

# PAKISTAN'S BUSINESS & ECONOMIC OUTLOOK 2026



**NAVIGATING**  
UNCERTAINTY

**RASG**

Riaz Ahmad, Saqib, Gohar & Co.  
Chartered Accountants

A member of **agn**  
INTERNATIONAL

[www.rasgco.com](http://www.rasgco.com)

# PREAMBLE

The fiscal year 2025-26 unfolded against a backdrop of heightened global uncertainty. Escalating tensions in the Middle East, disruptions to trade routes, and volatility in energy markets introduced fresh risks to an already fragile global economic environment, with implications for inflation, investment flows, and economic growth across emerging markets.

Prior to these developments, Pakistan's economy was exhibiting encouraging signs of macroeconomic stabilization. Inflation had moderated, external account pressures had eased, and business confidence was gradually improving. However, the resurgence of geopolitical uncertainty has once again underscored the economy's vulnerability to external shocks. More importantly, while stabilization remains a necessary achievement, it does not in itself constitute a pathway to sustained prosperity. The broader economic narrative continues to be characterized by cyclical recovery and incremental growth, highlighting the need for deeper structural reforms, productivity enhancement, export diversification, and investment-led expansion capable of delivering higher and more durable growth outcomes.

This year's Business and Economic Outlook by Riaz Ahmad, Saqib, Gohar & Co. Chartered Accountants provides an assessment of the key economic developments during the year, covering macroeconomic performance, fiscal and monetary trends, external sector dynamics, and the outlook for the economy.

## DISCLAIMER

This technical details have been prepared to the best of our knowledge and understanding.

It provides a general overview of the matters discussed and is not intended to be comprehensive or sufficient for decision-making purposes. It should not be used as a substitute for professional advice.

Riaz Ahmad, Saqib, Gohar & Co. Chartered Accountants does not accept any responsibility for any loss resulting from actions taken or not taken based on the contents of this publication.

[www.rasgco.com](http://www.rasgco.com)

# Table of Contents

- 01 Pakistan's Economy - 2026: At a Glance
- 02 What Changed this Year?
- 03 What is holding back the economy? The Real Constraint
- 04 Corporate Reality Check A CFO'S Point of View
- 05 Pakistan's Tax Dilemma
- 06 The Middle Eastern War: Navigating Uncertainty
- 07 Regional Comparison

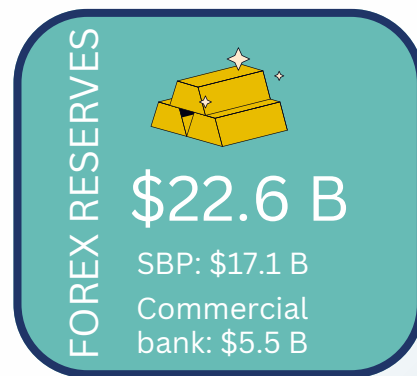
# PAKISTAN'S ECONOMY - 2026: At A GLANCE

**3.70%**

GDP GROWTH  
RATE

**6.2%**

INFLATION



**\$30.3  
billion**

FOREIGN  
REMITTANCE

**1\$ = 281.1  
PKR**

DOLLAR PARITY

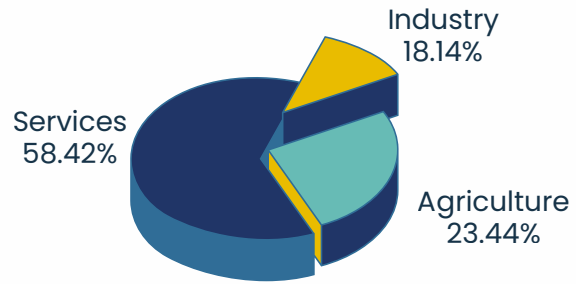


# PAKISTAN'S ECONOMY - 2026: At A GLANCE

**0.7% of  
GDP**

(Lower than Last Year)

**FISCAL DEFICIT**



**SECTOR WISE  
CONTRIBUTION IN GDP**



Males = 129.64 million  
Females = 122.45 million

252.09 million (2025)

