedures due to slow processes and excessive paperwork. Modernizing the system with digital tools, streamlining approval lines, and reducing human interaction would not only boost efficiency and minimize administrative burden but also enhance decision-making. Additionally, political hiring hinders effective recruitment and governance, further exacerbating inefficiencies.

### Reassessing Military Spending

National security relies on economic security, which in turn depends on financial, food, and energy security. Unfortunately, these aspects are vulnerable in Pakistan. Pakistan's sovereignty has faced challenges, including Indian aggression, the Afghan War, terrorism, and other threats. Military expenditure in Pakistan has consistently outpaced that of many neighboring countries. According to the World Bank, Pakistan's average military spending (2004-2024) was 18.0% of government spending, far exceeding other selected countries (as shown in the figure on the right). Given ongoing economic challenges, Pakistan should explore ways to optimize military spending without compromising security. The Russia-Ukraine War and Iran-Israel conflict demonstrated that traditional large armies and tanks are increasingly redundant, and leaner, smarter military forces will be more effective in future warfare. A thorough restructuring of our defense framework should be a top priority for policymakers (Subohi, 2025).

**Figure 12: High Defense Allocation: Pakistan in Comparative Perspective**



Data Source: World Development Indicators (WDI), World Bank

**Note:** In the case of Sri Lanka, the average is based on data from 2004–2022, due to the unavailability of data for 2023 and 2024.

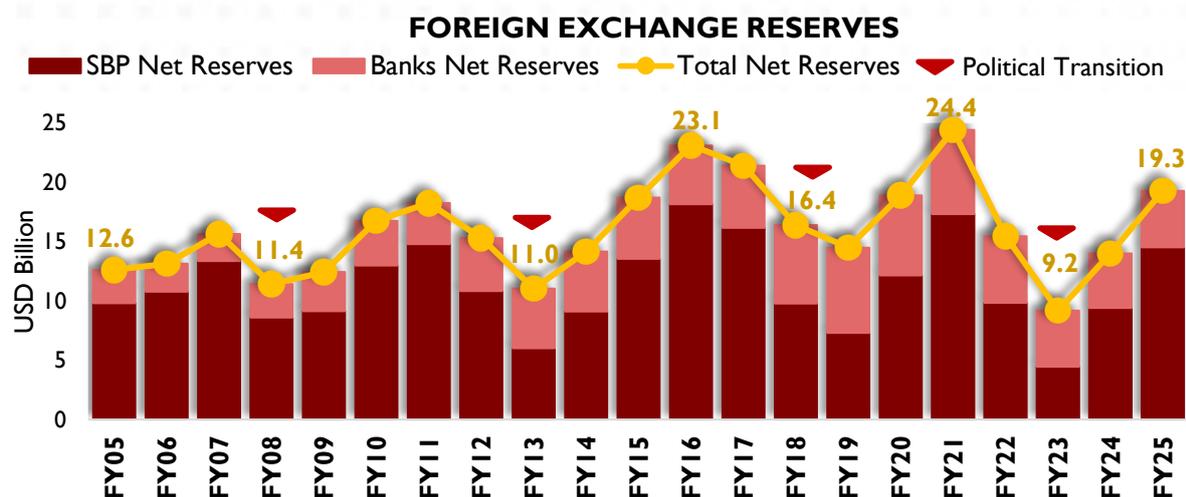
### Boosting Foreign Exchange Reserves

Pakistan has pursued a relatively liberal reserve and Forex management regime compared to peers with similarly low reserves. Fewer controls on outflows, high FX margins on inflows, weak exports, high imports, and heavy external debt repayments have all strained reserves,

<sup>9</sup> Raza, S.I. (2025). *Privatization of Profit making Discos worries NA Committee*. DAWN. Available at: <https://www.dawn.com/news/1926172>

fueling exchange-rate volatility, inflation, and repeated balance-of-payments crises that drive Pakistan back to IMF programmes. Political incentives and institutional weaknesses further shape exchange-rate regimes and undermine policy consistency. Reserves have been highly volatile, with cycles often bottoming out around political transitions, underscoring the need for a clear, rules-based exchange-rate framework. Notably, one of the strongest elements in Pakistan’s external sector remains remittances, which consistently outperform other foreign exchange sources, providing critical support to the economy year after year.

**Figure 13: Trend of Foreign Exchange Reserves in Pakistan**



Data Source: State Bank of Pakistan (SBP)

Both fixed exchange rate and market-based flexible exchange rate regimes have failed to yield the desired results in the case of Pakistan. The current market-based flexible exchange rate regime has also not successfully improved the trade balance while incurring the cost of high exchange rate volatility. The export-to-import ratio during 2022 was 0.45, which is similar to the ratio that prevailed in FY17 and FY18 when the fixed exchange rate regime was in place, as presented in the table below. The slight improvement in the export-to-import ratio in FY23 - FY25 is mainly due to government-imposed import restrictions aimed at preserving foreign exchange reserves. These measures reduced both imports and exports, highlighting that underlying issues remain unresolved.

**Table 2: Exchange Rate and Trade Metrics over Years in Pakistan**

Fiscal Year	Exchange Rate Volatility*	Exports-to-Imports Ratio	Depreciation (YoY) (%)	Exports Growth (%)	Imports Growth (%)	FX Reserves (in bn \$)
2017	0.05	0.46	0.12	0.14	16.74	21.4
2018	5.24	0.44	15.88	12.57	15.98	16.4
2019	10.61	0.47	34.16	-2.06	-6.83	14.5
2020	4.51	0.52	3.13	-7.09	-15.86	18.9
2021	4.72	0.47	-6.46	13.77	24.35	24.4
2022	11.86	0.45	29.92	26.73	31.82	15.4
2023	27.28	0.53	40.13	-14.21	-26.34	9.2
2024	7.47	0.58	-2.80	11.14	0.89	14.0
2025	1.76	0.55	1.93	4.39	11.20	19.3

Data Source: SBP, Pakistan Bureau of Statistics ad International Monetary Fund. \*Measured by (Standard Deviation)

## Foreign Exchange Outflow Controls

Foreign exchange controls are common in developing countries due to limited reserves. Countries often impose both direct and indirect restrictions to protect their foreign reserves (see Box 1). Whereas amid repetitive episodes of low reserves, Pakistan maintains a relatively liberal foreign exchange policy. There are no strict restrictions on individual foreign currency accounts, but high spending limits on credit cards (USD 30,000 per individual), making a total of USD 66 billion on 2.2 million cards currently in use (Mar-25), and frequent foreign trips for tourism put pressure on reserves. Such policy measures require careful reassessment by the government and SBP.

## Assets Abroad towards the Local Banks

Pakistan's foreign exchange reserves have recovered to around US\$19.3 billion, however, they still provide limited import cover, leaving the economy vulnerable to external shocks, commodity price volatility, and delays in programme inflows. The repeated boom–bust cycle in reserves highlights the need for stronger reserve management, credible fiscal consolidation, and stable capital-account policies rather than ad hoc trade and FX controls. In this context, a dollar asset declaration scheme, allowing residents to declare foreign-currency holdings against a one-time levy and mandatory channeling through formal banking, could temporarily bolster reserves, widen the tax net, and reduce incentives to keep foreign assets outside the formal system.

## Streamlining Virtual Assets

The Chainalysis Global Crypto Adoption Index 2025 places Pakistan at number three globally, ahead of economic heavyweights such as China, Germany, and Japan. Investments in cryptocurrencies have grown rapidly, and Pakistan has now moved from an unregulated grey zone into a transition phase by approving the Virtual Assets Ordinance, 2025, and creating the Pakistan Virtual Asset Regulatory Authority (PVARA). However, the absence of a clear tax framework means lost revenue and foreign exchange. Authorities should quickly establish a coherent regulatory and tax regime for virtual assets.

## Formal Remittance Channels

Remittances from the Pakistani diaspora are a key lifeline for the economy, largely sent by low-income workers who remit small but frequent amounts to support families. High costs and delays in formal channels push many towards informal systems such as hawala/hundi, despite SDG 10's target of cutting remittance costs below 3% by 2030. In 2024, around 14–15 million overseas Pakistanis sent US\$34.9 billion, far less per person than peers: the Philippines' 2.3 million workers remitted about US\$40.3 billion, while India's 35 million diaspora sent US\$137.7 billion. Pakistan's remittances rose from US\$17.2 billion in 2014 to US\$34.9 billion in 2024, but CAGR slowed from 15.9% (2004–2014) to 7.3% (2014–2024), and remittance-per-expatriate remains among the lowest, reflecting a predominantly unskilled diaspora.

