



**ECONOMIC POLICY
& BUSINESS DEVELOPMENT**
THINK TANK

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2026-2027



Shadow

ECONOMIC SURVEY of PAKISTAN

'An Alternate Plan: From Stabilization to Growth'

'Promoting People and Business Friendly Policies'

'Beyond Statistics, Toward Transformation'

ABOUT EPBD

OUR VISION

EPBD's vision is to provide strategic advice and thought leadership to policy makers in shaping a dynamic, inclusive, and forward-looking economic policy ecosystem that unleashes the full potential of private enterprise, drives sustainable GDP growth, and ensures equitable prosperity for all

OUR MISSION

Advocacy for evidence-based and market-friendly economic policies; that catalyze industrial growth, job creation, and export competitiveness:

- Champion private sector led development by identifying and promoting reforms that incentivize innovation, investment, and fair competition
- Promote inclusive growth by ensuring that policy outcomes support social mobility, reduce inequality, and enable Pakistan's youth to thrive in a modern, industrial economy
- Foster informed dialogue between policy makers and business leaders to align national economic priorities with global opportunities

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MESSAGE FROM THE PATRON-IN-CHIEF

Bashir Jan Muhammad

It is my pleasure to present what, I believe, is a defining moment in Pakistan's policy history and advocacy – EPBD's shadow documents – first ever produced by any think tank in the country. This initiative is rightly aligned with EPBD's founding purpose of providing independent, evidence-based alternatives to official policy frameworks, and advocacy for human-centric policy approaches. I am delighted to note that EPBD is presenting 'Shadow Economic Survey' based on the principle '*Beyond Statistics, Toward Transformation*' as part of this landmark suite of four shadow documents. I would like to commend the lean, and highly committed team of EPBD, for the dedication, passion and rigour they have brought to this work.

All proposals in these documents are demand-driven and evidence-based, developed through rigorous sectoral research, structured stakeholder consultations, and expert peer reviews. It is my sincere hope that these will prove genuinely useful to policymakers and that this effort yields positive, tangible outcomes for growth of Pakistan's economy and its people. I would like to express my deep appreciation for the Board, particularly the Chairman Dr. Gohar Ejaz and the CEO Sardar Ahmad Nawaz Sukhera, whose vision, initiative, guidance and steadfast support that have made this pioneering endeavour possible.

Bashir Jan Muhammad

MESSAGE FROM THE CHAIRMAN

Dr. Gohar Ejaz, HI, SI



Presenting the annual Economic Survey in tandem with the Budget by the government, is a standard norm, which usually is an assessment of the economy over the past year and contains aspirations for the next fiscal year, mainly from the lens of government. But it lacks independent views. It is with a clear sense of purpose, and pleasure, that the EPBD presents the country's first '*Shadow Economic Survey of Pakistan*' - an independent, evidence-based assessment of the country's economic landscape with research-based forecasting and inclusion of experts', peoples' and businesses' voices, aimed to spur growth. At a time of heightened uncertainty, structural constraints, and shifting global dynamics, timely and credible economic analysis is essential for informed decision-making.

Pakistan's economy continues to face multiple pressures, including fiscal imbalances, energy constraints, external account vulnerabilities, and persistent inefficiencies across key sectors. While official statistics remain an important reference point, gaps in coverage and timeliness underscore the need for complementary, real-time analysis. This survey seeks to fill that gap by combining primary research, market intelligence, and data-driven modelling to identify emerging trends, risks, and areas of opportunity.

Sustained economic progress will depend on a stronger industrial base and a more competitive private sector. Businesses are central to investment, innovation, employment generation, and export growth. Targeted policy measures, particularly those that improve infrastructure, streamline regulation, and expand market access, can unlock productivity gains and enhance economic resilience.

This Survey is intended as a constructive contribution to the policy discourse. It aims to support evidence-based and informed policymaking, strengthen transparency, and encourage informed dialogue among stakeholders. A consistent focus on implementation, monitoring, and institutional coordination will be critical to ensuring that economic growth is both sustainable and inclusive.

I acknowledge and appreciate the tireless efforts and contributions of the EPBD team, experts' input and industry stakeholders, and particularly the FPCCI, whose insights have enriched this work. We hope this survey opens the door to informed discourse, and serves as a practical resource for decision-makers and supports more effective and growth oriented economic policymaking.

Dr. Gohar Ejaz, HI, SI



FOREWORD BY CEO

Sardar Ahmad Nawaz Sukhera HI. PAS (Retd.)

Pakistan's economic policymaking has traditionally relied on aggregate indicators, short-term stabilization priorities, and annual reporting frameworks. These serve an important and necessary function. Yet aggregate numbers, on their own, do not highlight what millions of households, workers, and businesses are living through: unemployment that is pushing talent abroad, poverty that has deepened despite stabilization gains, and the insufferable pain felt at every level of society, making the case for a more urgent shift toward a human-centric assessment that captures how economic trends translate into real outcomes on the ground.

It is with this intent and spirit that EPBD, a nascent, independent and non-partisan think tank, developed and presents Pakistan's first ever '*Shadow Economic Survey of Pakistan*'. It is an independent, evidence-based, growth-oriented and human-centric assessment of the economy linked with its prioritized 21 sectors, designed not only to evaluate performance, but also to interpret its implications for employment generation, productivity, and economic opportunity. By combining quantitative analysis with market intelligence and sectoral insights, the report seeks to complement existing perspectives and provide a more holistic and people-centered view of economic conditions.

This is not an adversarial exercise, we rather endeavoured to create a menu of choices: actionable, costed, and evidence-based for policymakers, businesses, and citizens who believe Pakistan must now shift its focus from mere stability to genuine, people-centric growth. Stability was a necessary first step. It cannot, however, be the destination when poverty, unemployment, and brain drain continue to worsen.

While the official Economic Survey of Pakistan provides an annual snapshot, this Shadow Survey adopts a forward-looking approach, presenting a structured three to five-year outlook anchored in reform sequencing and sectoral dynamics. Within this framework, the report outlines a Growth Transformation Path in which Pakistan's GDP growth is projected to reach 8.5 percent by FY2031 under an expedited reform-driven baseline scenario. This trajectory reflects the cumulative impact of coordinated policy measures across fiscal, energy, and trade domains.

We are not presenting a wish list, but a plan grounded in quantified interventions. It aims at expanding the nominal economy from approximately USD 452 billion to USD 688 billion by FY2031. Critically, this trajectory is built on drivers with the strongest multiplier effects that will eventually translate into job creation and poverty reduction: improving the cost of doing business, expanding private sector credit, strengthening manufacturing and exports, advancing housing and construction, accelerating the digital economy, and investing in human capital. Agriculture is projected to grow from 3.6 to 6.8 percent, industry from 4.3 to 9 percent, and services from 4.8 to 9.6 percent by FY2031. These projections reflect the cumulative, sequenced impact of specific, implementable reforms.

A recurring theme in this analysis is the importance of effective implementation and institutional coordination. Pakistan has developed a range of policy frameworks over time; ensuring their consistent execution and alignment remains an ongoing priority. Strengthening coordination between public institutions and the private sector, alongside enhanced data-driven monitoring, can help improve policy outcomes and responsiveness.

This report is intended as a constructive and practical resource. It does not seek to substitute official assessments, but rather to complement them by offering an additional, analytically grounded perspective. By doing so, it aims to support more informed decision-making, encourage transparency, and contribute to a more nuanced and forward-looking economic dialogue.

There is also an important reason for the timing of this report. Typically, stakeholders, i.e., businesses, civil society, citizens, react after the federal budget has already been presented. Debate happens too late to matter. We are deliberately initiating this conversation before budget proposals are finalized, so that the government has the opportunity to hear the voice of stakeholders while choices can still be made. This survey is our contribution to that space; one we hope the government, policymakers, and the broader public will engage in openly.