**POPULATION**

**Rs. 83,285 B**

External Rs. 25,720 B

Domestic  
Rs. 57,556 B



**DEBT**

**Imports = \$50.7  
billion**  
**Exports = \$22.7  
billion**

**IMPORT &  
EXPORT**

**Rs. 15.66  
trillion**

**EXPENDITURE**



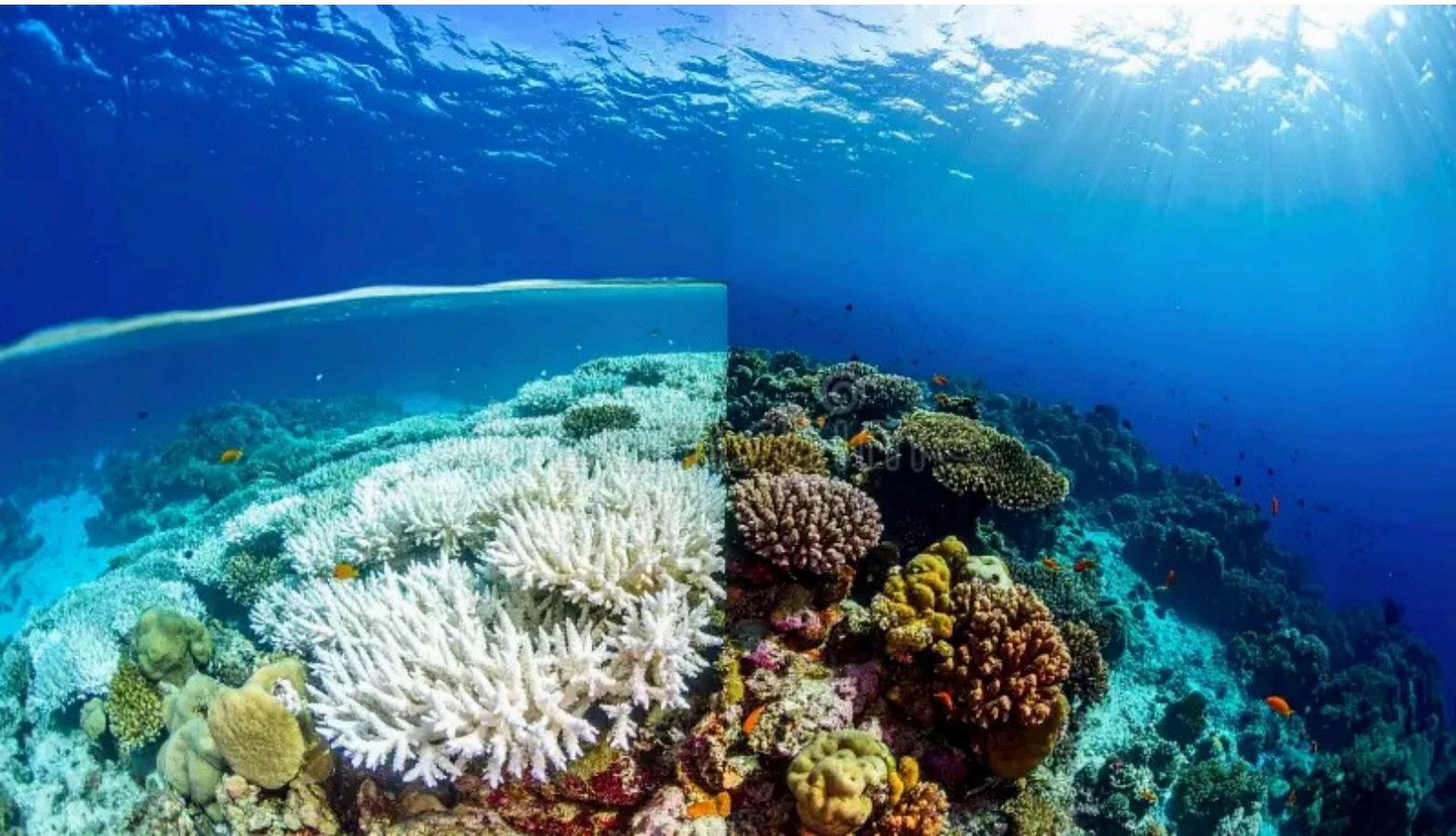
**Rs. 14.80 trillion**

**REVENUE**

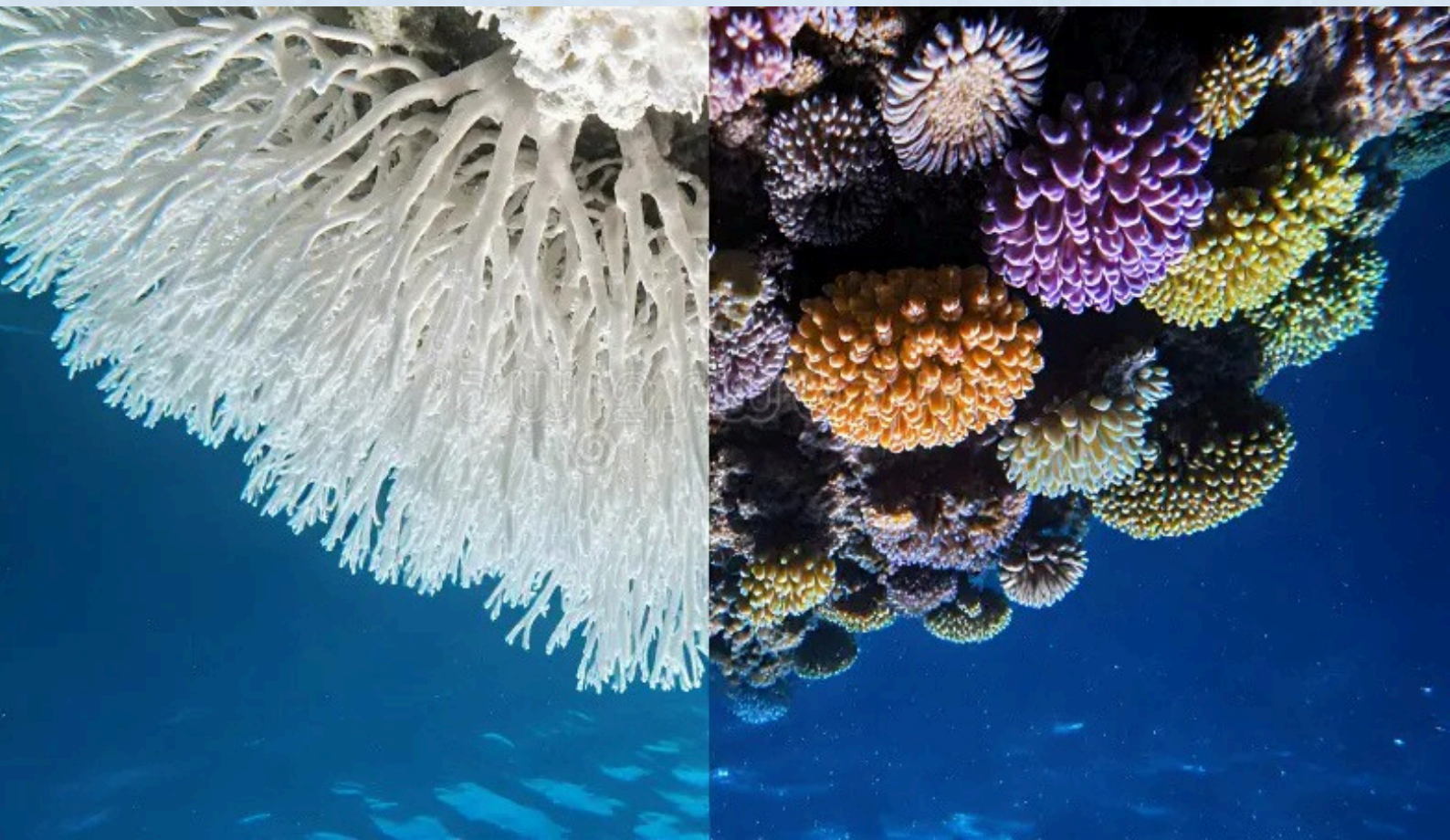


**\$1,901**

**INCOME PER  
CAPITA**



# WHAT CHANGED THIS YEAR?



## WHAT CHANGED THIS YEAR?

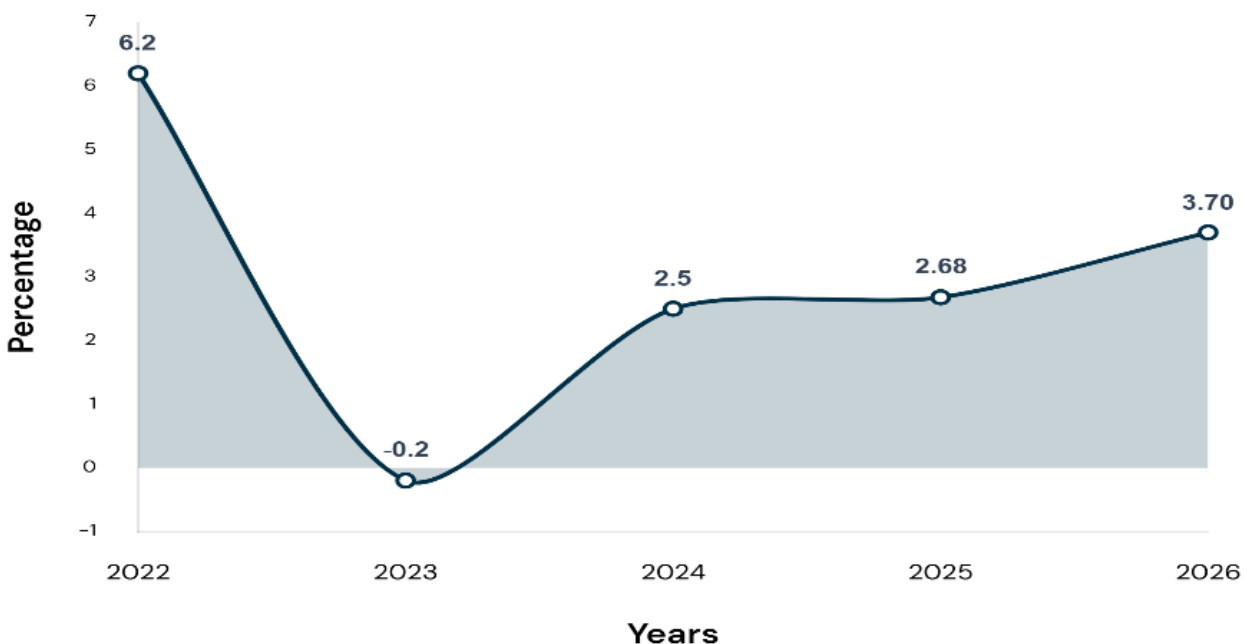
Pakistan's economic trajectory over the past two fiscal years can best be characterized as a transition from stabilization to cautious recovery.

According to the Government of Pakistan's Economic Survey 2024–25, FY2025 marked a significant turning point for the economy. After years of macroeconomic instability, inflation moderated sharply to an average of around 4.7%, while the Gross Domestic Product (GDP) growth recovered to approximately 2.68%. At the same time, the country's external position strengthened considerably, with Pakistan recording a current account surplus and foreign exchange reserves rising to approximately USD 14.5 billion. These developments suggested that the economy had begun to regain stability following a prolonged period of adjustment and fiscal restraint.

Building on this foundation, FY2026 saw further improvement in key macroeconomic indicators. The IMF estimated economic growth at approximately 3.6% - 3.7%, supported by stronger business confidence, a gradual recovery in domestic demand and increased private-sector activity. Fiscal indicators also continued to improve, with the IMF highlighting progress towards a primary budget surplus and a gradual reduction in public debt as a percentage of GDP, reflecting the government's continued commitment to fiscal discipline.