### Box 1: Forex Restrictions Imposed by Other Countries



Data Source: Riad&Riad (2016) and Reuters (2022)

Note: FC = Foreign Currency, LC = Letter of Credit

**Table 3: Pakistan's Remittance Profile in Regional Context**

Country	Remittance (in Million USD)			CAGR (%)		Remittance per Capita 2024	Remittance per Expatriate
	2004	2014	2024	2004-2014	2014-2024		
Philippines	11,468.0	28,690.8	40,279.4	9.6%	3.5%	347.7	17,512.8
France	13,342.6	27,976.0	38,775.4	7.7%	3.3%	565.9	15,510.1
Nepal	822.6	5,888.7	28,376.8	21.8%	17.0%	957.0	8,107.7
Guatemala	2,627.5	5,751.4	21,649.3	8.1%	14.2%	1176.2	7,216.4
Mexico	19,861.7	25,556.6	67,637.9	2.6%	10.2%	516.9	5,499.0
Bangladesh	3,583.8	14,987.5	27,168.5	15.4%	6.1%	156.5	5,433.7
India	18,750.4	70,388.6	137,674.5	14.1%	6.9%	94.9	3,889.1
<b>Pakistan</b>	<b>3,945.0</b>	<b>17,244.0</b>	<b>34,914.0</b>	<b>15.9%</b>	<b>7.3%</b>	<b>139.0</b>	<b>2,369.0</b>
Egypt	3,340.7	19,570.4	29,559.1	19.3%	4.2%	253.6	2,111.4
Nigeria	2,272.7	20,999.1	21,292.96	24.9%	0.1%	91.5	1,252.5
China	6,641.2	29,910.5	31,410.6	16.2%	0.5%	22.3	747.9

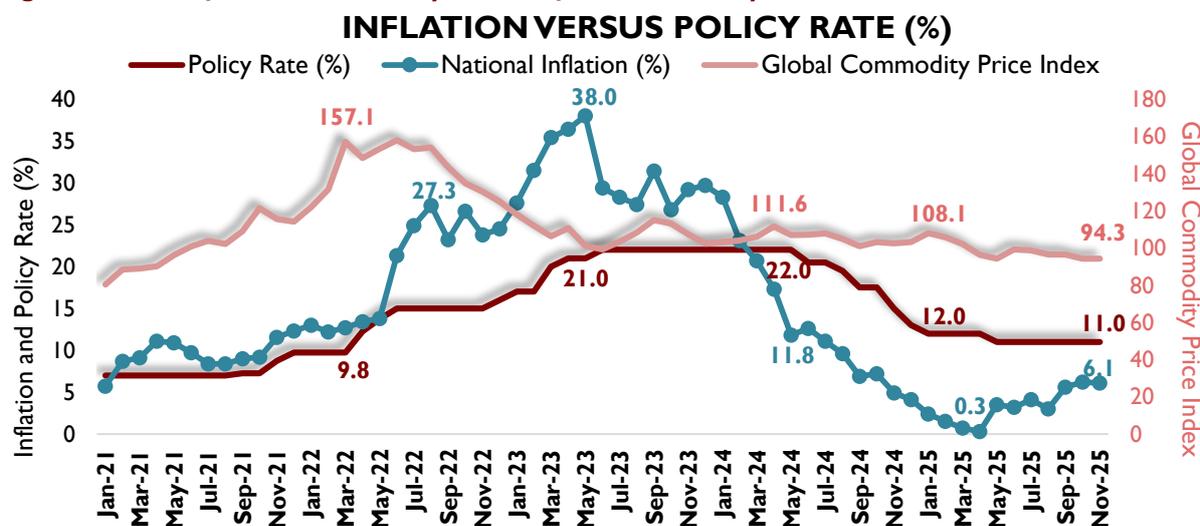
Data Source: World Bank, Pakistan Bureau of Statistics, and Multiple Sources for Expatriates

## Chasing the Monetary Discipline

### Maintaining the Inflationary Spirals

As economies emerged from Covid-19, inflationary pressures rose globally, driven by supply-chain disruptions and volatile commodity prices. In Pakistan, other than global prices these shocks were amplified by a depreciating exchange rate, surging energy prices, and flood-induced agricultural losses in 2022. The State Bank of Pakistan (SBP) responded with aggressive policy rate hikes, but these proved largely ineffective against predominantly cost-push, supply-side inflation, which peaked at 38% in May 2023. In practice, it was administrative measures such as import restrictions on over 500 items, and the subsequent recovery in agriculture, together with easing global commodity and food prices, that helped break the inflationary cycle, bringing inflation down to 11.8% by May 2024 rather than the policy rate itself playing a decisive role. The figure below illustrates a strong correlation between Pakistan's national inflation rate and the global commodity price index. As global commodity prices increase, domestic inflation in Pakistan follows the trend. In response, the government adjusts policy rates to mitigate the impact of rising prices.

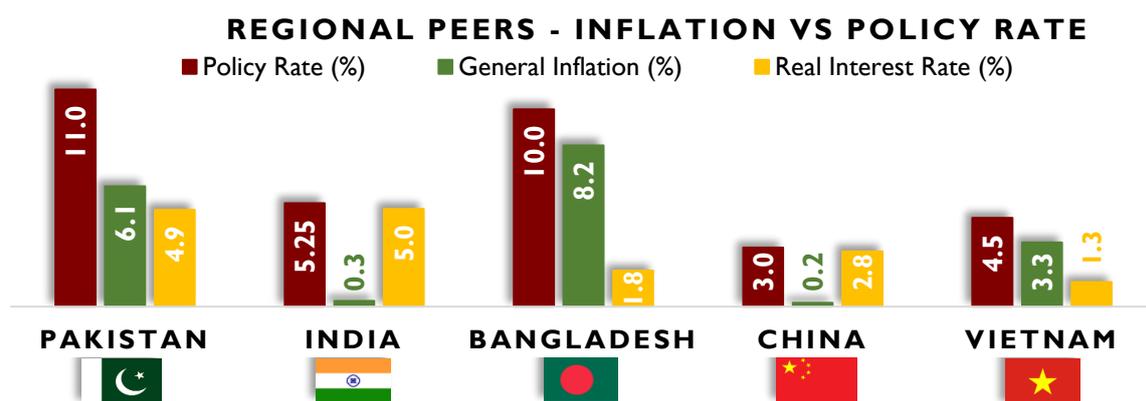
**Figure 14: Trend of Global Commodity Prices, Inflation and Policy Rate in Pakistan**



Data Source: Pakistan Bureau of Statistics (PBS), State Bank of Pakistan (SBP) and World Bank

Keeping a high policy rate for a prolonged period, such as 22% for nearly a year (Jul-23 to May-24) and now 11% (May-25 to Mid Dec-25), imposes high fiscal costs by raising the price of deficit financing, pushing the government toward higher taxes and production costs that themselves fuel inflation. With only 2.1% of firms (World Bank's 2013 Enterprise Survey) using formal bank credit and about 77.9% of loanable funds absorbed by government borrowing (October 2025), demand-side monetary tools, policy rate, have limited effectiveness, indicating weak transmission of monetary tightening to the real economy. In this context, further rate hikes are unlikely to curb inflation effectively and may even be counterproductive. The graph below illustrates that while some improvement has been achieved, Pakistan's real interest rates remain considerably higher than those of its regional peers except India.

**Figure 15: Regional Comparison of Policy Rates and Inflation**



Data Source: SBP, PBS, and Respective Central Banks & Statistical Bureaus

Note: The figures for Pakistan are of November 2025, while those for other countries are for the month of October 2025.

### Monetary Policy Regime: Pakistan and Regional Comparators

Frequent and unpredictable policy rate changes have heightened uncertainty and weakened Pakistan's investment climate. The SBP's Monetary Policy Committee (MPC) meets six to eight times a year, more often than Bangladesh, China, Malaysia, and even India, creating volatility in expectations. The MPC is also heavily dominated by SBP nominees, with limited external representation. Of the ten members on the committee, the Governor serves as Chairman, with three members nominated by the SBP and three senior executives of the Bank also chosen by the Governor. Only three external members, appointed by the Federal Government (but recommended by the SBP Board), are economists. In contrast, India's MPC has six members, with three appointed by the central bank and three selected by the government.

**Figure 16: Frequency of Monetary Policy Decisions: Pakistan vs. Regional Peers**



Data Source: State Bank of Pakistan and respective countries' Central Banks

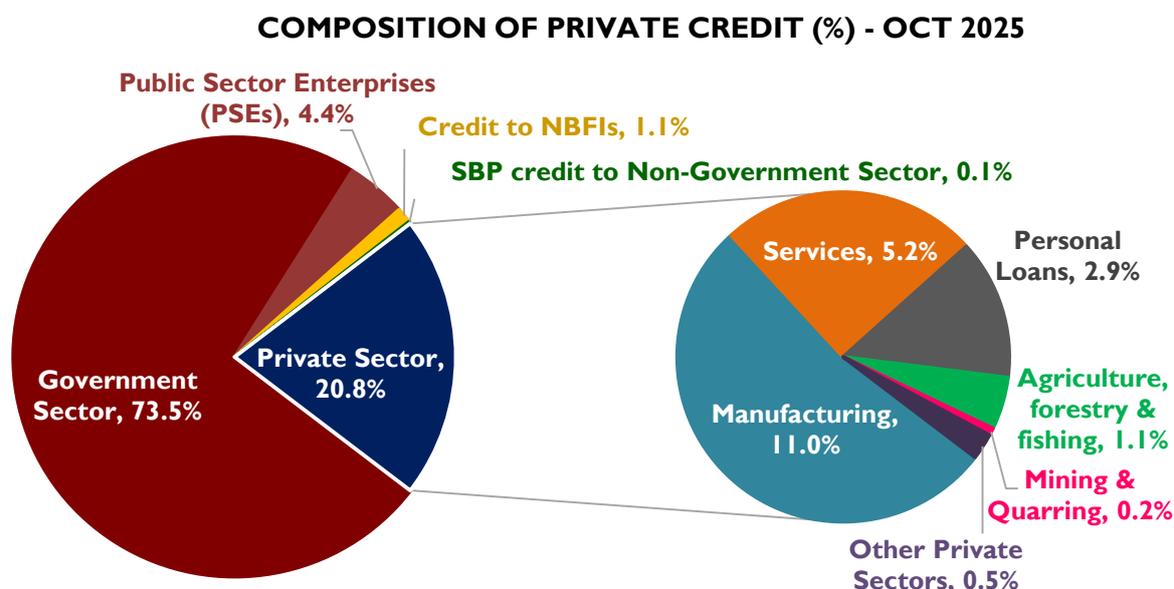
Moreover, weak fiscal–monetary coordination, especially after the abolition of the Monetary and Fiscal Policies Coordination Board (MFPCB) in 2022, has increased policy inefficiencies in managing inflation and its consequences. Persistently high interest rates have raised debt-

servicing costs and strained public finances, highlighting the need for better monetary-fiscal policy coordination and predictability.