At the macro level, sustaining this trajectory will require keeping public debt below 60 percent of GDP, raising savings to 22.5 percent of GDP, and increasing investment to 25 percent of GDP. Per capita income growth will remain the most honest measure of whether economic expansion is reaching people.

This document is intended as a complement to official assessments, not a substitute for them. It is our sincere hope that it contributes to a more informed, transparent, and forward-looking economic debate.

I would like to acknowledge and appreciate the dedication and efforts of our EPBD team, the contributions of our external consultants, and industry stakeholders, whose inputs have strengthened the depth and relevance of this survey. Their engagement has been instrumental in ensuring that this work reflects both analytical rigor and practical insight.

It is my expectation that this *Shadow Economic Survey of Pakistan* will contribute to a clearer understanding of the country's economic trajectory, stir informed debate and support the pursuit of sustained, inclusive, and resilient growth.

Sardar Ahmad Nawaz Sukhera, HI, PAS (Retd.)

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ACRONYMS

ADB Asian Development Bank

CPI Consumer Price Index

CAB Current Account Balance

EAP East Asia and Pacific

EMDE Emerging Markets Development Economies

EPBD Economic Policy and Business Development

FBR Federal Board of Revenue

FDI Foreign Direct Investment

IMF International Monetary Fund

LSM Large-Scale Manufacturing

LSMI Large-Scale Manufacturing Industries

NFNE Non-Food, Non-Energy

NAC National Accounts Committee

PBS Pakistan Bureau of Statistics

SBP State Bank of Pakistan

WB World Bank

WPI Wholesale Price Index

EXECUTIVE SUMMARY

Pakistan's economy is at a pivotal moment. It has transitioned from a period of acute macroeconomic crisis toward gradual stabilization, supported by IMF-backed reforms and stringent policy adjustments. This phase has delivered important gains: inflation has moderated from peak levels, fiscal balances have improved, and external pressures have been partially contained. However, stabilization has come with trade-offs. Economic growth remains below potential, investment is subdued, and the lived experience of households and businesses continues to reflect persistent economic hardships in the midst of rising costs, constrained opportunities, and persistent uncertainty.

This first ever Shadow Economic Survey presents an independent, evidence-based, business-friendly, and human-centric assessment of Pakistan's economic performance. It goes beyond conventional reporting by not only evaluating recent trends but also interpreting their implications for employment, productivity, and economic opportunity. More importantly, it introduces a forward-looking framework, combining macroeconomic analysis, sectoral diagnostics, and economic modelling, to outline a credible pathway from stabilization to sustained, inclusive growth.

Macroeconomic Performance: Stabilization Without Transformation

Recent economic indicators present a mixed but improving picture. GDP growth has remained below target, with the economy expanding by 3.20 percent in FY2025 and showing modest improvement in the current fiscal year. This reflects a recovery in activity, but not yet a structural acceleration.

In the external sector, the Balance of Payments highlights both resilience and vulnerability. The current account has remained broadly stable, supported primarily by strong remittance inflows, which increased to over \$30 billion. However, this stability masks a worsening structural imbalance. Goods exports declined while imports increased, widening the trade deficit significantly. Although services exports—particularly in IT—have shown encouraging growth, they remain insufficient to offset the expanding goods deficit. Meanwhile, foreign direct investment has declined, reflecting continued investor caution and structural bottlenecks.

Fiscal performance has improved markedly under consolidation efforts. Revenues have increased due to both tax and non-tax measures, including higher petroleum levies, while expenditures—particularly interest payments—have declined. This has resulted in a fiscal deficit reduced to 0.7% of GDP for the first time in years (9M FY2025-26) and a stronger primary balance. Despite this progress, structural challenges remain, particularly in broadening the tax base, improving expenditure quality, and sustaining revenue growth without overburdening the formal sector.

Monetary policy has transitioned from aggressive tightening to gradual easing. The policy rate has declined significantly from its peak, supporting economic recovery while maintaining relative price stability. However, rising liquidity, increased government borrowing, and expanding monetary aggregates signal the need for careful calibration to avoid renewed inflationary pressures.

Inflation, while significantly lower than crisis levels, has begun to trend upward again, reaching over 7-8 percent in recent months. Energy costs, subsidy adjustments, and supply-side pressures drive this increase, especially in the wake of the recent Middle East crisis. Wholesale price trends indicate rising input costs, suggesting continued pressure on consumer prices in the near term. External risks, particularly geopolitical tensions affecting oil prices and remittance flows, add further uncertainty to the inflation outlook.

From Stabilization to Growth: A Forward-Looking Framework

While the past year reflects partial stabilization, the central contribution of this report lies in its forward-looking analysis. It argues that stabilization, though necessary, is insufficient as a long-term strategy. Without structural reform and investment-led expansion, Pakistan risks remaining trapped in a cycle of low growth and recurring external vulnerability.

To address this, the report models a five-year growth transformation pathway (FY2026–FY2031) based on phased and consistent reform implementation. The projected trajectory is explicitly non-linear, recognizing that policy reforms generate lagged but compounding effects over time.

Under the baseline scenario, Pakistan's economy can grow from 3.7 percent in FY2026 to 7.0 percent by FY2031 through gradual but sustained reform implementation. Under a high-growth scenario, where reforms are accelerated and supported by favorable global conditions, growth can reach 8.5 percent by FY2031. This scenario also entails zero trade balance.

If the reform pathway is effectively implemented, Pakistan has the potential to expand its economy by an additional \$236 billion over the next five years. This expansion would be driven by broad-based sectoral growth: agriculture increasing from 3.6 percent to 6.8 percent, industry from 4.3 percent to 9 percent, and services from 4.8 percent to 9.6 percent. Achieving this trajectory would also require a structural shift in macroeconomic fundamentals, including increasing investment to 25 percent of GDP, raising savings to 22.5 percent, reducing debt below 60 percent of GDP, and improving per capita income beyond \$2,900.

Unlocking Growth: Multiplier Effects Across Priority Sectors

A defining feature of this report is its identification of high-impact sectors and policy levers capable of generating strong multiplier effects across the economy. Rather than relying on a single driver of growth, the report emphasizes a multi-sectoral, reinforcing growth model.

Improving the cost of doing business—through rationalizing energy prices, tax structures, and regulatory frameworks—emerges as a crosscutting reform with multiplier effects of 2 to 2.5, potentially generating up to \$56 billion in economic gains.

An export-led growth strategy, focused on diversification, value addition, and trade facilitation, can yield gains of up to \$19 billion, addressing Pakistan's persistent external imbalance.

The housing and construction sector, supported by mortgage expansion, land digitization, and tax rationalization, offers both high economic returns (up to \$25 billion) and large-scale employment generation due to its strong backward linkages.

Similarly, strengthening manufacturing, particularly through SME development, policy consistency, and improved access to finance, can contribute an additional \$18 billion.

Beyond these core sectors, several enabling areas offer substantial gains:

- Expanding private sector credit by reducing government crowding-out can unlock up to \$20 billion.
- Scaling the digital economy, including IT exports and digitization, can generate around \$20 billion.
- Channeling workers' remittances toward productive investment rather than consumption can yield up to \$20 billion.
- Advancing fiscal reforms, including tax base expansion and provincial contributions, can add another \$15 billion.
- Improving public infrastructure efficiency and agricultural productivity can each contribute up to \$25 billion.

These interventions carry multiplier effects ranging from 1.1 to 2.5, creating a compounding impact that drives sustained growth across sectors.



Structural Constraints and Enabling Conditions

The report highlights that Pakistan's most binding constraint remains its low investment rate, currently around 14 percent of GDP—significantly below regional peers. Achieving higher growth will require a sustained increase in national savings, both domestic and foreign investment, supported by financial sector deepening, policy consistency, and improved business confidence.