### GDP Growth Rate (%)

#### Yearly Performance

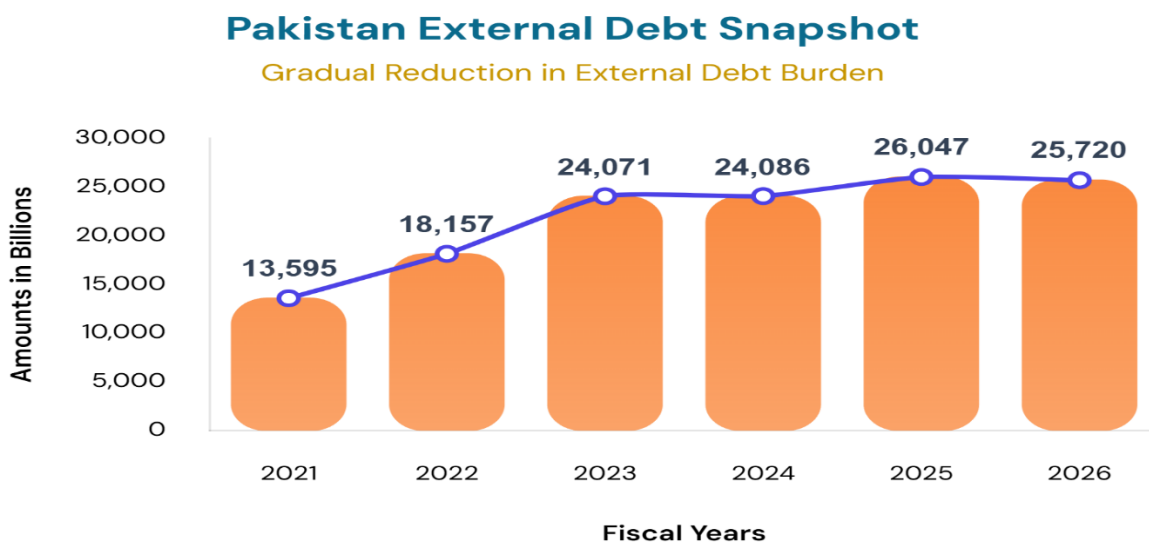


One of the most encouraging developments during FY2026 was the strengthening of Pakistan's external position. According to IMF estimates, foreign exchange reserves rose towards approximately USD 21.8 billion which points to a more resilient external balance sheet and a reduced reliance on foreign borrowing compared with previous years.

However, the recovery story was not without challenges. While inflation eased considerably during FY2025, inflationary pressures re-emerged during FY2026 with an average of 6.2%, driven by higher energy costs, global commodity price volatility, and regional geopolitical uncertainties, including disruptions linked to the Middle Eastern conflict. Consequently, despite stronger headline economic indicators, many households continued to face pressure from elevated food, utility, and transportation costs, highlighting the uneven nature of the recovery.

Pakistan's exchange-rate dynamics also played an important role in shaping economic outcomes. Data published by the State Bank of Pakistan showed that the Real Effective Exchange Rate (REER) remained below equilibrium levels during FY2025, helping maintain the international competitiveness of key export sectors, particularly textiles. While a relatively weaker rupee supported export growth and contributed to improvements in the current account balance, it also increased the cost of imported goods, creating upward pressure on domestic prices. As a result, although Pakistan's external position strengthened significantly between FY2025 and FY2026, inflation remained one of the principal challenges confronting households and businesses alike.

Another noteworthy shift between FY2025 and FY2026 emerged in Pakistan's external debt. Although the total increased to more than Rs. 83,285/- billion, the rate at which it grew declined to a certain extent and external debt decreased as illustrated below:



\*The figure for FY2026 is representing data collected till March 2026.

Overall, FY2025 was characterized by economic stabilization, while FY2026 marked the beginning of a cautious rebuilding phase. As reflected in both the Government of Pakistan's Economic Survey 2024–25 and the IMF's program assessments, the economy concluded FY2026 with stronger foreign exchange reserves, improved growth momentum, declining debt ratios and enhanced policy credibility. Nevertheless, the sustainability of these gains will depend on the government's ability to maintain fiscal discipline, contain inflationary pressures and advance structural reforms. Looking ahead, the key challenge will be to ensure that macroeconomic stability translates into broad-based, sustainable and inclusive economic growth.

# WHAT IS HOLDING BACK THE ECONOMY? THE REAL CONSTRAINT



## WHAT IS HOLDING BACK THE ECONOMY? THE REAL CONSTRAINT:

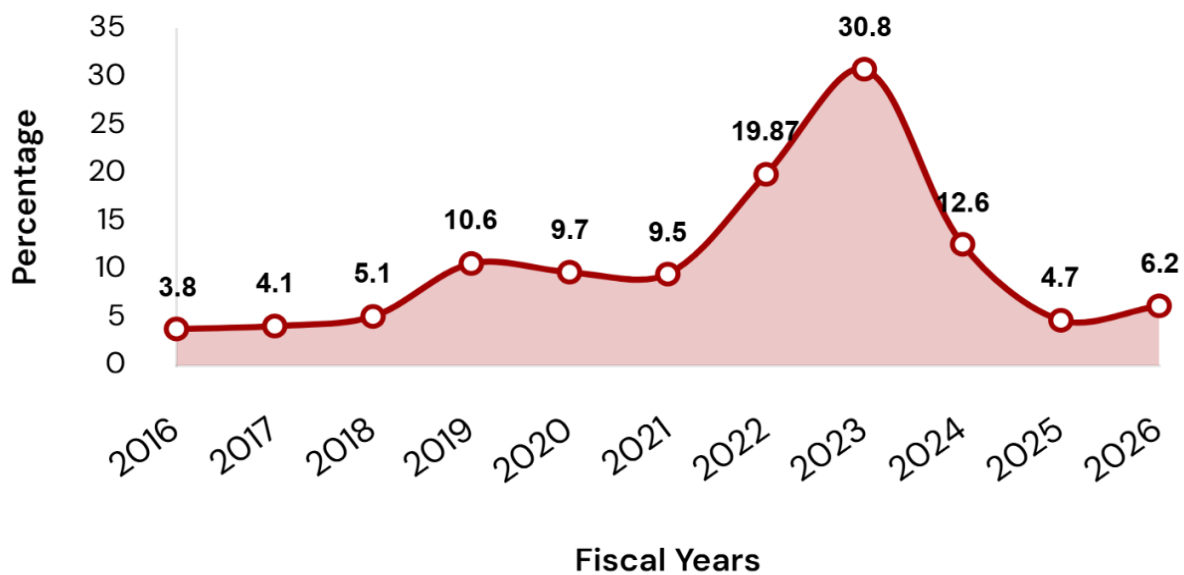
### Headline Stabilization, Underlying Cost Rigidity:

One of the defining features of FY2026 was the disconnect between improving macroeconomic indicators and the economic realities faced by households and businesses. While inflation moderated significantly compared to the elevated levels recorded in previous years, the cost of living remained persistently high. According to State Bank of Pakistan (SBP) data and IMF assessments, fuel prices rose sharply during the second half of FY2026 up to Rs. 420 per litre, following disruptions in global energy markets linked to geopolitical tensions in the Middle East. Electricity and gas tariffs also remained elevated as part of ongoing energy-sector reforms and fiscal adjustment measures.

As a result, household purchasing power remained under pressure despite the moderation in headline inflation. Businesses similarly continued to face higher operating, transportation and energy costs, limiting the extent to which broader macroeconomic improvements translated into tangible economic relief. Consequently, while FY2026 reflected meaningful progress in economic stabilization, affordability remained a key constraint on broad-based recovery.

## Pakistan's Inflation Trend

### Inflation Shock and Stabilization Cycle

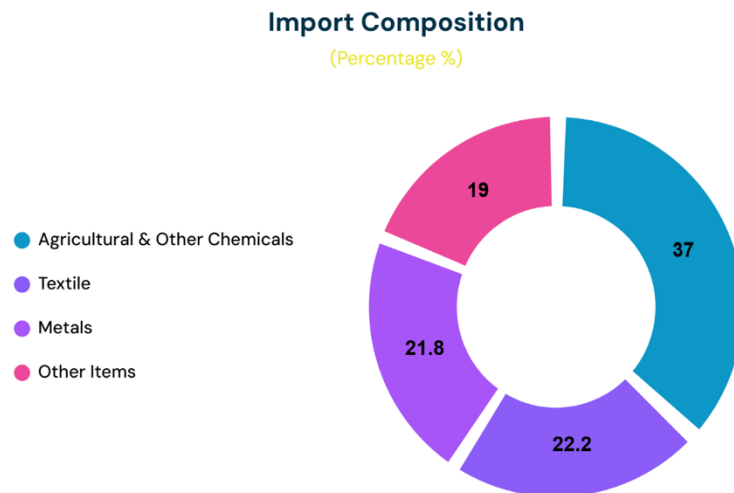


### The Productivity Challenge:

While inflation, exchange rates and IMF-supported reforms dominate short-term economic discussions, Pakistan's longer-term challenge remains productivity.