### Credit to the Private Sector

Credit to the private sector in Pakistan has fallen to one of the lowest levels among emerging markets. This reflects high interest rates, crowding out from heavy government borrowing, and the prolonged macroeconomic uncertainty. Financial Institutions tend to favour affluent, well-served clients and avoid segments such as low-income households, SMEs, and firms in agro-processing and mining. According to the World Bank Enterprise Survey (2022), only 2.1% of Pakistani firms use bank loans or credit lines, compared with 11.2% in India, and 42.5% in Bangladesh. Pakistan’s credit-to-GDP ratio is just 11.4%, far below India (50.1% in 2021) and Bangladesh (35.8%). The credit portfolio is heavily skewed toward the public sector: 73.5% of lending goes to government and 4.4% to PSEs (a combined 77.9%), while the private sector receives only 20.8%. Within private credit, Manufacturing takes 11.0%, Services 5.2%, Personal Loans 2.9%, Agriculture 1.1%, Mining and Quarrying 0.2%, and other sectors 0.5%. Notably, the private share was about 28% in October 2021, when policy rates were lower at 7.25%.

Figure 17: Share of Government, PSEs & Private Sector in Pakistan’s Credit Portfolio



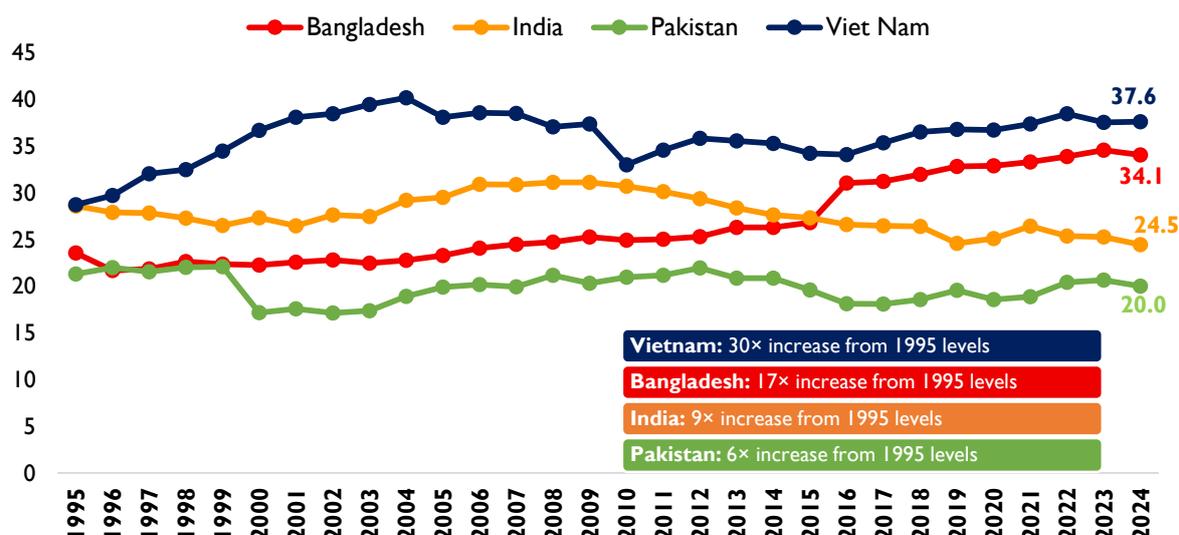
Data Source: State Bank of Pakistan (SBP)

Note: Data is updated as of October 2025

## Priority 2: “Augment Productivity, Quality, & Innovation for Global Competitiveness”

Pakistan has been experiencing pre-mature de-industrialization over the past several decades, with no effective policy intervention to halt or reverse this trend (Husain, 2023). Over the last 30 years, the industry’s share of GDP has declined, dropping from 21.3% in 1995 to 20.0% in 2024. In comparative terms, this contraction contrasts sharply with regional peers, where industrial expansion since 1995 has been far more pronounced, most notably in Vietnam (30-fold increase), Bangladesh (17-fold), and India (9-fold), while Pakistan registered a comparatively modest 6-fold increase.

Figure 18: Industry (Including Construction), Value Added (% of GDP)



Data Source: WDI

Pakistan's ranking on the Competitive Industrial Performance Index (CIP) has also worsened, falling from 77th in 1990 to 81<sup>st</sup> in 2023 out of 153 countries. In a regional context, Pakistan's CIP ranking is the lowest, with China, Vietnam, India and Bangladesh ranking 2<sup>nd</sup>, 30<sup>th</sup>, 37<sup>th</sup>, and 64<sup>th</sup>, respectively.

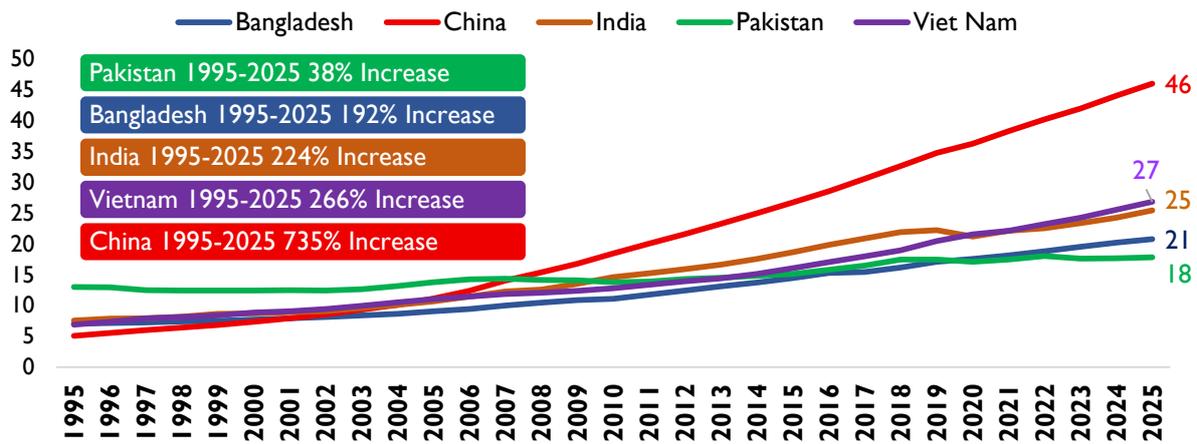
Table 4: Components & Ranking of CIP - Pakistan vs. Regional Peers

COMPONENTS OF COMPETITIVE INDUSTRIAL PERFORMANCE (CIP) – PAKISTAN VS. REGIONAL PEERS						RANKING OF CIP	
CIP Components	Index	Bangladesh	India	Pakistan	Viet Nam		
Manufacturing Value Added (MVA) per capita	US\$	558	336	192	947		<b>China: 2</b>
Manufacturing Value Added (MVA) share in total GDP	Index	0.709	0.418	0.34	0.719		<b>Vietnam: 30</b>
Manufacturing Exports Share in total exports	Index	1.000	0.901	0.778	0.907		<b>India: 37</b>
Medium- and High-tech manufactured exports Share in total Manufactured exports	Index	0.022	0.449	0.129	0.711		<b>Bangladesh: 64</b>
							<b>Pakistan: 81</b>

Data Source: UNIDO

Pakistan's labor productivity has expanded only 38 percent increase over the course of 30 years, far below regional comparators. Over the same period, India's output per worker increased 224 percent, Viet Nam's 266 percent, and China's 735 percent. This widening gap highlights Pakistan's slow pace of technological upgrading, weak diffusion of modern production practices, and persistent structural bottlenecks in key sectors. The modest gains in productivity continue to constrain the country's long-term growth trajectory and its ability to improve competitiveness in regional and global markets (SBP, 2025).

Figure 19: Output per worker (GDP, 2021 constant PPP \$)

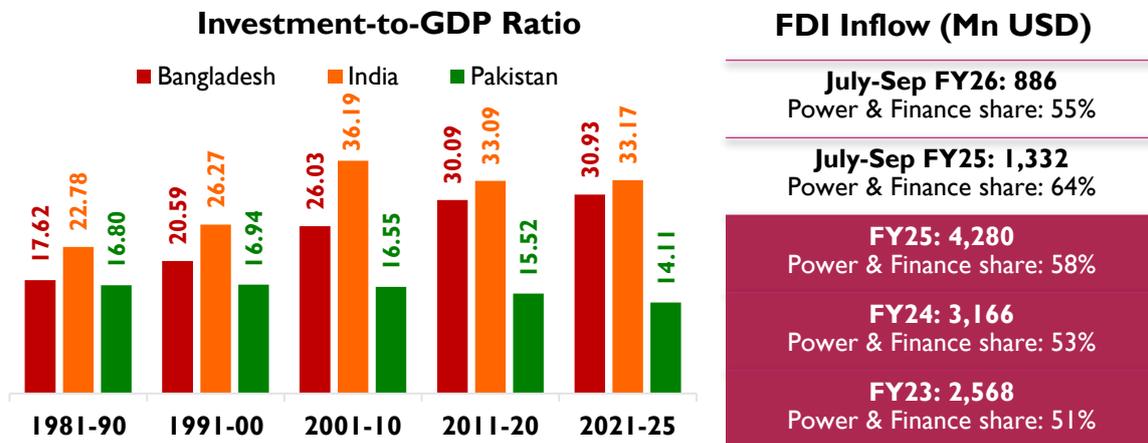


Data Source: ILO

### Priority 3: “Improve the Investment Climate”

Investment is widely recognized as a key driver of industrial competitiveness and sustainable growth. However, Pakistan has struggled to attract investment. Compared with regional peers, investment intensity has remained persistently low, declining from about 16.8 percent of GDP in 1981-90 to nearly 14.1 percent in 2021-25. This prolonged deterioration points to underlying structural constraints, suggesting that policy measures have not been sufficiently effective in reversing long-term investment stagnation (IMF, 2024). Furthermore, FDI inflows remain volatile, falling to USD 886 million in Q1 FY26 from USD 1,332 million in Q1 FY25, while power and finance account for 58% of total FDI in FY25.