Projections suggest a gradual normalization of inflation toward 5 percent and a steady decline in interest rates, creating a more conducive environment for private sector expansion. At the same time, improving savings rates and narrowing the savings-investment gap will be essential for financing long-term growth.

The Shift from Stability to Growth Transformation

The overarching conclusion of this Shadow Economic Survey is clear: Pakistan has moved beyond crisis, but it has not yet entered a phase of transformation. Stabilization has created a foundation—but without decisive structural reforms, it risks becoming a ceiling.

The country now faces a strategic choice. It can continue along a path of cautious stabilization with modest growth, or it can undertake a coordinated reform agenda that unlocks investment, enhances productivity, and generates employment at scale.

This report does not advocate a single solution. Instead, it presents a menu of actionable, evidence-based pathways, grounded in sectoral realities and economic modelling. The transition to high, sustained, and inclusive growth is not automatic—but it is both analytically feasible and economically achievable. Notably, the full impact of the ongoing Middle East crisis remains unassessed currently, as it is a rapidly evolving situation. Once it concludes, this survey's projections or their timeline will be revised accordingly.

Chapter 1 | Global Economic Overview

The global economy continues to operate under significant strain amid intensifying trade tensions among major powers, geopolitical fragmentation, climate-related disruptions, and elevated policy uncertainty. These developments have disrupted supply chains, weakened investor confidence, and created a more volatile external environment for trade and investment. For emerging and developing economies, such uncertainty has constrained planning horizons, delayed investment decisions, and increased macroeconomic vulnerabilities.

One visible consequence has been the moderation in foreign direct investment (FDI) flows to Emerging Market and Developing Economies (EMDEs). This is a matter of concern because FDI remains an important source of productive capital, technology transfer, employment generation, and domestic resource mobilization, particularly in lower-income economies. According to multilateral institutions, prolonged uncertainty is expected to continue weighing on growth prospects across regions.

The Asian Development Bank (ADB) has noted that despite a difficult global trade environment marked by historically high uncertainty, relatively sound domestic fundamentals in several Asian economies have supported export performance and sustained growth. While recent trade arrangements have eased some pressures, downside risks remain substantial, including renewed trade tensions, financial market volatility, and geopolitical stress.

The International Monetary Fund (IMF) has similarly observed that several Asian economies remained resilient in 2025 despite global trade disruptions and external shocks. Many countries in the region were comparatively less exposed to higher U.S. tariffs and trade dislocations, while geopolitical spillovers remained limited. Inflation moderated across many economies owing to lower food and energy prices, although demand-side and imported price pressures continued in some markets.

Against this backdrop, global growth slowed modestly from 3.3 percent in 2024 to 3.2 percent in 2025 and is projected to moderate further to 3.1 percent in 2026. If current challenges persist—including adverse trade policy shifts, geopolitical conflict, and climate-related disasters—emerging and low-income economies may continue to face weak growth, employment stress, and development setbacks.

Regional growth trends remain mixed. Growth in the Middle East, North Africa, Afghanistan and Pakistan (MENAAP) region is projected to strengthen to 3.6 percent in 2026 and 3.9 percent in 2027, largely supported by oil-exporting economies. However, renewed regional conflict has increased downside risks. The World Bank has reportedly revised Pakistan's earlier growth projection downward by 0.4 percentage points and now expects growth of 3 percent.

In East Asia and Pacific (EAP), growth moderated to an estimated 4.8 percent in 2025 from 5.0 percent in 2024, reflecting the delayed but smaller-than-expected impact of higher trade barriers and uncertainty. In China, growth slowed to an estimated 4.9 percent in 2025, with fiscal support sustaining consumption. Exports remained resilient due to front-loading ahead of tariff implementation and diversion toward non-U.S. markets. However, investment remained subdued amid continued weakness in the property sector. In the rest of EAP, growth eased to 4.6 percent in 2025 from 4.8 percent in 2024, mainly due to slower export demand.

Growth in EAP is projected to slow further to 4.4 percent in 2026 and 4.3 percent in 2027, largely due to moderation in China. Excluding China, regional growth is expected to ease to 4.5 percent in 2026 before recovering to 4.7 percent in 2027, supported by domestic policy measures.

Overall, global growth is estimated at 2.7 percent in 2025, supported partly by stronger-than-expected activity in major economies. As temporary supports fade, growth is forecast to soften to 2.6 percent in 2026, driven by weaker demand for traded goods and softer domestic demand in several economies. A modest recovery to 2.7 percent is expected in 2027, assuming no major additional trade-related shocks materialize.

Middle East Crisis: Economic Implications

The recent escalation in conflict involving Iran and the United States has materially altered the global economic outlook. Net fuel-importing regions, particularly Asia and Europe, would face the sharpest deterioration in import growth under such a scenario.

According to the Organisation for Economic Co-operation and Development (OECD) projections, global GDP growth is expected to decline from 3.3 percent last year to 2.9 percent in 2026 before edging up to 3.0 percent in 2027. These projections assume that disruptions moderate over time and that oil, gas, and fertilizer prices gradually decline from mid-2026 onward.

With energy prices rising, inflation is now projected to be 1.2 percentage points higher than previously expected in 2026, reaching 4.0 percent, before easing to 2.7 percent in 2027. In an adverse scenario where prices remain elevated for longer, global growth would be 0.5 percentage points lower by the second year of the shock, while inflation would be 0.9 percentage points higher.

Countries across Asia remain among the most exposed due to their dependence on oil and LNG shipments through the Strait of Hormuz. The Asian Development Bank (ADB) has warned that a prolonged conflict could reduce Asia's GDP growth by 0.3 percent to 1.3 percent through 2027 due to disrupted energy supplies, weaker trade demand, and financial market instability. Inflation could also rise by 0.6 percent to 3.2 percent because of higher fuel and transport costs.

Implications for Pakistan

The crisis can impact Pakistan's economy drastically due to heavy reliance on imported Petroleum, remittance inflows and exports outflows to the Gulf region. Persistent and sharp increase in oil prices would sharply raise the import bill, worsen the current account, and intensify pressure on the exchange rate. Higher fuel costs would also feed into domestic inflation, raise industrial input costs, and increase freight expenses for exporters.

Pakistan's exports to the Middle East amounted to about US\$2.4 billion during July–March FY2026, with the UAE and Saudi Arabia remaining key markets. Exports to the UAE rose marginally, while exports to Saudi Arabia improved in March despite tensions, suggesting continued demand for essential goods and services. Therefore, it is hard to ascertain the real impact of the crisis, given its uncertainty and multifaceted impact.

The crisis also presents selective opportunities. Supply diversification by importers, reconstruction demand in Gulf economies, and shortages in some markets may create openings for Pakistani exports in food products, textiles, pharmaceuticals, construction materials, and services. However, Pakistan enters this period with a thin cushion of foreign exchange reserves and limited capacity to absorb a prolonged external shock. After several years of difficult macroeconomic adjustment, the room for policy error has narrowed considerably.

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Chapter 2 | Assessment and Review of the Economy: FY2025

The macroeconomic performance of Pakistan in FY2025 reflects a phase of cautious stabilization rather than strong and sustainable growth. While certain headline indicators such as current account surplus, improved fiscal balance, and moderate GDP growth suggest short-term recovery, a deeper analysis reveals underlying structural weaknesses, sectoral imbalances, and policy constraints that continue to hinder long-term economic progress.

Overall GDP growth of 3.2 percent, below the 3.6 percent target, indicates that economic momentum remained modest. It has been revised from 3.06 percent to 3.2 percent in May 2026, reflecting a modest improvement in economic activity driven by improvement in Industry and Services sectors. While the revision is encouraging, it also highlights the uneven nature of the recovery and the economy's continued dependence on a limited number of sectors.

