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Pakistan Economic Overview

FY2025-26

Recovery Gains Momentum
Amid Stabilization Efforts



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Pakistan Economic Overview FY26: Recovery Gains Momentum Amid Stabilization Efforts

The Pakistan Economic Survey FY26 highlights an economy gradually emerging from a prolonged period of macroeconomic stress, supported by improved external stability, easing inflationary pressures for most of the year, and continued implementation of fiscal and monetary reforms under the IMF program. While economic activity strengthened across key sectors, growth remained constrained by structural bottlenecks, tight financial conditions earlier in the year, and subdued investment activity.

Overall, FY26 reflects a stabilization-led recovery rather than a broad-based expansion cycle, with improving macro indicators masking persistent underlying vulnerabilities.

GDP Performance

Pakistan’s economy recorded a real GDP growth of 3.7% in FY26, marking the strongest expansion in four years. This compares with an estimated ~3.1% in FY25, indicating a gradual recovery trajectory.

However, growth remained below the official target of 4.2%, highlighting the gap between cyclical recovery and structural growth potential.

Key takeaways:

- Recovery remains stabilization-driven rather than investment-led
- Growth is improving but not yet broad-based or self-sustaining
- Macroeconomic adjustment continues to anchor short-term stability

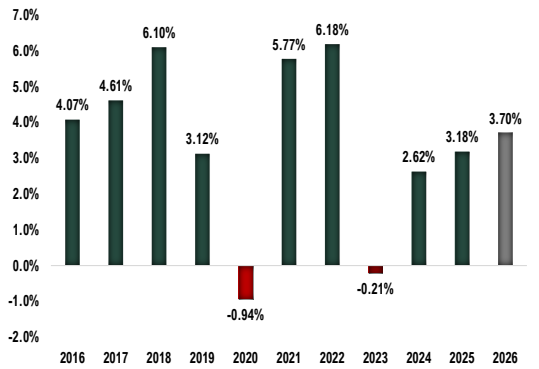
Agriculture

Agriculture expanded by 2.9%, with livestock accounting for the bulk of growth, while crop performance remained mixed. Cotton and maize production declined, highlighting ongoing productivity and competitiveness challenges in key crops. The sector also remains vulnerable to weather-related disruptions, water constraints, and limited mechanisation, underscoring the need for continued investment to improve long-term productivity.

Manufacturing & Mining

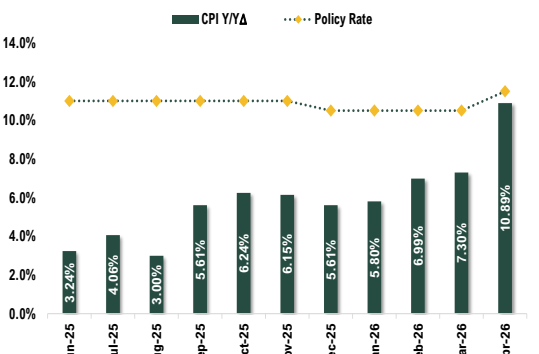
Manufacturing emerged as one of the key drivers of recovery, growing by 6.6%, supported by improved liquidity conditions, lower interest rates earlier in the year, and demand normalization.

GDP Growth



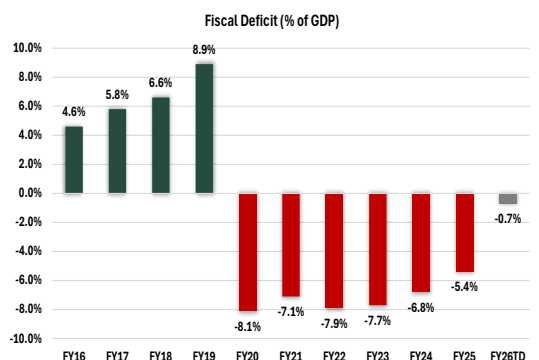
Source: SBP, HMFS Research

CPI vs Policy Rate



Source: PBS, SBP, HMFS Research

Fiscal Deficit



Source: MoF, HMFS Research

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Sector highlights:

- LSM growth: **6.5% (Jul-Mar FY26)**
- 16 out of 22 subsectors in positive territory
- Key contributors:
 - * Food products
 - * Textiles
 - * Automobiles
 - * Non-metallic minerals
 - * Electrical equipment

Mining activity also returned to positive territory after several years of contraction, though energy and resource investment remains limited.

The broad-based nature of recovery indicates:

- Early-stage industrial upcycle dynamics
- Improved domestic demand conditions
- Cyclical recovery, not structural expansion

Energy Sector

Pakistan’s energy landscape continued to reflect a gradual structural transition toward cleaner sources, though external vulnerability remained high.