Figure 20: Investment-to-GDP Ratio and FDI Inflows



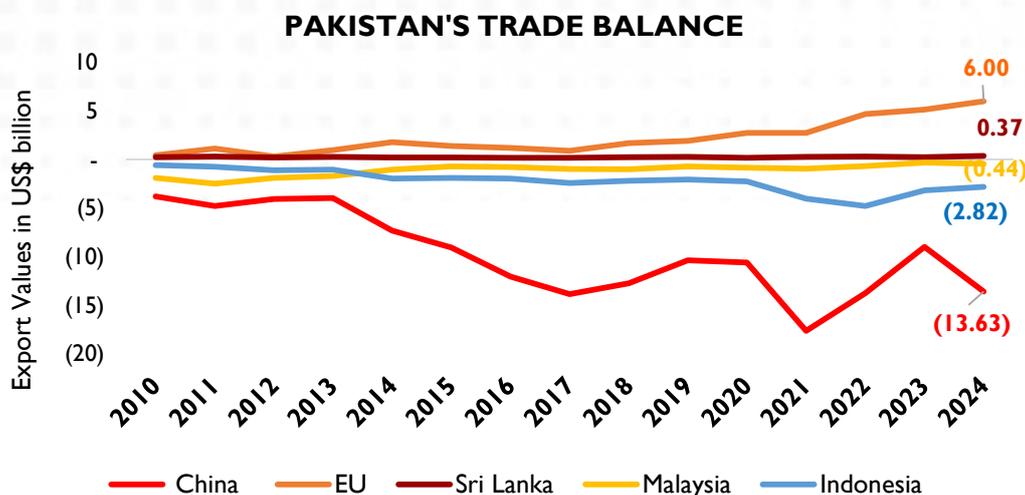
Data Source: IMF, World Economic Outlook Database, 2023 and SBP

### Pakistan Performance in Key Trade Agreements

The EU’s GSP+ framework has emerged as Pakistan’s most favorable unilateral trade access, consistently generating a surplus and demonstrating strong market access potential. However, this opportunity remains underutilized due to a narrow and low-value export base (Malik, 2020). Moreover, trade with Sri Lanka, though modest in scale, has remained steadily positive, reflecting a relatively balanced and stable bilateral exchange. In contrast, agreements with China, Indonesia, and Malaysia have been less favorable for Pakistan, resulting in persistently widening trade deficits driven by high import dependence on machinery, industrial inputs, and

palm-oil products (PRAC, 2024). The imbalance with China is both the deepest and most volatile, while deficits with Malaysia and Indonesia, despite some recent moderation, underscore structural weaknesses in Pakistan’s export diversification and limited ability to fully leverage its preferential trade frameworks.

**Figure 21: Trade Performance of Pakistan in Key Trade Agreements**



Data Source: Trade Map

### Efficient EDF Allocation for Export Competitiveness

The Export Development Fund (EDF), administered by the Ministry of Commerce, was established to strengthen Pakistan’s export sector through targeted project financing. It was originally supported through the Export Development Surcharge (EDS), a 0.25% levy on export proceeds introduced in 1991 to finance initiatives aimed at strengthening export performance. Over time, however, the Fund has faced persistent challenges related to low utilisation efficiency and governance effectiveness, as significant financial resources accumulated without being consistently translated into targeted, results-oriented export support (SDPI, 2020). Although more than 300 projects have been financed, the EDF balance had reached approximately Rs 52 billion by late 2025, with an additional Rs 8 billion accrued during the current fiscal year. These structural shortcomings, which limited the Fund’s contribution to export competitiveness, ultimately led the Government of Pakistan to discontinue the Export Development Surcharge across all exports (Dawn, 2025).

**Figure 22: Export Development Fund (EDF): Funding and Disbursement Overview**

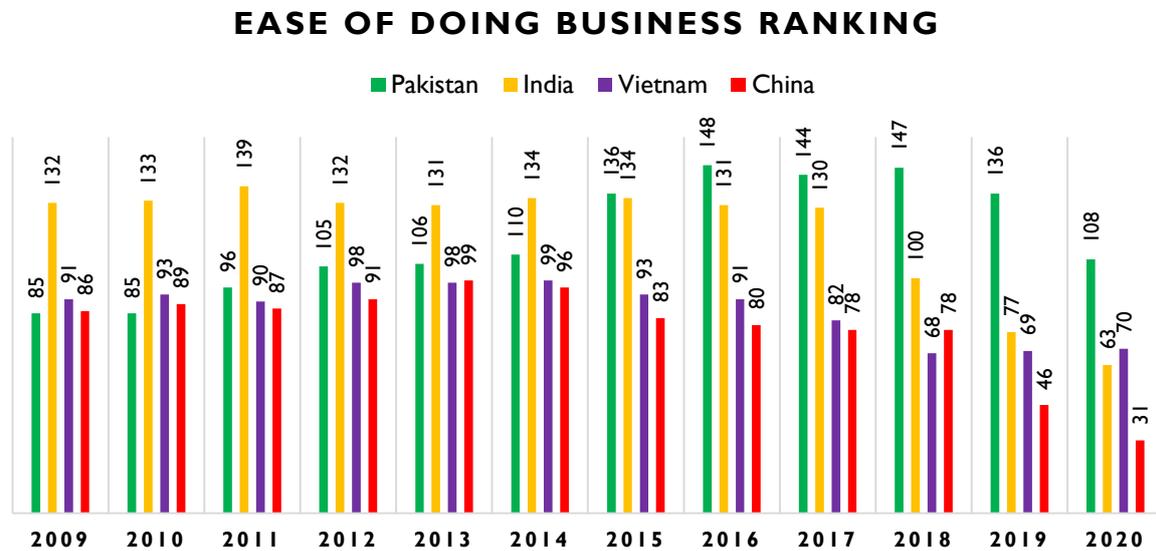


Data Source: EDF

Despite such export promotion and facilitation measures, broader structural constraints continue to undermine export competitiveness, particularly the high cost of doing business in Pakistan relative to regional peers (Lopez et. al, 2013). In the World Bank’s Doing Business 2020 rankings, Pakistan stands at 108th out of 190 countries, followed by Vietnam at 70th, India at 63rd, and China at 31st. Although Pakistan’s ranking improved from 139<sup>th</sup> in 2019 to 108<sup>th</sup> in 2020, it still lags behind its regional peer (World Bank, 2020). The country faces

significant challenges in several key areas, including obtaining permits, registering property, paying taxes, and trading across borders.

**Figure 23: Doing Business Ranking**

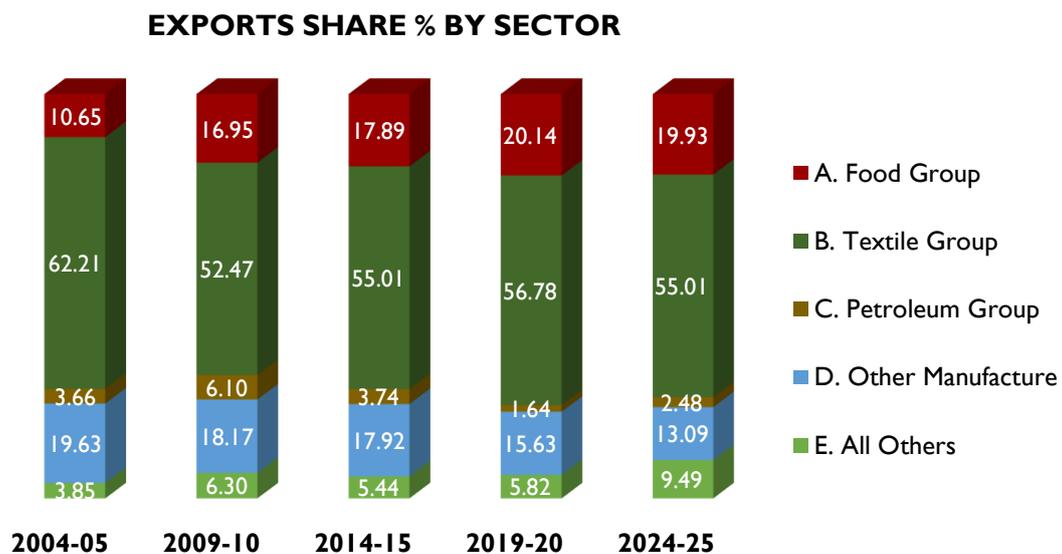


Data Source: World Bank Doing Business Documents

### Priority 4: “Expand and Diversify Product Mix and Market Access”

Pakistan’s export composition remains heavily concentrated in few goods, particularly within textiles, food products, and other manufactured items (Malik et al., 2017). Textiles continue to lead the goods segment with 55% share, supported by notable contributions from food-related and diverse manufacturing categories. The overall export structure highlights Pakistan’s continued reliance on traditional export bases but also underscores the potential for growth through greater diversification into higher-value-added services.

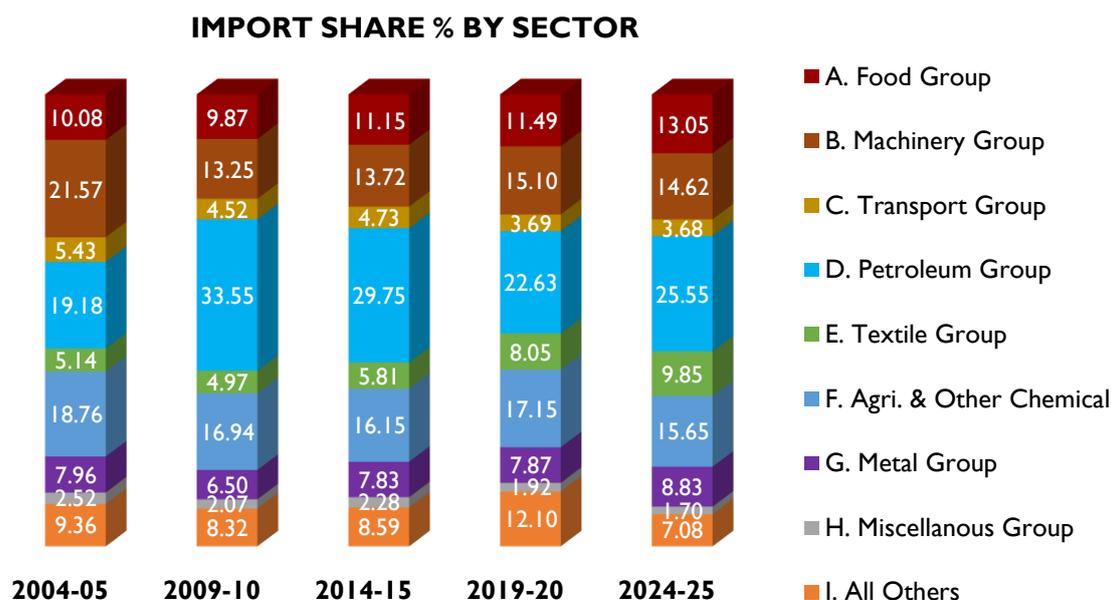
**Figure 24: Pakistan Goods’ Exports Share by Sector**



Data Source: State Bank of Pakistan

Pakistan's import structure remains heavily tilted toward commodities, with the energy sector dominating the overall import bill (Asad et al., 2025). The Petroleum Group alone contributes approximately USD 15 billion, reflecting the country's high reliance on imported fuel. This is followed by substantial imports of Agriculture and Chemical products, Machinery, Food commodities, Textiles, and Metals. Collectively, this composition highlights Pakistan's continued dependence on external sources for fuel, chemicals, food, and industrial inputs, placing persistent pressure on the trade balance and reinforcing the economy's structural vulnerability to global price and supply shocks.