The details and changes are discussed below:

Sector/Industry	GVA (PKR Billion)		Growth Rate (%)	
	Revised (as of Mar-26)	Revised (as of May-26)	Revised (as of Mar-26)	Revised (as of May-26)
Agriculture	9,695	9,696	1.53	1.53
Industry	7,432	7,458	5.23	5.56
Services	23,863	23,889	3.03	3.14
Total	40,991	41,042	3.06	3.18

In the revised estimates, the growth of agriculture sector has remained the same at 1.53 percent as estimated previously. Industrial growth was revised upward from 5.23 percent to 5.56 percent, primarily on the back of stronger construction sector performance, with growth revised from 6.54 percent to 8.77 percent. The construction-related expenditure in the public sector has witnessed an increase by 5.4 percent. Services sector has also improved from 3.03 percent to 3.14 percent due to improvement in Finance and Insurance from 6.27 percent to 9.10 percent. The GVA of insurance and State Bank of Pakistan has increased.

The revised estimates of Gross Fixed Capital Formation (GFCF) for FY2024–25 increased from Rs 14,308.8 billion to Rs 14,492.3 billion, reflecting an upward revision of 1.2 percent. This indicates a modest improvement in investment activity and places overall fixed investment at approximately 12.6 percent of GDP.

The revision was primarily driven by stronger private sector investment, which increased by 1.6 percent to Rs 10,778.5 billion. Significant gains were recorded in Large-Scale Manufacturing (11.3 percent), Transport and Storage (2.6 percent), and Finance and Insurance (34.2 percent), reflecting updated data submissions from manufacturing firms, transport operators, banks, and insurance institutions. These improvements suggest growing business confidence and renewed investment in productive sectors.

Public sector GFCF also improved by 2.7 percent to Rs 673.7 billion, supported mainly by higher investment in electricity, gas and water supply, as well as finance and insurance.

However, a few sectors, such as transportation and communication, were revised downward. Public investment remained broadly unchanged. Within government spending, education recorded a substantial increase, whereas health and public administration showed decline.

Overall, the revised GFCF figures present a slightly stronger investment outlook for FY2024–25. The increase to around 12.6 percent of GDP is encouraging, but it remains below the level required to sustain high and broad-based economic growth. Pakistan will need a significantly higher investment-to-GDP ratio to achieve its medium-term growth objectives and strengthen productive capacity.

External Sector Review FY 2025

FY2025 marked a current account surplus of US\$2.1 billion, largely driven by record-high workers' remittances of US\$38 billion. Goods exports grew modestly by 4.4 percent to US\$ 32.3 billion, compared with growth of 11.2 percent to US\$30.9 billion in the previous year. In contrast, goods imports rose sharply by 10 percent to US\$59.1 billion from US\$53.1 billion, after having grown by only 0.9 percent last year. Services exports increased to US\$8.4 billion from US\$7.6 billion, while services imports rose to US\$11.05 billion from US\$10.8 billion, widening the trade deficit. This reflects Pakistan's continued dependence on imported raw materials, machinery, and energy inputs, exposing the economy to external shocks. The growth in ICT services exports is encouraging, yet overall export diversification remains limited.

The financial account performance highlights persistent vulnerabilities. The financial account recorded a net inflow of US\$1.5 billion, compared to US\$5.4 billion recorded in the previous year. However, official loan disbursements largely dominated the inflows. Foreign Direct Investment (FDI) increased modestly to US\$2.4 billion, compared to US\$ 2.1 billion last year, but foreign portfolio investment (FPI) witnessed net outflows of US\$637 million, compared to US\$376 million last year. The continued withdrawal of portfolio capital points to weak investor confidence, reflecting political uncertainty, policy inconsistency, external financing concerns, and an unsettled global economic environment.

Merchandise Trade

Pakistan's merchandise trade performance in FY2025 reflects a modest recovery in exports alongside a relatively stronger rebound in imports, resulting in a widening trade deficit. While export growth of 4.5 percent indicates some resilience particularly in value-added textiles, petroleum products, IT-related services, and selected industrial goods, the pace remains insufficient to improve the external balance significantly. This underscores the persistent structural weaknesses in Pakistan's export base, including limited diversification, low technological upgrading, and high dependence on a narrow range of products and markets.

On the import side, the 6.5 percent increase signals a revival in domestic economic activity, as well as continued reliance on imported energy, machinery, and intermediate goods. However, the faster growth in imports relative to exports has led to a 9.2 percent expansion in the trade deficit, reaching US\$ 26.323 billion. This widening gap continues to exert pressure on the current account and foreign exchange reserves, posing risks to external sector stability.

Export Structure

Based on product composition, Pakistan's exports can be categorized into three broad groups: Primary Goods, Semi-Manufactured Goods, and Manufactured Goods. In FY2025, Pakistan's export structure remained heavily concentrated in Manufactured Goods, which accounted for the largest share of 76 percent of total exports. This reflects the country's continued reliance on value-added products, particularly textiles and related industries.

Primary Goods constituted 18 percent of total exports, indicating a moderate contribution from agriculture and raw material-based products. Meanwhile, Semi-Manufactured Goods made up the remaining 6 percent, highlighting relatively limited diversification in intermediate goods production.

Major Export Destinations

The United States remained Pakistan's largest export destination in FY2025, with exports increasing by 10.3 percent to US\$ 5.83 billion, accounting for 18.2 percent of total exports.

Among regional partners, Afghanistan recorded remarkable growth of 44.8 percent, with exports reaching US\$ 1.65 billion, reflecting strong cross-border trade and robust regional demand.

European markets also demonstrated solid performance. Exports to Germany grew by 9.6 percent, the Netherlands by 9.2 percent, Spain by 8.7 percent, and the United Kingdom by 5.7 percent, indicating sustained demand for Pakistani goods across both the European Union and the UK.

Notably, several smaller but emerging markets posted exceptional expansion. Exports to Thailand surged by 74.6 percent, while those to Denmark grew by 31.3 percent, signaling Pakistan's gradual diversification into new and non-traditional markets.

In the Middle East, exports to the United Arab Emirates increased by 10.1 percent, while Saudi Arabia recorded modest growth of 2.5 percent.

Imports

Pakistan's import composition in FY2025 reflects a healthy yet evolving structure. Although the Petroleum group continues to dominate the import basket, its relative share has gradually declined. There has been strong growth in sectors such as Textiles, Machinery, Metals, and Transport.

Overall imports grew by 6.5 percent in FY2025, reversing a contraction of 1.0 percent in FY2024. This recovery was broad-based, with most sectors — energy being a notable exception — experiencing volume-driven growth. Despite easing global commodity prices, higher imports of industrial raw materials, machinery, and metals point to a revival in domestic industrial activity.

Pakistan's total import bill rose to US\$ 58.363 billion in FY2025, up from US\$ 54.779 billion in the last year. Imports exhibited notable monthly volatility during the year. The largest contraction occurred in June (-2.3 percent), while the highest increase was recorded in September (17.9 percent). Subsequently, imports declined by 6.1 percent in October and 0.6 percent in November.

These fluctuations underscore Pakistan's continued vulnerability to global commodity and fuel price movements. However, a significant portion of imports — particularly energy, food, and industrial inputs — remains relatively inelastic, limiting the country's ability to adjust import volumes in response to price changes.

Overall, while petroleum products still dominate, their relative importance is gradually diminishing, whereas sectors such as machinery, transport, textiles, and metals are gaining prominence. This trend reflects a structural shift toward industrial expansion and export competitiveness, which is a positive sign for long-term economic growth.

The overall trade outlook remains constrained by both external and domestic factors. Intensifying regional competition from countries such as Bangladesh, India, and Vietnam — supported by better infrastructure, lower energy costs, and more efficient supply chains — continues to erode Pakistan's competitiveness in global markets. Domestically, high energy tariffs, supply-side bottlenecks, and policy uncertainty have adversely affected export-oriented industries, particularly textiles, limiting their capacity to scale and compete effectively.