Installed capacity and mix:

- Total installed capacity: 49,651 MW
- Clean energy share (hydel, nuclear, renewables): 50.8%

Despite diversification progress, external dependence remains a key macro risk:

- Petroleum import volumes: +10.5%
- Import bill: USD 8.9bn
- Gas consumption: 2,929 MMCFD
 - * RLNG share: 613 MMCFD

Key implication:

- Energy imports remain a major transmission channel for external account pressure and inflation volatility
- Geopolitical and commodity price shocks continue to pose macro risks

GROWTH RATE (at constant fc) %

	2024-2025 R	2025-2026 (Jul- March P)
GDP	3.2	3.7
Agriculture	1.5	2.9
Manufacturing	2.0	6.6
Commodity Producing Sector	3.2	3.2
Services Sector	3.1	4.1

Source: MoF, HMFS Research

GROWTH RATE (at current mp) %

	2024-2025 R	2025-2026 (Jul- March P)
Total Investment	18.3	10.9
Fixed Investment	19.8	10.9
Public Investment	44.3	5.3
Private Investment	13.2	12.8

Source: MoF, HMFS Research

(as % of GDP current mp)

	2024-2025 R	2025-2026 (Jul- March P)
Total Investment	14.4	14.4
Fixed Investment	12.7	12.7
Public Investment	3.3	3.1
Private Investment	9.5	9.6
National Savings	14.9	14.1
Foreign Savings	-0.5	0.2
Domestic Savings	7.9	7.0

Source: MoF, HMFS Research

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Fiscal Development

The fiscal position improved during FY26, with the deficit narrowing to 0.7% of GDP, supported by higher revenue collection and lower debt servicing costs.

Key observations:

- Fiscal consolidation continues under policy discipline
- Lower interest rates contributed to reduced financing costs
- Revenue performance remained stable but requires further broadening

However, structural weaknesses persist:

- Narrow tax base
- Heavy reliance on indirect taxation
- Need for improved tax administration efficiency

Money & Credit Conditions

Monetary conditions evolved through two distinct phases during FY26.

- Early phase: easing cycle supported liquidity and private sector credit expansion
- Later phase: renewed tightening pressures emerged amid geopolitical tensions and inflation risks

Key developments:

- Private sector credit growth improved during Jul–Mar
- Government borrowing pressures eased relative to previous years
- Lending rates remained elevated in real terms for most of the year

Outlook remains sensitive to:

- Inflation trajectory
- External shocks
- Monetary policy stance continuity

Capital Markets & Corporate Sector

Capital markets reflected improved macro stability and earlier monetary easing, with positive investor sentiment during most of the year.

FISCAL POLICY (as % of GDP mp)

	2024-2025 R	2025-2026 (Jul- March P)
Total Revenue	15.8	11.7
Tax Revenue	11.2	8.0
Non-Tax Revenue	4.6	3.7
Total Expenditure	21.2	12.3
Current Expenditure	18.9	11.2
Defence	1.9	1.3
Markup Payments	7.8	3.9
Others	9.2	6.0
Development Expenditure	2.6	1.5
Overall Deficit	5.4	0.7

Source: MoF, HMFS Research

STOCK EXCHANGE (growth %)

	2024-2025 R	2025-2026 (Jul- March P)
KSE 100 Index	60.1	18.4
Aggregate Market Capitalization	46.9	8.5

Source: MoF, HMFS Research

Trade and Payments (Growth %)

	2024-2025 R	2025-2026 (Jul- March P)
Exports (fob)	4.4	-8.0
Imports (fob)	11.2	6.9
Workers' Remittances	26.6	8.2
As % of GDP (mp)		
Exports (fob)	7.9	6.9
Imports (fob)	14.5	15.4
Trade Deficit	6.6	8.5
Current Account Deficit	0.5	0.0

Source: MoF, HMFS Research

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Market performance:

- KSE-100 Index: +18.4% (Jul–Mar FY26)
- Market capitalization: PKR 16.5tn (~USD 59.2bn)

Additional developments:

- Rising participation in Shariah-compliant instruments
- 57.5% of listed securities classified as Shariah-compliant
- Continued expansion in Sukuk issuance
- Healthy trend in new company registrations, particularly in IT and services

Despite gains, market depth remains limited due to:

- Narrow listed universe
- Low retail participation in equities compared to fixed-income savings instruments

IT & Telecom Sector

The digital economy continued to demonstrate strong structural growth, reinforcing its role as a key external sector stabilizer.