The economy continues to rely heavily on low-value-added exports, energy-intensive production and limited technological adoption. Although sectors such as construction and automobiles experienced a recovery during FY2026, progress in export diversification, industrial modernization and innovation remained comparatively limited. As a result, economic growth continues to face challenges in generating sufficient high-quality employment, improving competitiveness and delivering sustained increases in household incomes.

In many respects, Pakistan's challenge is no longer simply stabilization, it is improving productivity, competitiveness and value creation across the economy and various supply chains.



### No level playing field:

Pakistan's economy operates under a **structurally uneven playing field between the formal corporate sector and the undocumented (informal) economy**, creating deep distortions that go beyond taxation and directly affect productivity, competitiveness, and long-term growth.

The formal corporate sector functions within a tightly regulated environment, including corporate governance standards, labour laws, compliance requirements, audit obligations, and enforceable contractual systems. These frameworks improve transparency and stability but also raise the cost of doing business and reduce operational flexibility.

In contrast, the informal economy operates with significantly lower regulatory burden, weaker compliance requirements, and greater flexibility in pricing, hiring, and contracting. This creates a structural cost advantage that is not based on efficiency or innovation, but on **regulatory and institutional asymmetry**.

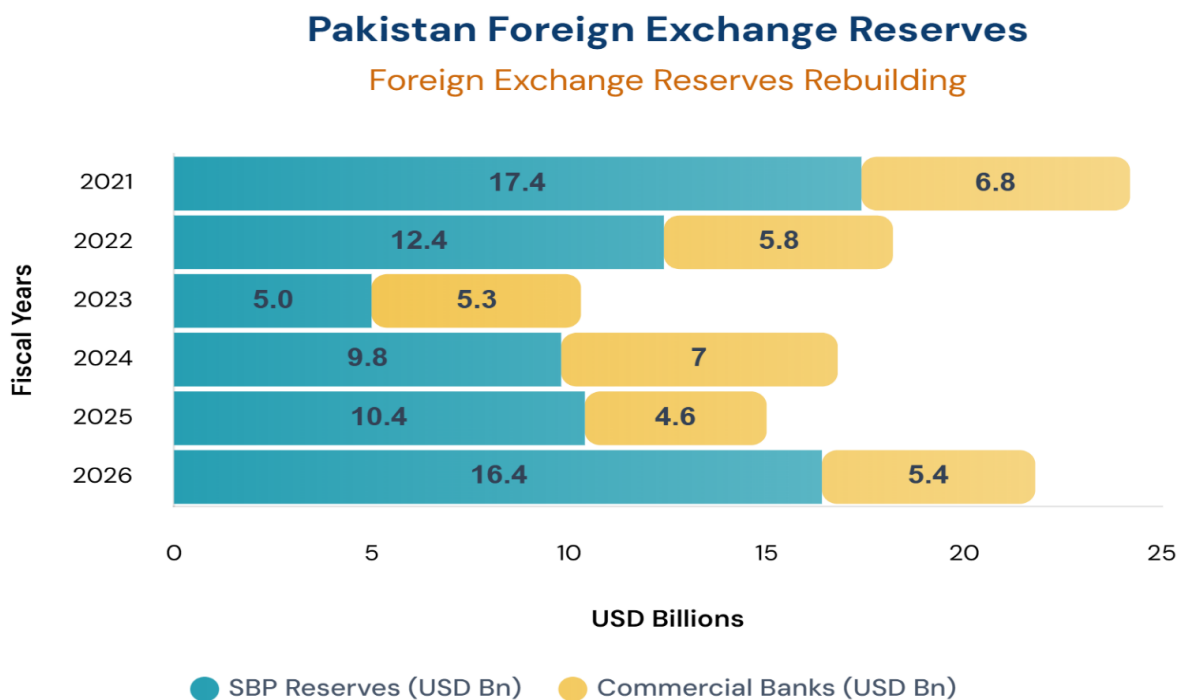
The divide is further reinforced by differences in access to finance and institutional support. Formal firms can access banking and capital markets but face strict documentation and collateral requirements, while informal businesses rely on cash-based or informal credit channels that limit scalability but reduce formal constraints. Similarly, formal firms bear full exposure to contract enforcement and regulatory risk, whereas informal operators often function outside effective legal enforcement mechanisms.

This dual structure is not just inefficient, it is **economically constraining**. It discourages formalization, weakens productivity growth, distorts fair competition, and reduces the incentive for firms to scale or invest in long-term capacity. Over time, it holds back Pakistan's ability to expand its tax base, deepen financial markets, improve export competitiveness, and transition toward sustained, productivity-led growth.

In effect, the coexistence of a heavily regulated formal sector and a loosely regulated informal sector is a key structural bottleneck preventing the economy from operating at its full potential.

#### External Shocks and Economic Resilience:

FY2026 also underscored Pakistan's continued exposure to external developments. According to State Bank of Pakistan trade data, GCC economies account for more than 80% of Pakistan's petroleum imports, while approximately 55% of remittance inflows originate from the Gulf region. Consequently, geopolitical tensions in the Middle East have a direct impact on domestic inflation, energy costs and external sector stability.

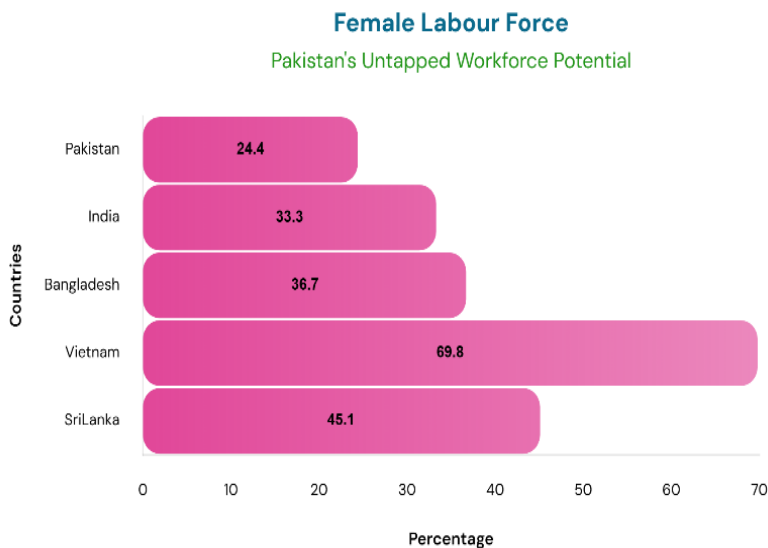


Despite these vulnerabilities, the economy demonstrated greater resilience than during previous periods of stress. Foreign exchange reserves increased from approximately USD 14.5 billion in FY2025 to above USD 21.8 billion during FY2026, while exchange-rate volatility remained comparatively contained. This suggests that improvements in macroeconomic management, IMF-supported reforms and stronger external buffers have enhanced the economy's capacity to absorb external shocks, however continued reliance on one source needs to change if the Economy is to flourish.

### Human Capital: Pakistan's Untapped Advantage:

Pakistan's demographic profile remains one of its greatest economic opportunities. According to the Pakistan Bureau of Statistics, more than 60% of the population is under the age of 30, providing the country with a potentially significant demographic dividend. However, the World Bank estimates that labour force participation among women remains below 25%, substantially lower than many comparable emerging economies.

According to the World Bank's Human Capital Index, a child born in Pakistan today is expected to achieve only 41% of their productive potential by adulthood, compared with approximately 46% in Bangladesh and over 60% in several East Asian economies. This places Pakistan below several



regional peers, including Bangladesh, highlighting the gap between population growth and workforce productivity.