Going forward, sustaining export growth and narrowing the trade deficit will require a comprehensive policy approach. Key priorities include reducing the cost of doing business, especially energy costs, enhancing export diversification, improving trade facilitation, and strengthening industrial competitiveness through technological upgrading and value addition. Without structural reforms, Pakistan's trade imbalance is likely to persist, constraining long-term economic growth and external sector sustainability.

Monetary Aggregate

The monetary developments in FY2025 reflect the combined effects of stabilization policies, external inflows, and gradually changing credit conditions. Broad money (M2) growth moderated to 13.7 percent, down from 16.0 percent in FY2024, indicating tighter monetary conditions aimed at containing inflationary pressures and restoring macroeconomic stability.

A key driver of this deceleration was slower growth in Net Domestic Assets (NDA), which expanded by 8.2 percent compared with 13.1 percent in the previous year. This largely reflects fiscal consolidation, reduced government borrowing from the banking system, and lower credit exposure to public sector enterprises (PSEs). From a stability perspective, this is a favourable development. However, weaker domestic credit expansion may also constrain productive investment and medium-term growth if not offset by stronger private-sector activity.

In contrast, the contribution of Net Foreign Assets (NFA) increased significantly to 5.3 percent, nearly three times the level recorded last year. This rise was driven mainly by the current account surplus, inflows under the IMF's Extended Fund Facility (EFF), and support from multilateral and bilateral partners. While the accumulation of foreign exchange reserves strengthens external buffers and supports exchange rate stability, reliance on such inflows also creates vulnerability. External financing is often conditional and subject to reversal, making monetary stability partly dependent on continued foreign support rather than domestic resilience.

Encouragingly, the composition of NDA showed some qualitative improvement. Private sector credit (PSC) growth rebounded strongly to 12.2 percent, nearly double the pace of the previous year. This suggests improving business sentiment and better credit availability for working capital and fixed investment. The broad-based nature of this expansion across sectors indicates a gradual normalization of economic activity. However, the recovery follows two years of subdued credit growth, implying that overall private investment may still remain below potential.

On the fiscal side, government borrowing from scheduled banks declined sharply by 20.3 percent from a high base, reflecting successful fiscal consolidation efforts. In addition, net retirements by PSEs and reduced commodity financing further eased pressure on NDA. While these developments reduce crowding out of private borrowers, they also highlight longstanding structural weaknesses in public sector financial management, particularly the repeated need for borrowing by PSEs and commodity operations in earlier years.

The contraction in credit to PSEs by Rs 87 billion is positive insofar as it limits fiscal risks and reduces pressure on the banking system. However, it may also indicate underinvestment or unresolved inefficiencies within these entities. Without governance reform and operational restructuring, lower borrowing alone is unlikely to translate into improved performance or a durable reduction in fiscal burdens.

Overall, FY2025 reflects progress toward a more balanced monetary framework, characterized by reduced fiscal dominance and a stronger contribution from the external sector. However, the sustainability of these gains will depend on strengthening domestic sources of growth, deepening private-sector investment, and reducing reliance on potentially volatile external inflows.

Fiscal Development

FY2025 marked a significant rise in revenue growth, which significantly narrowed down the fiscal deficit to 5.4 percent of GDP. This improvement stemmed from tax collection efforts, possibly supported by administrative measures, inflationary gains, and enhanced enforcement. Reliance on one-off measures and cyclical factors raises questions about sustainability of fiscal interventions.

The primary surplus reached 2.4 percent of GDP, the highest level in over two decades. This reflects strong fiscal discipline, particularly through the containment of non-markup expenditures. While

expenditure cuts were a step in the right direction, they should be accompanied by efficiency gains and sustainability to ensure fruitful economic recovery.

Moreover, debt-servicing, albeit improved as a percentage of fiscal indicators, still remain high, particularly when compared to historical averages. This indicates large public debt stock and high interest rates in the previous years. As a result, a significant portion of government revenue continues to be absorbed by debt servicing, leaving limited fiscal space for productive investments.

Externally, the fiscal improvement must also be viewed in the context of global economic uncertainty, including trade tensions, volatile capital flows, and tight financial conditions. These factors pose risks to revenue projections, exchange rate stability, and borrowing costs, potentially reversing fiscal gains if not managed carefully.

Total revenues grew substantially by 35.6 percent to 15.8 percent of GDP. This increase was driven by both tax and non-tax revenues, particularly higher collections from direct and indirect taxes. Nonetheless, the composition of revenue growth remains a concern. A considerable portion of the increase in direct taxes appears to have stemmed from higher tax rates and withholding measures rather than broad-based structural reform or meaningful documentation of the economy. Likewise, the rise in indirect taxes—mainly through withdrawal of exemptions and higher import duties—places a heavier burden on consumption and may exacerbate inflationary pressures as well as income inequality.

The sharp surge in non-tax revenues, from central bank profits and Petroleum Development Levy (PDL), also warrants caution. These sources are inherently volatile and non-recurring in nature, making them unreliable for long-term fiscal planning. Heavy reliance on such revenues may mask underlying weaknesses in the tax system and delay necessary structural reforms.

Provincial tax performance remains a persistent area of concern. Despite a marginal increase, provincial taxes continue to contribute less than 1 percent of GDP, highlighting weak fiscal effort at the subnational level. The dependence on federal transfers under the NFC Award reduces incentives for provinces to enhance their own revenue bases. Moreover, the growth in provincial taxes is largely driven by indirect taxation, particularly GST on services, while direct tax mobilization remains weak, limiting progress toward a more equitable tax structure.

On the expenditure side, the increase to 21.5 percent of GDP reflects expansionary fiscal policy, primarily driven by non-interest expenditure. While higher development spending is a positive sign, especially at the provincial level, the effectiveness and efficiency of such spending remain questionable. The underperformance of the federal PSDP due to administrative constraints points to institutional weaknesses in planning and execution. Without improvements in governance and project management, increased allocations may not translate into desired economic outcomes.

The containment of interest expenditure at 7.8 percent of GDP is a welcome development, largely attributable to declining interest rates and proactive debt management strategies. However, the overall level of debt servicing remains elevated compared to historical averages, continuing to crowd out fiscal space for productive spending. This indicates that despite short-term relief, debt sustainability risks persist.

Furthermore, the rise in non-interest expenditure driven by defense, subsidies, and administrative costs raises concerns about expenditure prioritization. Limited progress in rationalizing current expenditures, particularly untargeted subsidies and inefficiencies in government operations, constrains the government's ability to redirect resources toward growth enhancing sectors such as health, education, and infrastructure.

While FY2025 fiscal outcomes demonstrate short-term stabilization and improved fiscal indicators, they rely heavily on cyclical and non-sustainable factors.

The absence of deep structural reforms in taxation, continued reliance on indirect and non-tax revenues, weak provincial fiscal effort, and inefficiencies in public expenditure underscore the need for comprehensive fiscal reforms.

Sustaining fiscal consolidation will require broadening the tax base, enhancing provincial revenue mobilization, improving expenditure efficiency, and ensuring prudent debt management to achieve long-term macroeconomic stability.