Key indicators:

- Broadband penetration: 64.2%
- Telecom revenues: PKR 837bn
- Fiscal contribution: PKR 285bn
- 5G spectrum auction proceeds: USD 509.6mn

Key insight:

- Sector remains highly elastic to growth and foreign inflows
- Freelancer-driven IT exports continue to support external account stability
- Structural digitalization trend remains intact

Inflation

Average CPI inflation moderated to 6.2% (Jul–Apr FY26), reflecting significant disinflation compared to prior years.

However, inflation dynamics remained sensitive to external shocks:

- Energy price volatility remained the key driver of upside risk

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- April inflation uptick highlighted imported cost pressures
- Services inflation remained relatively sticky

Key takeaway:

- Inflation stability remains fragile and externally dependent
- Sustained price stability requires continued macro discipline

Trade & External Payments

The external sector remained broadly stable, supported by strong remittance inflows and improving services exports.

Key highlights:

- Current account surplus: USD 72mn (Jul–Mar FY26)
- IT exports remained a key support factor
- Reserves position strengthened during the year

However:

- Goods trade deficit widened due to recovering imports
- External stability remains dependent on remittances and financing inflows

Assessment:

- External position is stable but not structurally strong
- Vulnerability to import cycles persists

Public Debt

Public debt stood at PKR 83.3tn (March FY26), with debt servicing continuing to absorb a significant portion of fiscal resources.

Key developments:

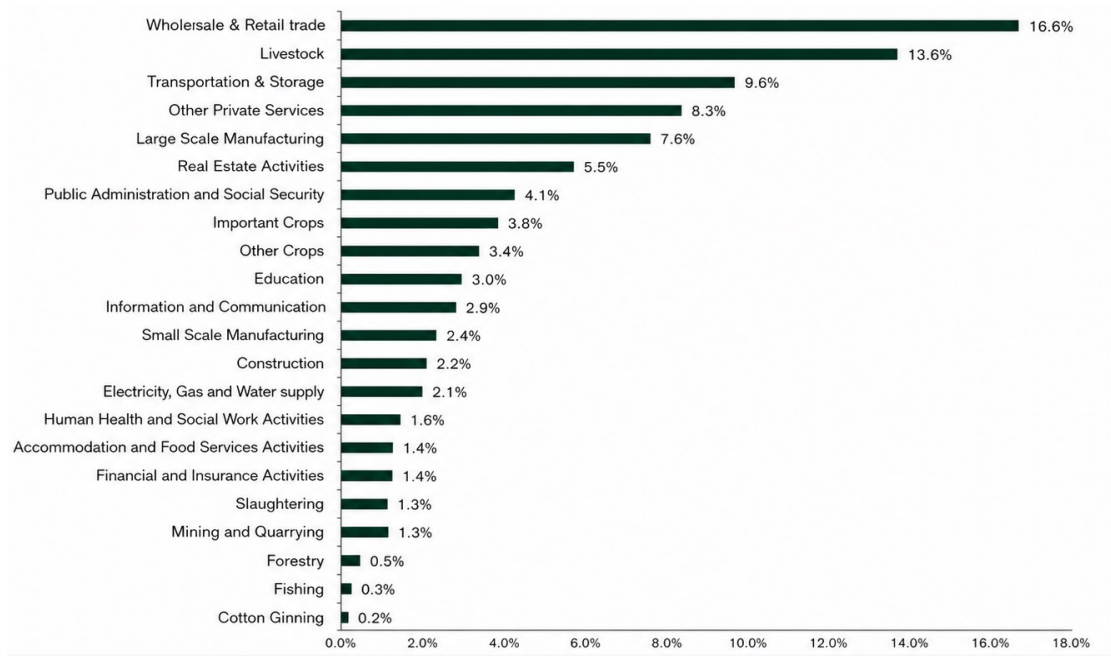
- Lower interest rates provided temporary relief in servicing costs
- Improved maturity management and diversification efforts observed
- External financing remains largely dependent on multilateral and bilateral support

Key risk factors:

- Refinancing and rollover pressures remain significant
- Debt sustainability remains closely tied to macro stability and reform continuity

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Sector Wise GDP Contribution FY2026



Source: MoF, HMFS Research

Overall Assessment

FY26 reflects a meaningful consolidation in macroeconomic stability, supported by fiscal discipline, contained inflation for most of the year, improved debt dynamics, and recovering industrial activity. However, the sustainability of this stabilization phase remains contingent on structural reforms aimed at raising investment, expanding exports, and reducing external vulnerability, particularly in the energy and trade balance channels.

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