**Figure 25: Pakistan Goods' Imports Share by Sector**



Data Source: State Bank of Pakistan

Pakistan's export base remains narrow. Out of more than 7000 tariff lines, only 22 percent show exports above US\$0.1 million and just 11.4 percent cross the US\$1 million mark (TIPP). Market concentration is also high with 72 percent of exports directed to 15 destinations and almost half going to only six markets (Trade Map). Broadening the product basket and reducing reliance on a few markets is essential (PRAC, 2025). Expanding value-added lines, improving compliance quality and building capacity to enter under-tapped regions can ease concentration risks and support more stable export growth.

**Figure 26: Export Concentration and Market Coverage**



Out of more than 7000 tariff lines, only 22% lines with export above USD 0.1 million, and just 11.4% exceed USD 1 million.



72% of Pakistan's exports are concentrated in 15 destinations, with around 50% directed to just 6 destinations.

Data Source: TIPP and Trade Map

In addition, the presence of global brands helps exporters to earn a premium, however, the lack of awareness among stakeholders about the benefits of brand management for export markets is also one of the major obstacles to obtaining high-value exports.

## Priority 5: “Promote SMEs, Entrepreneurship, and Specialization”

The SME sector is crucial to Pakistan's economic growth. According to PwC’s Banking Publication 2024 - *Road to Sustainability*, the SME sector contributes 40% of the GDP, comprises nearly 90% of all private enterprises, generates 30% of export earnings, and employs 1/3<sup>rd</sup> of the country’s workforce<sup>10</sup>.

**Figure 27: Pakistan’s SME Landscape**

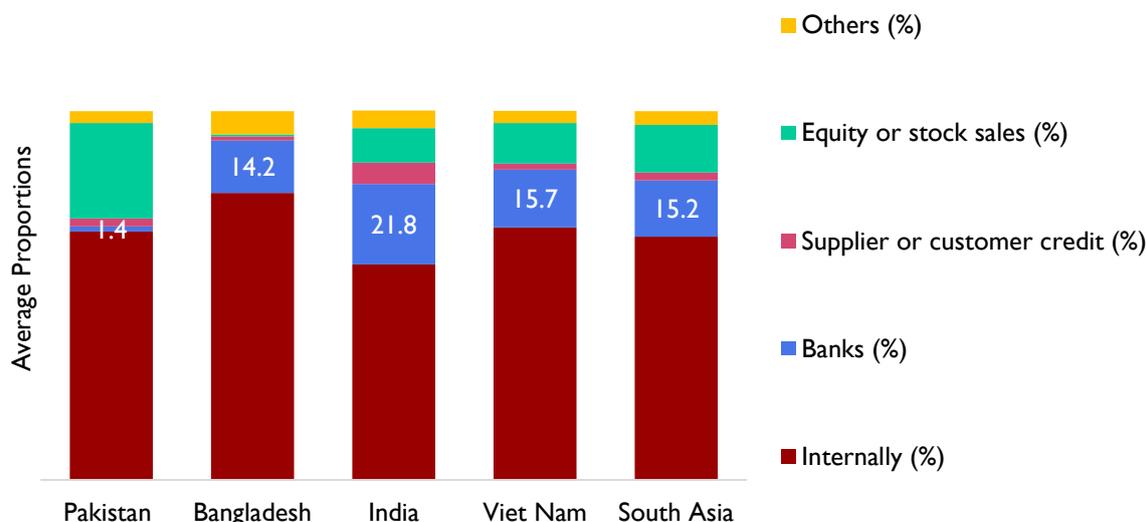


Data Source: *Road to Sustainability* - PwC

Firms in Pakistan rely heavily on internal funds to finance their investments, far more than their peers, and bank financing stays extremely low at 1.4 percent compared with 21.8 percent in India, 15.7 percent in Viet Nam, 14.2 percent in Bangladesh, and 15.2 percent in the South Asia average.

**Figure 28: Regional Comparison of Investment Financing of Firms**

### COMPOSITION OF INVESTMENT FINANCING - REGIONAL PEERS COMPARISON

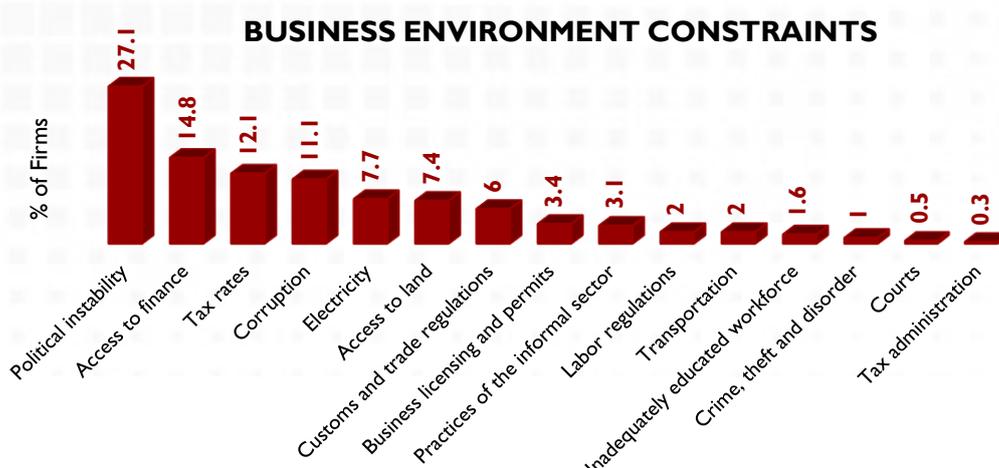


Data Source: World Bank, *Enterprise Survey, Pakistan 2022*

Firms in Pakistan point to big-picture issues more than day-to-day operational hurdles. Political instability stands out as the top constraint at 27.1 percent, followed by limited access to finance at 14.8 percent, high tax rates at 12.1 percent, and corruption at 11.1 percent. Mid-level concerns include electricity at 7.7 percent, access to land at 7.4 percent, and customs and trade regulations at 6 percent. Most other obstacles sit below 3 percent, showing that firms feel the weight of uncertainty, financing gaps, and taxation far more than problems like crime, courts, permits, or transportation.

<sup>10</sup> PwC, Banking Publication 2024 – *Road to Sustainability*.  
[https://www.pwc.com.pk/en/Banking\\_Publication/2024/Banking\\_Publication.pdf](https://www.pwc.com.pk/en/Banking_Publication/2024/Banking_Publication.pdf)

Figure 29: Ranking of the Business Environment Constraints for Firms in Pakistan



Data Source: World Bank, Enterprise Survey, Pakistan 2022

### Priority 6: “Enhance Pakistan's National Brand”

A lack of awareness among stakeholders about the value of brand management for exports is hindering Pakistan’s trade growth (PBC, 2020). Pakistan ranks 88th overall in the Global Soft Power Index, reflecting moderate international recognition but significant gaps in key areas. Compared to regional peers like India (overall 30<sup>th</sup>) and Vietnam (52<sup>nd</sup>), Pakistan struggles to leverage its national image to boost economic engagement. While familiarity and Influence are relatively strong (43<sup>rd</sup> & 62<sup>nd</sup>), its reputation at 139<sup>th</sup> shows that Pakistan is known but not positively perceived globally. Similarly, business and trade rank at 128<sup>th</sup>, indicating low attractiveness for foreign investment and limited confidence in Pakistani exports. Cultural heritage (128<sup>th</sup>), education (101<sup>st</sup>), media (104<sup>th</sup>), governance (138<sup>th</sup>), and sustainability (155<sup>st</sup>) further constrain its soft power. Strengthening Pakistan’s national brand can help exporters command higher premiums, enhance competitiveness, and position the country as a trusted partner in trade, investment, tourism, and global collaboration.