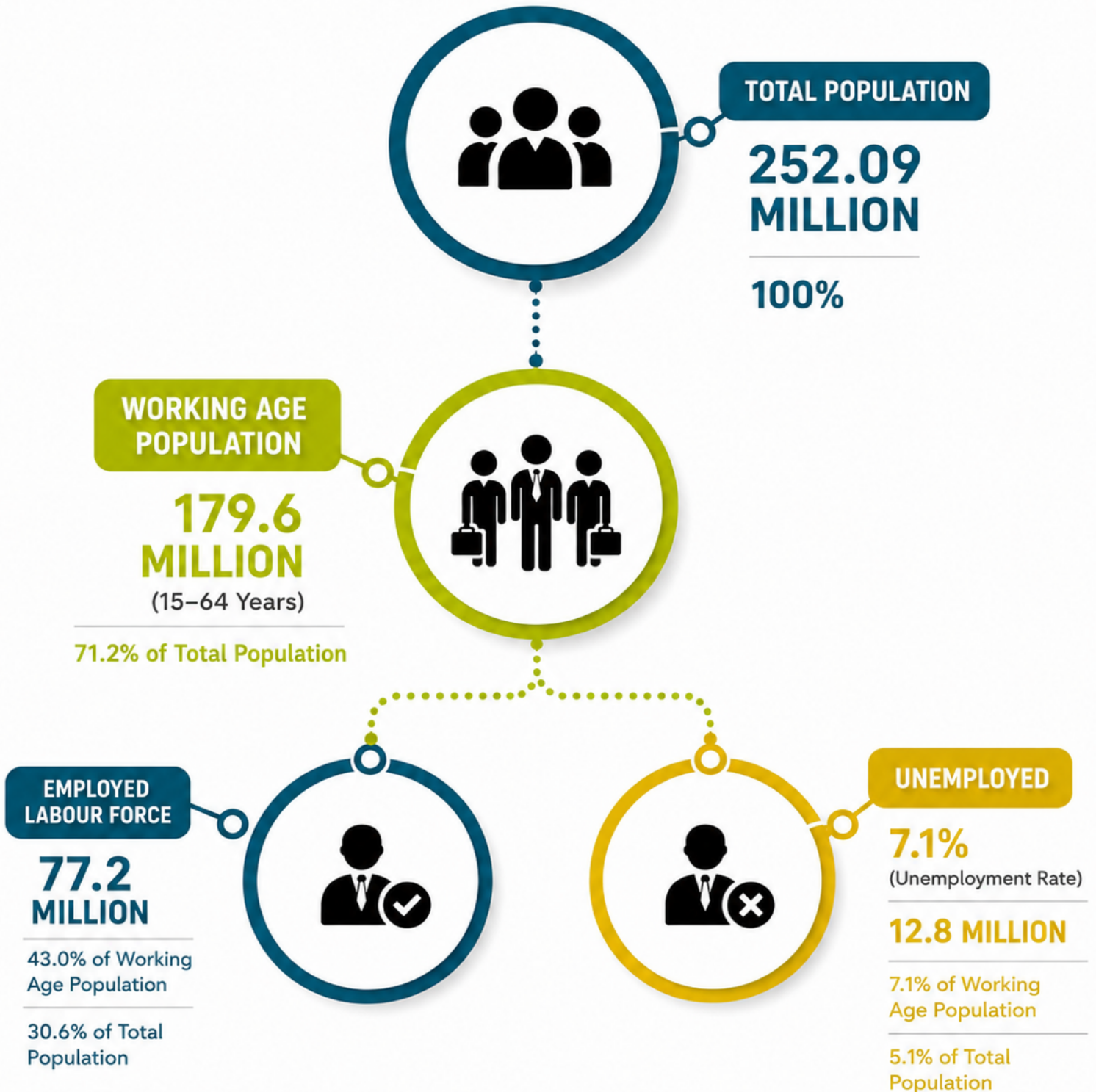
The challenge is also evident in labour market outcomes. Despite a population exceeding 240 million, Pakistan's female labour force participation rate remains below 25%, significantly lower than many emerging Asian economies. At the same time, less than 10% of the labour force is estimated to have received formal technical or vocational training, limiting the

economy's ability to move into higher-value manufacturing and technology-driven industries.

The consequence is visible in export performance. While Pakistan's goods exports remain concentrated in textiles and low-value-added products, countries such as Bangladesh and Vietnam have achieved greater diversification into higher-value manufacturing sectors. As a result, export earnings per worker and labour productivity growth continue to lag regional competitors despite Pakistan's large labour force.

# PAKISTAN'S POPULATION

From Total Population to Employment Status



### The Tax Trust Deficit:

Pakistan's fiscal challenge is not solely one of tax rates but also one of participation and trust. At its core lies a persistently narrow tax base. According to Federal Board of Revenue (FBR) data, the number of taxpayers on the Active Taxpayers' List (ATL) increased to approximately 7.0 million in FY2026, compared to around 3.7 million a few years earlier. While this reflects significant progress in tax documentation and compliance, participation remains modest relative to Pakistan's population of over 252 million. Consequently, only about 2.8% of the total population—or less than 5% of the adult population—actively participates in the income tax system, underscoring the continued challenge of broadening the tax base, improving compliance, and strengthening public trust in the fiscal system.

Despite recent progress, a limited pool of compliant taxpayers and documented businesses continue to bear a significant share of the direct tax burden. As a result, measures such as higher withholding taxes and the expanded application of Super Tax have increasingly been used to support fiscal targets, adding to the burden on the formal sector.

Despite recent improvements, according to IMF program assessments, Pakistan's tax-to-GDP ratio remains slightly above 10%, that is well below the 15%–20% range typically observed in its peer emerging economies. The gap underscores the country's narrow tax base where revenue mobilization continues to depend heavily on a limited pool of compliant taxpayers and documented businesses, while a substantial share of economic activity remains outside the formal tax framework.

Expanding the tax net, improving documentation, and strengthening taxpayer confidence will be critical to reducing pressure on existing taxpayers and supporting long-term fiscal sustainability. Strengthening trust between taxpayers and tax authorities, alongside broadening the tax base, remains critical to achieving sustainable revenue mobilization.

### The Implementation Imperative: Turning Reform into Results:

Pakistan's recent economic performance demonstrates that policy design alone is not sufficient, effective implementation remains equally important. FY2026 witnessed notable progress in macroeconomic stabilisation, with inflation declining to single digits after peaking above 30% in FY2024, foreign exchange reserves improving and the fiscal position strengthening under the IMF-supported reform programme.

At the same time, several long-standing structural challenges persist. Pakistan's tax-to-GDP ratio remains only slightly above 10%, electricity sector inefficiencies continue to place pressure on public finances, and the documented tax base remains narrow, with only around 7.0 million income tax return filers in a country of over 252 million people. These indicators highlight the gap between policy objectives and on-ground outcomes.

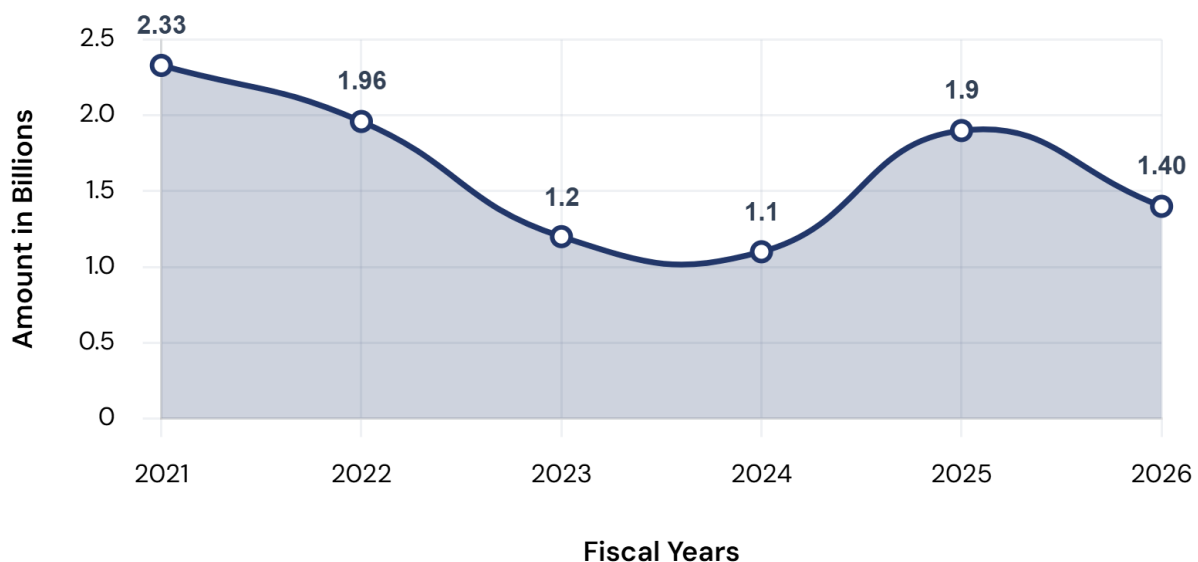
While reforms in taxation, energy, digitalisation, and public finance management have gained momentum in recent years, their full benefits will depend on consistent execution, institutional capacity and policy continuity. As Pakistan moves beyond stabilisation, the quality of implementation is likely to play a decisive role in determining whether economic gains translate into sustainable and inclusive growth.