Breakup of Consolidated Revenue¹

	Values (PKR billion)			Percent of GDP			Growth (Percent)		
	FY20-FY24 Avg.	FY24	FY25	FY20-FY24 Avg.	FY24	FY25	FY20-FY24 Avg.	FY24	FY25
Total Revenue (a+b)	8,823	13,269	17,997	12.3	12.6	15.8	22.4	37.7	35.6
(a) Tax revenue	6,869	10,085	12,723	9.6	9.6	11.2	19.3	29	26.2
Federal	6,277	9,311	11,744	8.7	8.9	10.3	19.8	29.9	26.1
Direct taxes	2,668	4,531	5,792	3.6	4.3	5.1	26.5	38.5	27.8
Indirect taxes	3,609	4,780	5,953	5.1	4.5	5.2	15.5	22.7	24.5
Sales tax	2,362	3,099	3,901	3.4	2.9	3.4	16.6	19.5	25.9
Federal excise duty	359	577	767	0.5	0.5	0.7	21.0	56.2	32.8
Customs	888	1,104	1,285	1.3	1.1	1.1	11.2	18.1	16.4
Provincial	592	774	979	0.8	0.7	0.9	14.3	19.2	26.4
Direct taxes	-	39	38	-	0.0	0.0	-	8.3	-2.6
Land revenue	-	23	20	-	0.0	0.0	-	7.6	-11.8
Property tax	-	5	7	-	0.0	0.0	-	-31.4	42.0
Indirect taxes	-	735	941	-	0.7	0.8	-	19.8	27.9
Sales tax on services	361	505	612	0.5	0.5	0.5	20.1	21	21.4
(b) Non-tax revenue	1,954	3,184	5,275	2.8	3.0	4.6	52.3	75.4	65.6
Federal	1,800	2,961	4,961	2.6	2.8	4.4	57.2	79.6	67.5
SBP profit	681	972	2,620	1.0	0.9	2.3	1,491.0	161.9	169.5
PDL	489	1,019	1,220	0.6	1.0	1.1	89.5	75.8	19.7
Provincial	154	223	314	0.2	0.2	0.3	22.9	34.5	40.6
Profits (Hydroelectricity)	26	24	99	0.0	0.0	0.1	65.5	334	313.9
Others, including forest	122	192	198	0.2	0.2	0.2	26.3	24.7	3.2
Memorandum Items									
Nominal GDP^{*2}	71,775	105,190	113,748	-	-	-	-	-	-

Source: Finance Division

Public Debt

Pakistan's public debt profile in FY2025 reflects macroeconomic stabilization but also indicates persistent structural vulnerabilities.

The government's fiscal consolidation efforts evidenced by a higher primary surplus and a reduction in the fiscal deficit to 6.2 percent of GDP represent a positive development. This indicates improved fiscal discipline and better expenditure management, but continued reliance on borrowing to finance a still sizable fiscal deficit underscores the structural imbalance between revenues and expenditures. In essence, the primary surplus, though encouraging, remains insufficient to halt the accumulation of debt.

The rise in total public debt to Rs 80.5 trillion (around 70 percent of GDP) raises concerns regarding long-term debt sustainability. Although the increase in the debt-to-GDP ratio is partly attributed to lower nominal GDP growth due to disinflation, this also highlights Pakistan's vulnerability to macroeconomic shocks. A slowdown in inflation may be beneficial for price stability, but when accompanied by weak growth, it can exacerbate debt ratios, limiting fiscal space.

¹Note: Numbers might not add up due to rounding-off

^{*2} Revised GDP numbers as published by PBS in October 2025

From a composition perspective, the shift towards domestic borrowing — now accounting for 48 percent of GDP— is a trade-off. On one hand, reliance on domestic sources reduces exposure to exchange rate risk, but on the other hand, it intensifies pressure on the domestic financial system. High domestic borrowing can crowd out private sector credit, thereby constraining investment and economic growth.

Although the government has made progress in lengthening the maturity profile through instruments like PIBs and Sukuk, the elevated level of domestic debt servicing (Rs 8.1 trillion) continues to consume a substantial portion of fiscal resources, limiting space for development spending.

The growth in interest payments slowed significantly (9 percent compared to 43 percent in last year), reflecting the impact of easing interest rates. However, the absolute level of interest expenditure remains alarmingly high, indicating that debt servicing is still a major fiscal burden. This highlights the structural issue of a high-cost debt portfolio accumulated during previous periods of tight monetary policy.

On the external front, the moderate 6 percent year-on-year increase in external debt, combined with a compositional tilt toward multilateral and bilateral sources, provides a degree of relative stability. Such financing is typically concessional in nature, carries longer maturities, and entails lower refinancing risk — all of which reflect a measured and prudent dimension of Pakistan's broader debt strategy. That said, the deepening reliance on multilateral institutions, including successive IMF programs, raises legitimate questions about the erosion of policy autonomy and the risk of entrenching long-term dependency.

Compounding this concern is the economy's continued dependence on external inflows to sustain foreign exchange reserves, which leaves Pakistan exposed to shifts in global financial conditions and fluctuations in donor sentiment — factors that lie largely outside its control. The marginal rise in external debt servicing obligations, now standing at US\$13.7 billion, may appear manageable in the near term, particularly given the backdrop of relatively stable exchange rates and a modest improvement in reserve buffers. However, the longer-term sustainability of these external obligations remains critically contingent on the uninterrupted flow of external financing and a sustained expansion in export earnings — both of which are inherently vulnerable to external shocks and global economic volatility.

In this context, the recent decline in interest payments, attributable to lower global benchmark rates, should be viewed as a temporary reprieve rather than a structural improvement. Should global financial conditions tighten, this relief could reverse swiftly, adding renewed pressure to an already constrained fiscal position. A further area warranting close attention is the growing footprint of provincial borrowing, most notably by Punjab and Sindh. While the decentralization of debt can, in principle, enhance development financing capacity at the sub-national level and bring investment closer to where it is needed, it simultaneously introduces coordination challenges and systemic risks to overall debt management. Without robust oversight mechanisms and clear fiscal discipline at the provincial level, this trend has the potential to complicate the consolidation of Pakistan's national debt strategy and undermine broader macroeconomic stability.

Although FY2025 reflects progress in fiscal consolidation and debt management, Pakistan's public debt remains elevated and structurally constrained. The key challenges lie in reducing reliance on borrowing, enhancing revenue mobilization, sustaining economic growth, and improving the efficiency of public spending. Without addressing these underlying issues, the risk of debt distress and fiscal fragility will persist, despite short-term stabilization gains.

Prices and Inflation

The inflation outlook in FY2025 marked a significant turnaround for Pakistan's economy, with CPI inflation declining sharply to 4.5 percent from an exceptionally high 23.4 percent in FY2024. While this disinflation appears encouraging on the surface, a deeper analysis reveals that it is largely driven by temporary, demand-suppressing factors rather than sustainable structural improvements in the economy.

A key factor behind the decline in inflation was the continuation of a tight monetary policy stance, accompanied by fiscal consolidation measures. These policies compressed aggregate demand, limiting both consumption and investment. However, this reduction in inflation came at the cost of slower economic activity, lower incomes, and constrained business growth. In particular, reduced farm incomes resulting from declining agricultural prices suggest that the disinflationary trend may have adversely affected rural livelihoods, raising concerns about income inequality and welfare.

On the supply side, favorable developments — such as improved availability of food commodities and a good wheat crop — played a crucial role in lowering food inflation. Since food constitutes a major share of Pakistan's CPI basket, the steep fall in wheat and wheat flour prices significantly reduced overall inflation. However, this reliance on a single crop exposes inflation trends to volatility, as any future supply shock — such as adverse weather conditions or crop failure — could quickly reverse these gains. The decline in food inflation therefore appears cyclical rather than structural.

Similarly, the reduction in energy inflation was influenced by administrative decisions, including downward adjustments in energy tariffs, as well as softer international commodity prices. While these factors provided temporary relief, they are not fully within domestic control. Any increase in global oil prices or exchange rate depreciation could quickly transmit into higher domestic inflation, highlighting the fragility of the current low-inflation environment.

Another important dimension is the behavior of core inflation — that is, non-food, non-energy inflation — which declined but remained relatively elevated, at 6.9 percent in urban areas and 8.6 percent in rural areas on a year-on-year basis in June 2025. This indicates that underlying inflationary pressures persist in the economy despite the overall decline in headline inflation. Sticky core inflation suggests that structural issues — such as supply chain inefficiencies, market rigidities, and taxation distortions — continue to exert upward pressure on prices.