Table 5: Ranking of Global Soft Power Index 2025 - Perceptions of Nation Brands

Pillar	Pakistan	Bangladesh	Vietnam	India
<b>Global Soft Power Index</b>	<b>88</b>	<b>104</b>	<b>52</b>	<b>30</b>
<b>Familiarity</b>	43	66	42	13
<b>Reputation</b>	139	122	67	64
<b>Influence</b>	62	80	55	16
<b>8 Soft Power Pillars</b>				
<b>Business &amp; Trade</b>	128	101	56	42
<b>International Relations</b>	83	117	76	34
<b>Education &amp; Science</b>	101	118	67	26
<b>Culture &amp; Heritage</b>	128	132	60	12
<b>Media &amp; Comm.</b>	104	118	78	57
<b>Governance</b>	138	143	80	85
<b>Sustainable Future</b>	155	137	79	104
<b>People &amp; Values</b>	167	152	75	115
<b>Recommendation</b>	151	133	69	75

Data Source: Business Finance - Brand Directory

## Policy Recommendations

### **Priority I: “Macroeconomic reforms, mobilize resources, & promote public financial management for an export-led growth economy”**

#### **Efficient Resource Mobilization**

- **Broaden the Tax Base to achieve an equitable Tax-to-GDP Ratio:** Gradually align tax rates across sectors in proportion to their GDP contribution.
- **Strengthen Resource Mobilization:**
  - **Tax Agriculture and Livestock Fairly:** Fully implement the new agricultural income tax rates in all provinces and bring livestock into the tax net, following Punjab’s model.
  - **Enhancing Contribution from the Services Sector:** Reforms should focus on improving tax compliance, closing loopholes, monitoring effectively, and enhancing digitalization in land records. Strengthening enforcement and streamlining processes will ensure the retail, real estate, and banking sectors contribute their fair share to national revenue.
- **Eliminate Tax Multiplicity and Fast-Track Disputes:** Consolidate overlapping federal–provincial and intra-provincial taxes, and set strict timelines to fast-track tax litigation and clear backlogs.
- **Promote Tax Compliance & Trust:** Run sustained awareness campaigns, publish simple “citizen budgets,” release survey results, and hold regular provincial seminars to show how taxes fund services and build public trust.
- **Strengthen Local Governments:** Empower elected local governments to assess, collect, and retain the Urban Immovable Property Tax (UIPT) and other taxes within their jurisdiction, enabling them to fulfill their responsibilities and deliver essential services. Additionally, restore the 1/6th (of GST) grants framework in lieu of OZT under the DRGO 2006, as direct transfers to local governments, a framework that was effective prior to the 7th NFC Award.

#### **Improving the Fiscal Discipline**

- **Ensure Prudent Debt Management:** Adhere to FRDL Act to reduce public debt and meet the debt ceiling, by extending debt maturities and reprofiling high-cost, short-term domestic debt into longer-term, lower-cost instruments.
- **Devolve expenditures to provinces under NFC Award:** Align expenditure and revenue by shifting BISP, agricultural, and energy subsidies for low-income groups to provinces, and gradually transfer federally funded PSDP projects in provincial domains to full provincial responsibility.
- **Accelerate SOE Reform:** Prioritize restructuring or privatization of loss-making SOEs, while avoiding divestment of profitable entities, to strengthen the government’s balance sheet and preserve public sector net worth.
- **Reforms in Pension:** Implement pension reforms promptly, introducing an investment scheme for pensions of new recruits to ensure long-term sustainability, and restoring the

ban on dual pensions to maintain fairness. Expand coverage to a larger portion of the workforce, including the informal sector.

- **Revamp Bureaucracy:** Build a lean bureaucracy by digitizing processes, reducing HR layers, and streamlining approvals to cut delays and improve administrative efficiency.
- **Rationalizing Non-Combat Military Expenditures:** Non-combat military expenditures, including contingency obligations and pensions, should be rationalized.

### **Boosting Foreign Exchange Reserves**

- **Optimize the exchange rate regime to enhance the export-to-import ratio:** Introduce a currency peg exchange regime with periodic evaluation based on REER to arrest volatility and uncertainty.
- **Restrictions on Foreign Travel.** Impose limits on leisure travel during periods of low foreign reserves, permitting international tourism only once every three years. Additionally, reduce the total annual foreign currency spending limit, whether through credit cards or currency purchases while traveling to USD 5,000 annually.
- **Channelizing Virtual Assets:** Develop a tax framework and levy a 1% withholding tax on transactions. Introduce a one-time asset declaration scheme with tiered taxation (0% for encashment into PKR; 5% for domestic FX deposits; 10% for deposits by non-residents; 15% for declared long-term holdings).
- **Channelizing Dollar Holdings:** Incentivize channeling dollar holdings from lockers into bank accounts, exempting such deposits from taxes if held for at least one year.
- **Fixed Remittance Fee & Formalize Transactions:** Implement a fixed low fee for remittances instead of charging a percentage, matching the actual remittance cost for Money Transfer Operators (MTOs). Gradually eliminate forex companies and formalize financial transactions through banks to improve foreign exchange control.
- **Matching Skills with Global Demand:** Revitalize institutions through public-private partnerships to enhance technical and vocational skills in line with global demand, with recognized affiliations for locally offered degrees/certificates to further strengthen remittances.

### **Chasing the Monetary Discipline**

- **Use Targeted Monetary Tools:** Employ alternative monetary tools to policy rate such as reserve requirements and prudential regulations to manage loanable funds and contain demand-pull inflation in specific sectors.
- **Improve Monetary Policy Effectiveness & Communication:** Regularly assess policy rate impacts and distinguish demand-pull from cost-push inflation. Gradually lower interest rates as conditions permit and improve transparency by publishing quarterly assessments of the fiscal impact of MPC decisions to better align monetary and fiscal policy.
- **Enhance Private Sector Credit:** Encourage banks to expand lending to at least 10-15% of their credit to SMEs and underserved sectors by simplifying procedures and easing collateral requirements. Deepen capital markets, especially the secondary bond market, to increase competition among lenders, lower debt costs, and support private investment.

- **Strengthen Market Surveillance & Price Controls:** Empower the Competition Commission and price control magistracy, and take firm action against hoarding and market manipulation to curb unjustified price hikes.
- **Optimize Monetary Policy:** Reduce the frequency of MPC meetings to lower uncertainty and move toward an evenly balanced committee between the SBP and the federal government. Conduct quarterly reviews but set benchmark interest rates on an annual basis to ensure stability.

### **Priority 2: “Augment Productivity, Quality, & Innovation for Global Competitiveness”**

- **Scaling Up the Productivity Movement:** Evolve from broad-based awareness on productivity to practical, industry-level implementation. The next phase must focus on translating knowledge into measurable improvements within priority sectors. To achieve this:

Shift the Productivity Movement (2021) mandate under the PSDP project towards implementation after completion of awareness phase.

Establish Specialized Productivity and Innovation Hubs under the National Productivity Organization (NPO) in industrial clusters.

Collaborate with TUSDEC and similar bodies to advance technology, skills, and industry standards for sustainable growth.

These hubs should undertake productivity diagnostics, deliver advisory support on manufacturing, energy and resource efficiency, and facilitate the adoption of digital and Industry 4.0 technologies.

- **Realistic Export Targets with Industry-Centric Strategy:** Export targets should be established through close consultation with industry stakeholders to ensure they are realistic and achievable. These targets must be supported by well-defined action plans and aligned policy measures that facilitate implementation. By combining stakeholder engagement with targeted interventions, the approach can drive sustainable growth, enhance value addition, and strengthen the competitiveness of domestic industries in international markets.
- **Strengthen Quality and Compliance Infrastructure:** Implement the Pakistan National Quality Policy (2021) to modernize testing and accreditation facilities, while reinforcing institutions like Pakistan Standards and Quality Control Authority (PSQCA), National Compliance Centre (NCC), and Pakistan National Accreditation Council (PNAC) to secure international recognition and establish Mutual Recognition Agreements with key export markets such as China, the EU, and GCC. Leverage the NCC of Pakistan to align technical regulations, conformity assessment, and standards with global requirements, enhancing the credibility and competitiveness of Pakistani exports.
- **Integrated Policy Framework:** Unified policy framework to ensure consistency and coordinated economic growth by integrating key strategies such as the STPF, Industrial Policy, Investment Policy, and Tariff Policies. Strengthening federal-provincial coordination and aligning provincial policies with national objectives will further support coherent implementation and effective governance.

- **Export Tax Regime Flexibility:** Restore the option for exporters to choose between the Final Tax Regime (FTR) and the Normal Tax Regime (NTR), as was the practice prior to the decision in the Finance Act 2024 to shift exporters from FTR to NTR, ensuring the regime that best benefits them. This flexibility will help avoid unnecessary compliance burdens. Additionally, adjust the 1% Final Tax rate upwards in accordance with the tax collection gap that the FBR anticipates would arise if exporters were subject to the Normal Tax Regime.

### **Priority 3: “Improve the Investment Climate”**

- **Business and Investment Facilitation:** Revamp the 2023 Investment Policy with clear sectoral targets and establish a one-window online system linking federal and provincial approvals. Accelerate the Pakistan Business Portal for seamless investor registration and licensing. Replace the outdated 1976 Foreign Investment Act with a modern law extending 2022 protections to priority sectors. Strengthen policy consistency through multi-stakeholder councils and upgrade special economic and industrial zones with plug-and-play utilities and expedite approvals.
- **Investment in Export-Oriented Industries:** Encourage investments in priority sectors and value-added agriculture as recommended below:



- - Channelized on investments that boost exports, not just local consumption, by introducing tax holidays and incentive for reinvested profits in priority sectors like IT, manufacturing, and agriculture via industrial policy, similar to Vietnam’s model.
- - Adopt phased local-content rules and mandatory technology transfer for foreign investments, similar to India’s Phased Manufacturing Programme, to boost domestic suppliers, R&D, and industrial competitiveness.
- - Establish an Agriculture Investment Trust similar to REIT for agriculture value addition for targeted interventions.

- **Industrialization Through Efficient Import Substitution:** Pursue a targeted import substitution strategy in sectors with realistic domestic competitiveness.



Priority domains include agri-food (particularly oilseeds, pulses, and fruit processing), chemicals and petrochemical intermediates, and light engineering goods.

Embed sector support within performance-linked incentives (PLIs), aligned with the National Industrial Policy, to reward firms for measurable domestic value addition, productivity improvements, and structured supplier development.

Integrate tariff rationalization with firm-level performance commitments, offering temporary protection only when industries present credible capacity-expansion and technology-upgrading plans.

- **Enhance Investment and Intellectual Property Framework:** Develop a GIS platform mapping industrial infrastructure, costs, and facilities, linked to incentives to attract FDI into export-oriented sectors. Launch a nationwide campaign to promote GI law product registration, enabling producers to earn premium prices, and enforce IPR laws effectively to stimulate R&D and boost industrial productivity.