### Low ease of doing business:

key constraint on Pakistan's investment climate is the persistent weakness in the ease of doing business environment, reflected in regulatory complexity, duplication of compliance requirements, and bureaucratic delays across multiple approval layers. This environment of red tape increases the time and cost of establishing and operating businesses, discouraging both domestic expansion and foreign direct investment. The impact is visible in recent external sector trends: according to State Bank of Pakistan data, FDI declined by approximately 26.3% during FY2026, falling from around USD 1.9 billion in FY2025 to nearly USD 1.4 billion in FY2026, reflecting subdued investor confidence and elevated structural frictions. At the same time, while official records show limited net corporate exits with only a small number of foreign companies ceasing operations in recent years according to SECP data the broader trend points to weak net new entry and cautious reinvestment by existing multinationals. This combination of lower inflows and selective divestments underscores that the challenge is not outright withdrawal, but a gradual loss of investment momentum. As a result, capital formation is slowed, technology transfer is limited, and Pakistan remains less competitive compared to regional peers in attracting long-term, high-value foreign investment.

## Pakistan's FDI Inflows

Pakistan Foreign Direct Investment Inflows (USD)





# CORPORATE REALITY CHECK A CFO'S POINT OF VIEW

## CORPORATE REALITY CHECK: FY2026; A CFO'S POINT OF VIEW

This section aims to breakdown the economy of Pakistan from the point of view of a CFO. Although the economy reflects macroeconomic stabilisation rather than operational normalisation. While headline indicators have improved, planning visibility remains constrained and capital allocation decisions continue to be driven by risk management rather than expansion.

### **FX Stability is Narrow, Currency Risk Remains Structural:**

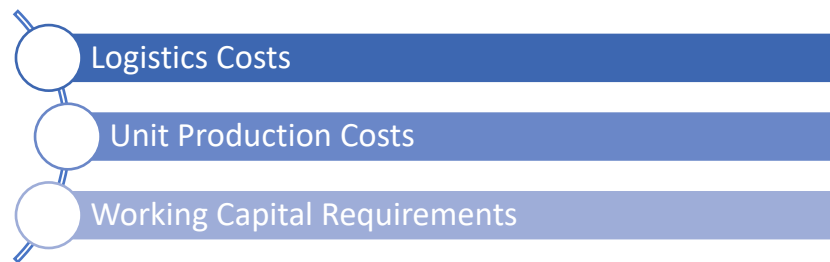
While the Pakistani rupee demonstrated relative stability during FY2026, averaging in the PKR 280–290/USD range according to State Bank of Pakistan (SBP) data, the underlying risk structure remains intact. Exchange rate movements continue to be closely linked to oil import cycles, external financing inflows, and IMF programme disbursements.

For corporate balance sheets, FX is no longer a cyclical shock variable but a permanent planning constraint. Import-heavy cost structures, USD-denominated liabilities, and revenue mismatches continue to require embedded hedging assumptions across all forecasting cycles. However, it should be noted that a relatively stable currency rate is better than a lower but extremely volatile currency rate when it comes financial planning by large corporate entities. Pakistan demonstrated this which assisted businesses in taking robust financial decisions and increased investor confidence.

### **Energy Costs: A Persistent Margin Compression Channel:**

Pakistan continues to import over 80% of its petroleum requirements, as reported by SBP trade data, leaving corporate cost structures highly exposed to global commodity cycles. During FY2026, Brent crude fluctuations in the USD 85–100 per barrel range, as reflected in IMF global benchmarks, transmitted directly into domestic fuel pricing and electricity tariffs or in short, directly into the input costs.

For corporates, this has resulted in structurally higher:



### **Tax and Policy Regime: Low Predictability, High Friction:**

Despite IMF-supported reforms, tax policy volatility remains a key constraint on capital formation. Federal Board of Revenue (FBR) data indicates only about 2.8% of the total population—or less than 5% of the adult population—actively participates active income tax filers in a population exceeding 252 million, reflecting a persistently narrow tax base and concentrated compliance burden.

For CFOs, the issue is not tax levels but predictability:

- Frequent changes in withholding structures
- Sector-specific levies and mid-cycle adjustments
- Limited forward visibility on fiscal direction

It undermines forward visibility in financial planning and forces a compression of investment horizons, with capital increasingly allocated toward short-duration, lower-commitment opportunities.

### **Infrastructure Constraints: Embedded Cost of Execution:**

According to World Bank Enterprise Survey data, electricity reliability, logistics bottlenecks and input inefficiencies continue to rank among the most binding operational constraints for firms in Pakistan.

The financial impact is directly reflected in cost structures and competitiveness metrics:

- Higher effective cost per unit vs. regional peers
- Increased reliance on captive energy systems
- Reduced export competitiveness in price-sensitive markets

From a broader macro-fiscal perspective, these constraints suppress productivity growth and limit the expansion of value-added production. They are not isolated operational inefficiencies; they represent structural drivers of recurring EBITDA pressure embedded within the production base.

### Financing Conditions: Liquidity Improving, Risk Premium Persistent:

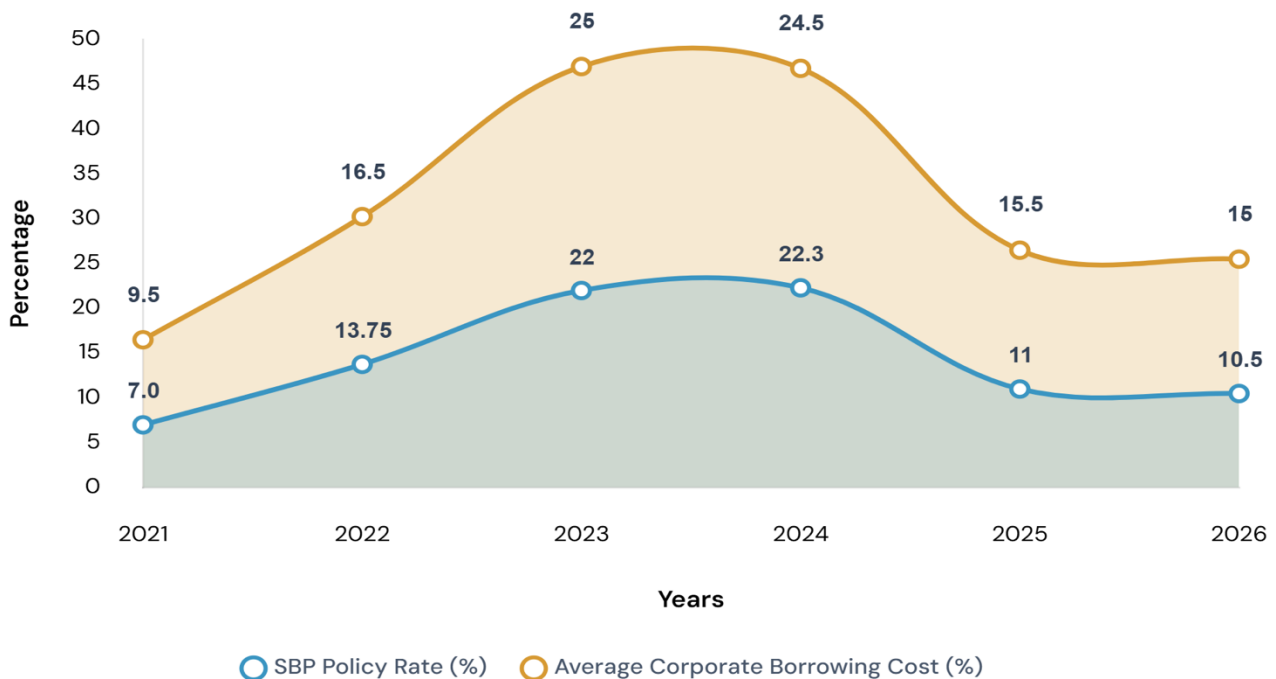
Monetary easing during FY2026 improved system liquidity conditions as the State Bank of Pakistan reduced the policy rate from **22% (peak in FY2025)** to around **10.5% in FY2026** in response to easing inflationary pressures. However, this easing has not fully transmitted into real economic borrowing conditions faced by corporates.