The divergence between urban and rural inflation trends is also noteworthy. While urban inflation showed a steady decline, rural inflation exhibited a slight increase on a month-on-month basis, suggesting that the benefits of disinflation were not evenly distributed across regions. Rural households, which are more vulnerable to fluctuations in food prices and income shocks, may not have experienced the same degree of relief as their urban counterparts.

Furthermore, the modest increase in the Wholesale Price Index (WPI) signals potential future inflationary pressures. Since wholesale prices often serve as a leading indicator, even a small upward trend could eventually pass through to consumer prices, particularly if demand conditions begin to recover. Similarly, the decline in the Sensitive Price Indicator (SPI) reflects short-term price stability in essential items but does not necessarily point to long-term price sustainability.

In broader terms, the sharp decline in inflation during FY2025 should be interpreted with caution. It reflects a combination of suppressed demand, favorable agricultural output, and temporary external factors, rather than deep-rooted economic reform.

The absence of structural improvements in productivity, supply chains, and market efficiency means that inflationary pressures could re-emerge once economic activity picks up.

Assessment and Review of PSDP FY2025

The Federal Public Sector Development Program (PSDP) for FY2025 reflects the government's attempt to balance fiscal constraints with development priorities. While the program retains its central role in driving infrastructure and socio-economic development, several structural and implementation challenges limit its overall effectiveness.

The downward revision of PSDP's size from Rs 1,400 billion to around Rs 1,100 billion³ highlights the prevailing fiscal pressures and resource constraints. Although rationalization was necessary to maintain macroeconomic stability, such a sharp contraction raises concerns about the pace of development, particularly in a country with significant infrastructure deficits and social sector needs. It is crucial to maintain the balance between macroeconomic stability and development expenditure, which can be achieved by excluding unproductive, unnecessary PSDP projects. A detailed cost-benefit analysis of PSDP projects is therefore required urgently.

Nevertheless, the current PSDP puts the strong emphasis on completion of ongoing projects, directing approximately 83 percent of allocations toward them. This reflects an improvement in development planning by addressing the long-standing issue of project proliferation and cost overruns due to the initiation of too many new schemes. Prioritizing near completion projects can enhance efficiency, reduce sunk costs, and yield quicker economic returns.

The sectoral allocation pattern also presents a mixed picture. The infrastructure sector, receiving around 60 percent of total PSDP resources, continues to dominate development spending. While investment in transport, energy, and water is critical for economic growth, this heavy concentration may come at the expense of human development. The social sector allocation of 18 percent, though significant, remains insufficient in the context of Pakistan's pressing challenges in education, healthcare, and population growth. Underinvestment in these areas can undermine long-term productivity and inclusive growth.

The PSDP places increased focus on IT & Telecom, Science & Technology, and Governance, which is crucial for a knowledge-based economy and institutional strengthening. However, the effectiveness of these allocations depends heavily on the nature of programs (brick and mortar vs targeted interventions), implementation capacity, regulatory reforms, and private sector integration. Without complementary policy measures, these investments may not translate into meaningful technological advancement or improved service delivery.

The allocation of 13 percent for balanced regional development, particularly for Azad Jammu & Kashmir (AJ&K), Gilgit-Baltistan (GB), and merged districts of Khyber Pakhtunkhwa, reflects a commitment to reducing regional disparities. Historical evidence suggests that such allocations often face bottlenecks in execution due to weak administrative capacity, security concerns, and governance issues. Therefore, the due focus should be on institutional strengthening and local-level capacity building.

Another critical concern is the limited progress in Public-Private Partnership (PPP) financing, with Rs 100 billion initially planned but facing implementation challenges. Pakistan's PPP framework remains underdeveloped, beset by issues related to risk-sharing, legal frameworks, and investor confidence. As a result, reliance on traditional public financing continues to dominate, further straining fiscal space.

Moreover, the PSDP continues to project delays, causing cost escalations and inefficiencies in fund utilization. Weak project appraisal, political interference in project selection, and inadequate monitoring mechanisms reduce the overall effectiveness of development spending. To enhance PSDP's effectiveness, there is a need for improved project selection, based on economic viability, stronger monitoring and evaluation frameworks, greater private sector participation, and a more balanced allocation toward human development sectors. Without such reforms, the PSDP may continue to exhaust fiscal resources while failing to deliver commensurate outcomes.

³Press Information Department, Government of Pakistan, "PR No. 11: APCC Meeting Reviews PSDP 2024–25 and Finalizes Recommendations for PSDP 2025–26," June 2, 2025, https://pid.gov.pk/site/press_detail/29299.



Skardu



Chapter 3 | Performance of the Economy: FY2025-26

Macroeconomic Outlook 2025–26

The growth target for FY2025–26 has been set at 4.2 percent, reflecting broad-based improvements and ongoing macroeconomic stabilization efforts. Fiscal consolidation, a lower policy rate, and improved investor confidence are expected to support a favourable outlook. A rebound in the agriculture sector is anticipated, as the government focuses on the timely availability of inputs and improved irrigation infrastructure. Industrial recovery, particularly in Large-Scale Manufacturing (LSM), is expected to be aided by resolving energy supply issues and enhancing productivity. External sector stability, improved external inflows, and the continuation of the IMF programme will also be key to achieving the growth target.

Agriculture Sector

The agriculture sector is targeted to grow by 4.5 percent in FY2025–26, driven by a projected 6.7 percent increase in important crops. Production targets include wheat at 30.5 million tonnes, later revised to 29.678 million tonnes; sugarcane at 80.320 million tonnes; rice at 9.170 million tonnes; maize at 9.770 million tonnes; and cotton at 10.181 million bales.

Minor crops are projected to grow by 3.5 percent. Livestock growth is targeted at 4.2 percent, while forestry and fishing are expected to grow by 3.5 percent and 3.0 percent, respectively.

Industrial Sector

The industrial sector is targeted to grow by 4.3 percent in FY2025-26, supported by 3.0 percent growth in mining and quarrying and 4.7 percent in manufacturing, including a 3.5 percent increase in LSM.

Services Sector

The services sector targets 4.0 percent growth in FY2025-26 backed by agriculture and industry, particularly manufacturing, demand for wholesale and retail trade by 3.9 percent, transport by 3.4 percent, storage and communications by 4.0 percent, information and communication 5.0 percent, finance and insurance 5.0 percent targeted contributing to services growth.

Gross Domestic Product (Constant Basic Prices of 2015-16)					
Sectors/Subsectors	FY2022-23	FY2023-24	FY2024-25		FY2025-26
	Final	Revised	Target	Prov.	Target
1. Commodity Prod. Sectors	-0.6	3.0	3.1	2.3	4.4
A)Agriculture	2.2	6.4	2.0	0.6	4.5
B)Industry	-3.9	-1.4	4.4	4.8	4.3
Manufacturing (I+II+III)	-5.3	3.0	4.4	1.3	4.7
A)Large-Scale	-9.8	0.9	3.5	-1.5	3.5
2. Services	0.0	2.2	4.1	2.9	4.0
Wholesale and Retail Trade	-0.4	3.3	4.1	0.1	3.9
GDP (bp)	-0.2	2.5	3.6	2.7	4.2

Source: PBS

Savings and Investment

Total investment is targeted to increase from 13.8 percent of GDP in FY2024-25 to 14.7 percent in FY2025-26. Fixed investment is expected to rise from 12.0 percent to 13.0 percent of GDP, while national savings are targeted at 14.3 percent of GDP.

The current account balance targeted at US\$ -2.12 billion with exports are targeted at US\$ 35.38 billion, imports to rise to US\$ 65.21 billion thus trade deficit is targeted at US\$ -29.93 billion and workers' remittances will likely sustain growth momentum, reaching US\$ 39.4 billion.