#### **Priority 4: “Expand and Diversify Product Mix and Market Access”**

- **Expand into Non-Traditional Markets:** Pursue PTAs/FTAs under the Look Africa Framework and target markets in Central Asia and South America.
- **Link Trade Agreements with Industry Readiness:** It is recommended to align trade agreements and tariff cuts with industry capacity in production, productivity, technology, and diversification. Conduct regular exporter awareness campaigns on market access and compliance and carry out sector-specific FTA/PTA reviews to identify underutilized tariff lines.
- **Implement Sectoral Diversification Strategies:** It is recommended to advance the STPF diversification agenda through the implementation of National Priority Sectors Export Strategy (2023-27) to strengthen export diversification and competitiveness.
- **Tariff Policy Reform 2025-30:** Review and reform the Tariff Policy 2025-30 by refraining from unilateral tariff cuts, linking concessions to reciprocal market access through trade agreements, and retaining cascading tariffs from the 2019-24 policy. Supported by coordinated and consistent policies, this approach will promote sustainable export-led growth.
- **Upgrading the Value Chain:** To boost competitiveness, Pakistan should help firms move up the value chain through targeted support, as detailed below:

Provide targeted Export Facilitation Scheme incentives for value-added exports such as apparel, processed halal foods, frozen agri-products, and engineered goods to encourage firms to move beyond raw-material/low value exports.

Provide targeted matching grants for in-house R&D, drawing on the impact of SRO 578(I)/2016 (Product Development Incentive) in enhancing surgical-instrument exports, to support development of new product lines, improved formulations, and export-oriented designs.

#### **Priority 5: “Promote SMEs, Entrepreneurship, and Specialization”**

- **Access to Finance for SMEs:** To strengthen SME access to finance and boost their role in export-led growth, the following measures are recommended.

•- The State Bank of Pakistan should mandate commercial banks to allocate a minimum 5% of their loan portfolio to SMEs, integrate these targets into banks’ KPIs, and enforce compliance through enhanced monitoring and penalties for non-performance.

•- Expand the National Credit Guarantee Company Limited to provide targeted SME credit guarantees that reduce default, collateral, and cash-flow risks, and strengthen the EXIM Bank to offer export credit insurance and trade finance that mitigates payment and political risks, enabling SMEs to access finance, enter global markets, and support export-led growth.

•- Embed gender-specific KPIs within SME policies and banking regulations by setting mandatory lending targets for women-led SMEs, requiring dedicated women entrepreneur desks in banks and NBFIs, and adopting proven elements of Bangladesh’s directed lending model to expand women’s access to finance.

- **Export Development Fund (EDF) Scheme for SMEs:** Simplify procedures and eligibility criteria under the EDF to ensure easier access for SMEs and individual exporters. Establish defined timelines and automated disbursement mechanisms to ensure timely release of funds and uninterrupted implementation of EDF-supported projects.
- **SME and Sectoral Development:** It is recommended to build sector-specific SME clusters with labs, warehouses, and shared R&D by providing targeted funding, infrastructure support, and technical assistance.
- **Green Deal Compliance Support for SMEs:** Launch a dedicated SME Green Compliance Program in partnership with the National Compliance Centre to support exporters through standardized energy and emissions audits, concessional financing or matched grants for clean technology upgrades, and mandatory training on environmental reporting, documentation, and certifications required under EU Green Deal regulations.

### ***Priority 6: “Enhance Pakistan's National Brand”***

- **Integrated Export Branding Approach:**

• Fast-track the National Center for Brand Development to lead the national branding strategy, manage brand licensing and marketing standards, and track global perception. Enforce the use of national branding i.e. emerging Pakistan, alongside exporter logos will help build a stronger and more consistent image for Pakistani products in international markets.

• Integrate a cohesive branding approach into each National Priority Sectors Export Strategy (2023-27) to ensure all 18 sectors contribute to Pakistan's national identity. Implement coordinated branding, visuals, and messaging across these NPSES sectors to strengthen Pakistan's overall image and enhance export visibility.

• Highlight Pakistan's culture, heritage, products, and innovation through vibrant digital storytelling and campaigns. Leverage global media and social platforms with hashtags like #Emerging, #MadeInPakistan, and #DiscoverPakExports to reposition the country as a hub of quality and creativity.

## Policy Matrix

TARGETS/ OBJECTIVES	CURRENT STATUS	CRITIQUE/ GAP																								
<b>MACROECONOMY</b>																										
<b>MONETARY POLICY (SBP VISION 2028)</b>																										
<ul style="list-style-type: none"> <li>Maintain inflation within 5–7% Medium-Term Target.</li> </ul>	<ul style="list-style-type: none"> <li>Inflation remains outside the 5–7% band.</li> </ul>	<ul style="list-style-type: none"> <li>Policy rate held at 11% since May-25 despite easing inflation; Deviation on a discretionary basis.</li> </ul>																								
<ul style="list-style-type: none"> <li>Enhance forecasting capacity.</li> </ul>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #800000; color: white;">Annual CPI %</th> <th style="background-color: #800000; color: white;">FY23</th> <th style="background-color: #800000; color: white;">FY24</th> <th style="background-color: #800000; color: white;">FY25</th> </tr> </thead> <tbody> <tr> <td style="background-color: #800000; color: white;">Target (%)</td> <td style="text-align: center;">11.5</td> <td style="text-align: center;">21.0</td> <td style="text-align: center;">12.0</td> </tr> <tr> <td style="background-color: #800000; color: white;">Actual (%)</td> <td style="text-align: center;">29.1</td> <td style="text-align: center;">23.9</td> <td style="text-align: center;">4.6</td> </tr> </tbody> </table>	Annual CPI %	FY23	FY24	FY25	Target (%)	11.5	21.0	12.0	Actual (%)	29.1	23.9	4.6	<ul style="list-style-type: none"> <li>Overreliance on policy rate as a tool; prudential regulations &amp; credit support mechanisms underused.</li> </ul>												
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<ul style="list-style-type: none"> <li>Strengthen financial inclusion framework through targeted policy initiatives for priority areas, including agriculture and SMEs.</li> </ul>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="background-color: #800000; color: white;">FY23</th> <th style="background-color: #800000; color: white;">FY25</th> </tr> </thead> <tbody> <tr> <td style="background-color: #800000; color: white;">Avg. Private Sector Credit (PSC) % in Total Credit</td> <td style="text-align: center;">26.2%</td> <td style="text-align: center;">21.3%</td> </tr> <tr> <td colspan="3" style="background-color: #800000; color: white; text-align: center;"><b>Priority Sectors (%)</b></td> </tr> <tr> <td></td> <td style="background-color: #800000; color: white;">PSC</td> <td style="background-color: #800000; color: white;">Total</td> <td style="background-color: #800000; color: white;">PSC</td> <td style="background-color: #800000; color: white;">Total</td> </tr> <tr> <td style="background-color: #800000; color: white;">SMEs</td> <td style="text-align: center;">7.4</td> <td style="text-align: center;">-</td> <td style="text-align: center;">7.6</td> <td style="text-align: center;">-</td> </tr> <tr> <td style="background-color: #800000; color: white;">Agriculture</td> <td style="text-align: center;">4.0</td> <td style="text-align: center;">1.0</td> <td style="text-align: center;">4.6</td> <td style="text-align: center;">1.0</td> </tr> </tbody> </table>		FY23	FY25	Avg. Private Sector Credit (PSC) % in Total Credit	26.2%	21.3%	<b>Priority Sectors (%)</b>				PSC	Total	PSC	Total	SMEs	7.4	-	7.6	-	Agriculture	4.0	1.0	4.6	1.0	<ul style="list-style-type: none"> <li>Weak monetary–fiscal coordination, heavy public borrowing crowds' out private credit.</li> </ul>
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<b>FISCAL POLICY/TAXATION</b>																										
<ul style="list-style-type: none"> <li>Achieve ambitious Tax-to-GDP targets.</li> </ul>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #800000; color: white;">Tax Collection</th> <th style="background-color: #800000; color: white;">FY23</th> <th style="background-color: #800000; color: white;">FY24</th> <th style="background-color: #800000; color: white;">FY25</th> </tr> </thead> <tbody> <tr> <td style="background-color: #800000; color: white;">Target (Rs. Bn)</td> <td style="text-align: center;">7,470</td> <td style="text-align: center;">9,415</td> <td style="text-align: center;">12,970</td> </tr> <tr> <td style="background-color: #800000; color: white;">Actual (Rs. Bn)</td> <td style="text-align: center;">7,200</td> <td style="text-align: center;">9,252</td> <td style="text-align: center;">11,900</td> </tr> <tr> <td style="background-color: #800000; color: white;">Shortfall (%)</td> <td style="text-align: center;">-3.6%</td> <td style="text-align: center;">-1.7%</td> <td style="text-align: center;">-8.2%</td> </tr> </tbody> </table>	Tax Collection	FY23	FY24	FY25	Target (Rs. Bn)	7,470	9,415	12,970	Actual (Rs. Bn)	7,200	9,252	11,900	Shortfall (%)	-3.6%	-1.7%	-8.2%	<ul style="list-style-type: none"> <li>Persistent target slippages &amp; overreliance on indirect taxes undermine fiscal equity.</li> </ul>								
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<ul style="list-style-type: none"> <li>Pursue fiscal consolidation through deficit reduction.</li> </ul>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #800000; color: white;">Fiscal Deficit (% of GDP)</th> <th style="background-color: #800000; color: white;">FY23</th> <th style="background-color: #800000; color: white;">FY24</th> <th style="background-color: #800000; color: white;">FY25</th> </tr> </thead> <tbody> <tr> <td style="background-color: #800000; color: white;">Target</td> <td style="text-align: center;">-4.9</td> <td style="text-align: center;">-6.5</td> <td style="text-align: center;">-5.9</td> </tr> <tr> <td style="background-color: #800000; color: white;">Actual</td> <td style="text-align: center;">-7.8</td> <td style="text-align: center;">-6.9</td> <td style="text-align: center;">-5.6</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>High reliance on indirect taxes (51%) FY25.</li> </ul>	Fiscal Deficit (% of GDP)	FY23	FY24	FY25	Target	-4.9	-6.5	-5.9	Actual	-7.8	-6.9	-5.6	<ul style="list-style-type: none"> <li>Revenue–expenditure misalignment limits effective consolidation.</li> </ul>												
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<ul style="list-style-type: none"> <li>Reconstitute the NFC every five years &amp; cascade funds to local tiers.</li> </ul>	<ul style="list-style-type: none"> <li>NFC/PFC Awards pending for more than 15 yrs.</li> </ul>	<ul style="list-style-type: none"> <li>Delayed NFC/PFC Awards led to inefficient resource/expenditure allocation.</li> </ul>																								
<b>DEBT MANAGEMENT STRATEGY (FY2023-26)</b>																										
<ul style="list-style-type: none"> <li>Maintain a competitive and sustainable cost of debt.</li> </ul>	<ul style="list-style-type: none"> <li>Elevated Cost in FY25; 11.9% (15.82% Domestic only).</li> </ul>	<ul style="list-style-type: none"> <li>Policy objective partly outside the MOF's direct control, as interest rate decisions lie with the SBP.</li> </ul>																								
<ul style="list-style-type: none"> <li>Keep Public Debt within 60% of GDP ceiling (FRDLA 2022).</li> </ul>	<ul style="list-style-type: none"> <li>Public Debt to GDP%: 73.9(FY22), 75.2 (FY23), 67.7(FY24), 70.8(FY25).</li> </ul>	<ul style="list-style-type: none"> <li>Weak monetary–fiscal policy coordination.</li> </ul>																								
<ul style="list-style-type: none"> <li>Limit total government guarantees to 10% of GDP. (FRDLA 2022)</li> </ul>	<ul style="list-style-type: none"> <li>Total Guarantee Stock (% of GDP): 4 (FY23), 3% (FY24), 4% (FY25).</li> </ul>	<ul style="list-style-type: none"> <li>Debt targets repeatedly missed, reflecting weak adherence to FRDLA ceilings.</li> </ul>																								