While headline rates declined, commercial bank lending rates for businesses remained significantly higher, averaging in the range of approximately **13–17% during FY2026 (SBP banking statistics)**, reflecting persistent sovereign risk premiums, FX volatility expectations, and collateral constraints.

This gap between policy rates and effective corporate borrowing costs reflects a weak transmission mechanism, where credit pricing continues to be driven more by risk perception than by monetary policy direction. As a result, lending activity remains concentrated in short-tenor, secured instruments, with limited appetite for long-term project finance or expansion-led borrowing. Consequently, lower policy rates have improved banking system liquidity but have had a limited impact on corporate investment behaviour. Real borrowing costs remain sufficiently elevated to discourage leveraged expansion, particularly in capital-intensive sectors where return thresholds are more sensitive to financing costs.

### SBP Policy vs Corporate Borrowing

Monetary Easing Has Not Fully Reduced Corporate Financing Costs



This translates into a structurally cautious investment environment where capital allocation is driven more by liquidity preservation than expansion. From a broader macroeconomic perspective, this constraint directly limits private sector capital expenditure, slows productivity enhancement, and delays formal sector expansion, with downstream implications for tax base broadening and revenue buoyancy.

In effect, the investment cycle remains liquidity-led rather than growth-led, reflecting a partial and uneven transmission of monetary easing into real economic activity.

The above chart illustrates the comparison between the policy rate and commercial borrowing rate over the years. This implies that the effect of reduction in borrowing rate does not completely translate into lower borrowing cost for commercial organizations.

# PAKISTAN'S TAX DILEMMA



## PAKISTAN'S TAX DILEMMA:

### Structural Revenue Constraints: A Narrow Tax Base:

Despite signs of macroeconomic recovery in FY2026, Pakistan's fiscal position continued to be constrained by a structurally narrow tax base. As reflected in Federal Board of Revenue (FBR) targets exceeding Rs. 12 trillion for FY2026, revenue mobilisation remained heavily dependent on a limited pool of documented taxpayers. A disproportionate share of direct tax collection continued to be borne by salaried individuals and compliant corporate entities, while significant segments of retail, wholesale, real estate, and parts of the services sector remained partially under-documented or outside the effective tax net. This structural imbalance continues to limit fiscal space and reinforces reliance on borrowing to meet expenditure requirements.

### Acceleration of Digital Enforcement and Compliance Reforms:

In response, the FBR accelerated its digital transformation agenda during FY2026. A key development was the rollout and expansion of the Compliance Risk Management (CRM) system, aligned with IMF-supported governance and revenue mobilisation reforms, aimed at strengthening audit selection through data-driven analytics and risk profiling.

In parallel, digital invoicing frameworks were expanded across multiple sectors to reduce under-reporting and suppressions in sales declarations. Enhanced production monitoring systems in selected industries further improved real-time visibility of output and taxable activity. Collectively, these measures reflect a gradual shift toward a more technology-enabled and enforcement-driven tax administration model, consistent with Pakistan's broader formalisation objectives.

### Expanding the Tax Net: Addressing the other side of Formal Economy:

While enforcement within the existing tax base has improved, the structural challenge remains Pakistan's large informal economy. Policy focus during FY2026 increasingly shifted toward expanding registration and compliance among retailers and non-filers, including tighter controls on high-value transactions and broader documentation requirements.

Despite these efforts, Pakistan's tax-to-GDP ratio remains below 10%, as highlighted in IMF programme assessments, significantly below regional comparators. This persistent gap continues to constrain public investment capacity in infrastructure, human capital, and social development, while increasing reliance on domestic and external borrowing. The underlying policy challenge is therefore not only revenue enhancement but sustained economic formalisation. This has resulted in higher taxes on the existing taxpayers in order to meet revenue targets.

### **FY2027: The Implementation Test:**

The full impact of these reforms is expected to materialise gradually, with FY2027 likely to serve as a critical implementation phase. Effective deployment of digital invoicing, CRM-based audits, and broader documentation initiatives could meaningfully expand the tax base without excessive reliance on rate increases.

However, if reforms remain concentrated within already compliant sectors while the informal economy remains largely outside the tax net, structural revenue pressures are likely to persist. In this context, FY2027 will be a key test of whether Pakistan's tax system is transitioning from short-term revenue mobilisation toward durable structural reform and sustainable fiscal broadening.



# **THE MIDDLE EASTERN WAR: NAVIGATING UNCERTAINTY**

## THE MIDDLE EASTERN WAR: NAVIGATING UNCERTAINTY:

Pakistan's macroeconomic recovery in FY2026 remained highly sensitive to external shocks, particularly geopolitical tensions in the Middle East. Given the economy's structural dependence on imported energy, primarily from Gulf Cooperation Council (GCC) economies, disruptions in global oil markets quickly translated into domestic inflationary pressures, higher import costs, and external account stress.

Following escalation in regional tensions, Brent crude briefly exceeded USD 100 per barrel, as reflected in IMF World Economic Outlook (WEO) updates for 2026. In Pakistan, this translated into a cumulative fuel price adjustment of nearly 20% in March 2026, for petrol from July 2025 to June 2026, the lowest price was Rs. 253.17 per litre in January 2026, the highest was Rs. 458.40 per litre on April 3, 2026, and the average was approximately Rs. 320–330 per litre. Moreover, for diesel (HSD), the lowest price was Rs. 249.70 per litre on January 1, 2026, the highest was Rs. 520.35 per litre on April 4, 2026, and the average was approximately Rs. 330–340 per litre. Both fuels saw extreme volatility in April 2026 when prices peaked due to emergency hikes from regional tensions. The pass-through effect was immediate, contributing to higher transportation costs, electricity tariffs, and broader input inflation across industries.

- **Energy Imports:**

Quite visibly, Pakistan's economy runs heavily on Gulf energy - with the GCC supplying 81% of the country's fuel imports. This dependence is now becoming increasingly costly, as soaring global oil prices and higher regional markups on top of global Brent/WTI oil prices keep pushing import bills higher.

It is rather concerning that if supply disruptions move beyond prices and start affecting actual fuel availability, the shock to economic activity could be far more severe. Sooner than later, someone needs to step in and hold the kite's string before it flies off too far.

- **Food and Fertilizer Imports:**

The ripple effects extend into agriculture as well. While Pakistan is largely self-sufficient in urea production, it remains exposed to disruptions in DAP fertilizer imports, which are critical during key cropping cycles such as the Kharif season. Any sustained supply shock could affect yields and push up food inflation, adding pressure on already stretched household budgets and widening food security concerns.

- **Remittances:**

Remittances, equivalent to around 9% of GDP, remain a crucial stabilizing force for Pakistan's external account.

Roughly 55% of these inflows originate from GCC economies, making them vulnerable to regional slowdown or labour market disruptions. Any contraction in Gulf employment or migrant worker return flows could directly weaken household consumption and strain Pakistan's balance of payments.

- **Capital Flows:**

Global financial tightening has also increased pressure on capital flows, with emerging markets facing higher volatility and reduced investor appetite. Pakistan has already experienced episodes of capital outflows, while access to short-term external financing (much of it linked to GCC banking channels) could come under further stress if risk sentiment deteriorates.

This adds another layer of vulnerability to external financing stability.

- **Fuel Price Shock and Policy Response:**

The authorities responded to rising global energy pressures with temporary and targeted measures. After an initial 20% fuel price increase in March, further adjustments were briefly delayed through a short-term subsidy to oil marketing companies costing around 0.1% of GDP financed through expenditure savings. This was later unwound in April through a temporary Rs. 80/L reduction in petroleum levy on diesel softened the impact. Ultimately, gasoline and diesel prices still rose by about 18% and 55%, respectively.