TARGETS/ OBJECTIVES	CURRENT STATUS	CRITIQUE/ GAP
<b>FOREIGN EXCHANGE POLICY</b>		
<ul style="list-style-type: none"> <li>Maintain a market-determined, exchange rate regime under the IMF.</li> </ul>	<ul style="list-style-type: none"> <li>Exchange rate remains stable around PKR 280/USD since 2024.</li> </ul>	<ul style="list-style-type: none"> <li>Low reserve buffers continue to expose the economy to external shocks.</li> </ul>
<ul style="list-style-type: none"> <li>Ensure exchange rate stability with adequate reserve buffers.</li> <li>Allow 100% profit repatriation as per the BOI.</li> </ul>	<ul style="list-style-type: none"> <li>Import cover has remained below 3 months since Sep-21, leading to occasional restrictions on imports such as bans and administrative controls on profit repatriations.</li> </ul>	
<ul style="list-style-type: none"> <li>Achieve remittance target of USD 30.3 billion (FY25).</li> </ul>	<ul style="list-style-type: none"> <li>Remittances (FY25): USD 38.3 billion.</li> </ul>	<ul style="list-style-type: none"> <li>Overdependence on remittances highlights structural weaknesses in export competitiveness and foreign inflow diversification.</li> </ul>
<b>EXPORTS</b>		
<b>INDUSTRIAL POLICY (DRAFT)</b>		
<ul style="list-style-type: none"> <li>Pakistan aims to increase industrial intensity from 0.28 to 0.30 in the short term, 0.36 in the medium term, and 0.43 in the long term.</li> </ul>	<ul style="list-style-type: none"> <li>Industry share in GDP FY 2023: 18.40, → FY2025: 18.07.</li> </ul>	<ul style="list-style-type: none"> <li>Limited Alignment with URAAN USD 60 billion 2029 Export Targets.</li> <li>Sectoral focus remains ambiguous.</li> <li>Various Targets are not clearly measurable, mostly expressed through indices.</li> <li>Lacks specific facilitation measures.</li> <li>Framework for SEZs utilization is missing.</li> <li>Proposal subsidies appear unrealistic under IMF programs.</li> <li>Lack of a cohesive federal-provincial industrial framework.</li> </ul>
<ul style="list-style-type: none"> <li>Increase SMEs' export share by 5% (short), 10% (medium), and 15% (long).</li> </ul>	<ul style="list-style-type: none"> <li>SME share in Export; 30%.</li> </ul>	
<ul style="list-style-type: none"> <li>Promote plug-and-play SEZs (short), expand clusters and SME links (medium), and build green industrial hubs (long term).</li> </ul>		
<b>NATIONAL TARIFF POLICY 2025-30</b>		
<ul style="list-style-type: none"> <li>Reduce avg. tariff 10.4 → &lt; 6 % by 2030.</li> </ul>	<ul style="list-style-type: none"> <li>Avg. tariff: 10.4.</li> </ul>	<ul style="list-style-type: none"> <li>De-industrialization risk; tariff cuts below India 16 % &amp; Bangladesh 14 %.</li> <li>Unilateral liberalization weakens bargaining power in TA negotiation.</li> </ul>
<ul style="list-style-type: none"> <li>Merge 5 slabs → 4</li> <li>Phase out ACDs (4 yrs), RDs (5 yrs), 5th Schedule (5 yrs).</li> </ul>	<ul style="list-style-type: none"> <li>Pakistan's trade deficit rises 33% in Q1 of FY25.</li> </ul>	
<b>INVESTMENT POLICY 2023</b>		
<ul style="list-style-type: none"> <li>Raise investment-to-GDP from 15 to 20%.</li> </ul>	<ul style="list-style-type: none"> <li>Investment-to-GDP ratio at 13.8% in 2025.</li> </ul>	<ul style="list-style-type: none"> <li>Absence of Time-Bound Milestones.</li> <li>Lack of Quantified FDI and Sectoral Targets.</li> </ul>
<ul style="list-style-type: none"> <li>Attract high-quality, export-oriented, and import-substituting FDI.</li> </ul>	<ul style="list-style-type: none"> <li>During Jul-Sep FY26, FDI inflows falls from \$1.33b to \$0.88b.</li> </ul>	

TARGETS/ OBJECTIVES	CURRENT STATUS	CRITIQUE/ GAP
<ul style="list-style-type: none"> <li>• Improve Pakistan's Economic Complexity Index ranking from 93.</li> <li>• Promote sustainable, inclusive growth aligned with SDGs.</li> <li>• Implement facilitation tools (One Window, PRMI, SEZ Portal).</li> </ul>	<ul style="list-style-type: none"> <li>• Policy rate at 11%.</li> </ul>	<ul style="list-style-type: none"> <li>• Overlapping roles among institutions create fragmentation.</li> <li>• Performance-based incentives lack measurable criteria.</li> <li>• Vague target with no measurable outcomes.</li> </ul>
<b>STRATEGIC TRADE POLICY FRAMEWORK (2020-25)</b>		
<ul style="list-style-type: none"> <li>• Export target: U\$ 57.03b by 2025.</li> </ul>	<ul style="list-style-type: none"> <li>• Avg. tariff: 10.4 → 6 % by 2030.</li> </ul>	<ul style="list-style-type: none"> <li>• \$57b goal vs \$32B actual.</li> <li>• Most STPF 2020–25 initiatives remained at launch or pilot stages, reflecting weak coordination, limited follow-through, and absence of time-bound execution frameworks.</li> <li>• Flagship programs (Emerging Pakistan, Look Africa) lacked scale, sectoral depth, and impact tracking, resulting in minimal contribution to sustained export diversification and market expansion.</li> <li>• Missed 2025 border agency cooperation target, now delayed to 2026.</li> </ul>
<ul style="list-style-type: none"> <li>• Improve Trade Facilitation.</li> </ul>	<ul style="list-style-type: none"> <li>• Pakistan's trade deficit rises 33% in Q1 of FY26.</li> </ul>	
<ul style="list-style-type: none"> <li>• EFS utilization: 50% by 2025.</li> </ul>	<ul style="list-style-type: none"> <li>• While the PSW is a notable step, other measures remain in the planning or pilot stage.</li> </ul>	
<b>SME POLICY 2021</b>		
<ul style="list-style-type: none"> <li>• Service SMEs 10%.</li> </ul>	<ul style="list-style-type: none"> <li>• Service sector grew 2.91%.</li> </ul>	<ul style="list-style-type: none"> <li>• Several key targets remain unfulfilled.</li> <li>• SME portal registrations, training, tech startup/incubator growth.</li> <li>• Not achieved: Services growth, Export growth, SME borrowers, new SMEs, SME credit.</li> </ul>
<ul style="list-style-type: none"> <li>• SME Sector exports to grow by 10% per annum.</li> </ul>	<ul style="list-style-type: none"> <li>• SMEs export growth per annum (2021-25) is 3.23%.</li> </ul>	
<ul style="list-style-type: none"> <li>• SME credit →800bn</li> </ul>	<ul style="list-style-type: none"> <li>• SME credit Rs311.33bn (target 800bn).</li> </ul>	
<ul style="list-style-type: none"> <li>• Borrowers → 700,000.</li> </ul>	<ul style="list-style-type: none"> <li>• SME borrowers reached 276,600 (target 700,000).</li> </ul>	
<ul style="list-style-type: none"> <li>• New business registrations +10%.</li> </ul>	<ul style="list-style-type: none"> <li>• New SMEs 249,365 (+1.12% growth, target 10% p.a.).</li> </ul>	
<ul style="list-style-type: none"> <li>• SME Registration Portal launched.</li> </ul>	<ul style="list-style-type: none"> <li>• SME Registration Portal processed 1,036 applications, 539 registered, 417 certificates.</li> </ul>	
<ul style="list-style-type: none"> <li>• Public procurement from SMEs to reach 30% in 5 years.</li> </ul>		
<ul style="list-style-type: none"> <li>• Incubators, accelerators, co-working spaces +20% in 5 years.</li> </ul>		

Data Sources: State Bank of Pakistan, Ministry of Finance (MoF), Federal Board of Revenue (FBR), and National Accounts Committee (NAC).

**Note:** FRDLA= Fiscal Responsibility and Debt Limitation Act, BOI = Board of Investment, PFC = Provincial Finance Commission

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