For the improvement of adjustment mechanisms, the government took steps and shifted to weekly fuel price revisions and introduced targeted relief for vulnerable groups including limited transfers for motorbike users and small farmers along with subsidized public transport in selected regions. These measures were intentionally designed to remain budget neutral.

Temporary demand-management steps were also introduced including a 4-day public sector work week and partial remote work arrangements aimed at reducing fuel consumption during the adjustment period.

### **Baseline Outlook: A Manageable but Noticeable Slowdown:**

Under the updated baseline scenario aligned with the April 2026 WEO assumptions, the economic impact on Pakistan remains moderate but clearly visible. GDP growth is expected to slow by around 0.2 percentage points in FY2026 and 0.6 percentage points in FY2027, reflecting weaker external demand and softer domestic activity. At the same time, inflation is projected to rise by approximately 0.5 percentage points in FY2026 and 1.5 percentage points in FY2027, mainly driven by pass-through effects from higher energy prices, while food and core inflation are expected to face relatively milder pressure.

### **External Pressures: Current Account and Trade Adjustments:**

The external account is also expected to come under manageable strain. The current account deficit is projected to widen by about 0.4% of GDP in FY2026 and 0.9% in FY2027, largely due to higher fuel import costs. However, part of this pressure is expected to be offset by compression in non-oil imports, particularly as demand adjusts in FY2027. This indicates that while external balances weaken, the adjustment remains contained rather than disorderly.

### **Fiscal Space and Policy Response Constraints:**

On the fiscal side, limited policy space remains a key constraint. The authorities are expected to offset the fiscal cost of delayed fuel price adjustments and targeted household relief by tightening primary expenditures. This reflects a continued focus on maintaining fiscal discipline and keeping the overall budget within program limits, even amid external shocks.

### **Downside Scenario: Risks Become Sharper:**

In a more adverse scenario, risks intensify significantly. GDP could decline by up to 1.5 percentage points by FY2027, while inflation and the current account deficit could worsen by around 2.5 percentage points and 1.5% of GDP, respectively, compared to the baseline. This highlights how quickly external shocks can translate into macroeconomic stress if conditions deteriorate beyond current assumptions.

### **Policy Anchors: Stability Depends on Discipline:**

In such a scenario, policy discipline becomes critical. With revenues likely to weaken due to lower domestic demand, further expenditure rationalization would be required to maintain fiscal sustainability while protecting vulnerable households through targeted transfers. The exchange rate would need to act as the primary shock absorber, while tight monetary policy from the State Bank of Pakistan would remain essential to anchor inflation expectations and preserve financial stability.

### **A Highly Connected but Still Exposed Economy:**

Taken together these linkages underline how closely Pakistan's economic stability remains tied to developments in the Middle East and broader global financial conditions. From energy and food imports to remittances and capital flows, external shocks continue to transmit quickly into domestic prices, the external account, and overall growth momentum.

While FY2026 demonstrated improved resilience compared to earlier crisis years, with markets reacting in a more orderly manner and buffers holding better, the economy is still structurally exposed. As a result, external stability remains a key determinant of Pakistan's ability to sustain recovery and transition toward more durable growth.



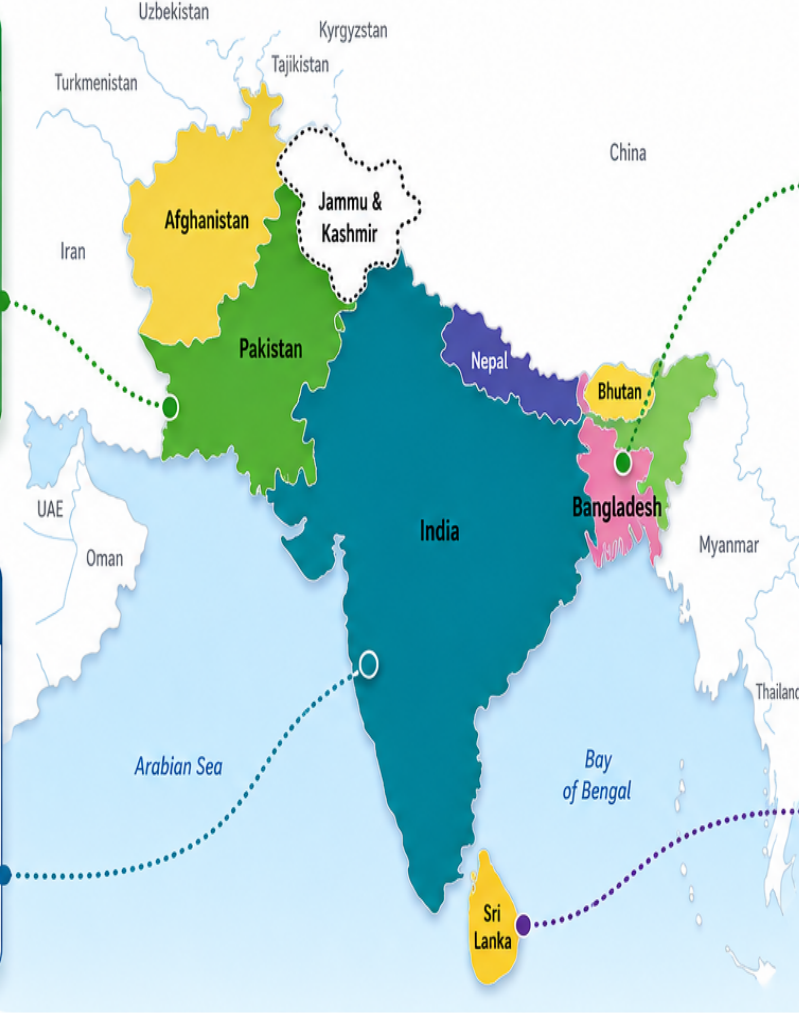
# REGIONAL COMPARISON

# REGIONAL MACRO COMPARISON

FY2026

**PAKISTAN**

Growth	<b>3.7%</b>
Inflation	<b>6.2%</b>
Reserves	<b>\$21.8B</b>



**BANGLADESH**

Growth	<b>5.8%</b>
Inflation	<b>9.5%</b>
Reserves	<b>\$22.5B</b>

**INDIA**

Growth	<b>6.8%</b>
Inflation	<b>4.5%</b>
Reserves	<b>\$620B</b>

**SRI LANKA**

Growth	<b>3.5%</b>
Inflation	<b>5.5%</b>
Reserves	<b>Recovering</b>

**KEY INSIGHTS**

- India** leads the region in growth and reserves.
- Bangladesh** maintains strong growth but faces elevated inflation.
- Pakistan** shows moderate growth with limited reserves.
- Sri Lanka** continues its economic recovery.

Source: IMF, World Bank, PBS, Central Banks & Official Sources

## Key Contacts

### Corporate Office: Karachi

RASG Tower,  
7C, Zulfiqar Commercial Street 4,  
Phase VIII - A, DHA, Karachi.  
Phone: 92 21 3493 2629, 34946112  
Email: rasgkhi@rasgco.com

### Lahore

Building No. 35 - D / E, Ali Block,  
New Garden Town, Lahore.  
Phone: 92 42 35940246-7  
Email: rasglhr@rasgco.com

### Islamabad

Office Nos. 06, 07 & 18, 3rd Floor,  
Plot No. 08, Pak Land Business Centre,  
I - 8 Markaz, Islamabad.  
Phone: 92 51 2804245-6  
Email: rasgisld@rasgco.com



GOHAR MANZOOR  
Founder and Managing Partner  
Email: gohar@rasgco.com



MUHAMMAD ALI RAFIQUE  
National Partner - Audit  
Email: muhd.ali@rasgco.com



MUHAMMAD KAMAL GOHAR  
National Partner - Advisory  
Email: kamal@rasgco.com



MOHAMMED KAMIL GOHAR  
National Partner - Taxation  
Email: kamil@rasgco.com



BABAR HABIB  
Partner  
Email: baber@rasgco.com



FAREED HUSSAIN SIDDIQUE  
Director - Taxation  
Email: fareed@rasgco.com



PROF. DR. MUHAMMAD OVAIS  
Executive Director  
Email: ovais@rasgco.com



info@rasgco.com



www.rasgco.com



rasgco



company/rasgco