Macroeconomic Performance FY2026

The provisional annual estimates of GVA for FY 2025-26 have been estimated at 3.70 percent as compared to 3.18 percent last year.

Comparison of Gross Value Added and Growth Rates (FY2024-26)

Sector/ Industry	GVA (PKR Billion)			Growth Rates (%)		
	2023-24 (F)	2024-25 (R)	2025-26 (P)	2023-24	2024-25	2025-26
Agriculture	9,550	9,696	9,976	6.40	1.53	2.89
Industry	7,065	7,458	7,720	-0.97	5.56	3.51
Services	23,163	23,889	24,866	2.25	3.14	4.09
Total	39,777	41,042	42,562	2.62	3.18	3.70

The provisional estimates for FY 2025–26 indicate that Pakistan's economy continued recovery and expansion. In terms of value, total GVA rose from Rs 41,042 billion to Rs 42,562 billion, reflecting broad-based growth across agriculture, industry, and services.

The agriculture sector recorded a growth of 2.89 percent, improving from 1.53 percent in FY25, with GVA increasing to Rs 9,976 billion from Rs 9,696 billion. This performance was primarily supported by the livestock sector, which grew by 3.75 percent and remained the largest contributor within agriculture. Crop production also returned to positive territory, growing by 1.44 percent after contracting last year. Among major crops, wheat production increased by 4.3 percent to 29.6 million tons, rice grew by 2.8 percent to 10.0 million tons, and sugarcane expanded by 6.2 percent to 89.5 million tons. Other crops posted growth of 2.43 percent, driven by strong output of gram, potato, mangoes, bananas, turmeric, and chilies. Forestry and fishing also maintained steady growth of 2.02 percent and 1.66 percent, respectively. Overall, agriculture demonstrated improved resilience and provided important support to food security and rural incomes.

The industrial sector grew by 3.51 percent in FY 2025–26, with GVA increasing from Rs 7,458 billion to Rs 7,720 billion. Although growth remains lower than 5.56 percent recorded last year, industrial performance remained positive due to a strong rebound in manufacturing. Manufacturing expanded by 6.61 percent, driven by large-scale manufacturing (LSM), which grew by 6.11 percent after a contraction of 0.69 percent last year. Significant increases were recorded in automobiles, transport equipment, petroleum products, food, tobacco, and electrical equipment. Small-scale manufacturing grew by 8.50 percent, while slaughtering increased by 6.19 percent. Construction activity also remained robust, expanding by 5.73 percent due to higher public and private sector expenditure. Mining and quarrying posted modest growth of 0.38 percent. However, electricity, gas, and water supply contracted by 10.63 percent, partly due to lower subsidies and slower output growth. Despite this decline, the industrial sector continued to contribute meaningfully to economic growth.

The services sector remained the largest and fastest-growing component of the economy, expanding by 4.09 percent compared to 3.14 percent last year.

GVA of Services increased substantially from Rs. 23,889 billion to Rs. 24,866 billion. Growth was broad-based across several subsectors. Wholesale and retail trade grew by 3.71 percent, supported by stronger agricultural and manufacturing output. Information and communication posted a strong growth of 7.52 percent, reflecting rapid expansion in computer programming, consultancy, and publishing activities. Public administration and social security grew by 8.54 percent, while human health and social work activities expanded by 6.85 percent. Education grew by 5.23 percent, and other private services increased by 3.69 percent. Transport and storage rose by 2.31 percent, and accommodation and food services expanded by 3.94 percent. Finance and insurance activities recorded a modest growth of 0.32 percent following a high base effect in the previous year.

FY 2025-26 was characterized by stronger and more balanced economic growth. Agriculture benefited from improved crop production and robust livestock performance, industry was supported by a significant rebound in manufacturing and continued strength in construction, and services maintained their role as the primary engine of economic activity. Together, these developments lifted Pakistan's GVA to Rs 42.6 trillion while nominal GDP increased to Rs 127 trillion, i.e., US\$ 452.1 billion.

The provisional estimate of Gross Fixed Capital Formation (GFCF) for FY26 stands at Rs 16,071.2 billion, reflecting an increase of 10.9 percent over the revised level of Rs 14,492.3 billion in FY 2024-25. With nominal GDP estimated at Rs 127 trillion, total fixed investment amounts to approximately 12.7 percent of GDP, indicating a gradual strengthening in the economy's investment capacity.

The private sector remained the principal driver of investment, with GFCF rising by 12.8 percent to Rs. 12,161.9 billion, equivalent to 9.6 percent of GDP. Strong growth was observed in agriculture, mining, small-scale manufacturing, construction, and a broad range of services. Particularly notable were large increases in information and communication, supported by anticipated 5G-related investment, as well as wholesale and retail trade, finance and insurance, education, and healthcare. However, investment in large-scale manufacturing remained almost unchanged, suggesting that industrial expansion is still cautious despite improving macroeconomic conditions.

Public sector enterprises (PSEs) recorded an 11.6 percent increase in investment, reaching Rs 751.7 billion, i.e., 0.6 percent of GDP. Higher capital spending by entities such as Oil and Gas Development Company Limited (OGDCL), Water and Power Development Authority (WAPDA), Pakistan Civil Aviation Authority (PCAA), and Pakistan National Shipping Corporation (PNSC) contributed significantly to this increase.

General government investment rose by 3.9 percent to Rs 3,157.6 billion, representing 2.5 percent of GDP. Growth was led by higher spending by federal and district governments, particularly in education, while provincial investment declined modestly.

Overall, the FY2026 investment profile reflects improving business confidence and stronger public sector development activity. Although the rise in GFCF to 12.7 percent of GDP is a positive development, it remains below the level typically required to sustain rapid and broad-based economic growth. To achieve higher long-term growth, Pakistan will need to continue expanding productive investment, especially in manufacturing, infrastructure, and technology-intensive sectors.

External Sector Performance FY2026

Balance of Payment

Pakistan's external sector performance in FY2026 reflects a mixed but increasingly fragile outlook. Although the current account posted a sizeable surplus of US\$1.13 billion in March 2026, it reverted to a deficit of US\$324 million in April, bringing the cumulative current account deficit during July–April FY2026 to US\$252 million, compared with a surplus of US\$1.66 billion in the same period last year. This reversal indicates that recent improvements remain vulnerable and have yet to translate into a durable strengthening of the balance of payments.

The principal source of pressure is the sharp widening of the merchandise trade deficit. Exports declined to US\$25.8 billion from US\$27.3 billion, reflecting subdued global demand and persistent structural constraints, including low productivity, limited product diversification, and elevated production costs. Meanwhile, imports increased to US\$52.8 billion from US\$48.6 billion, driven by higher purchases of petroleum products, machinery, and transport equipment. Consequently, the goods trade deficit expanded by around 26 percent, more than offsetting the modest improvement in the services account, where strong growth in IT and business service exports provided some support.

Worker remittances remained the most important stabilizing factor for the external account, rising by 8.5 percent to US\$33.9 billion during July–April FY2026. These inflows have helped cushion the impact of the widening trade imbalance and sustain foreign exchange liquidity. However, Pakistan's heavy dependence on remittances from GCC countries exposes the economy to risks stemming from regional instability and any slowdown in Gulf economies.

The financial account remains weak, as foreign direct investment declined by 31 percent to US\$1.4 billion, reflecting cautious investor sentiment and continued concerns regarding policy consistency and the business environment.

Although foreign exchange reserves have improved to above US\$17 billion, this increase has been driven largely by multilateral inflows rather than robust export earnings, raising questions about its long-term sustainability.

Looking ahead, the external sector is expected to face greater pressure from rising international oil prices, higher freight costs, and persistent trade imbalances. Given Pakistan's reliance on imported energy, these developments could significantly increase the import bill, fuel inflation, and erode export competitiveness. Ensuring sustainable external sector stability will therefore require structural reforms aimed at boosting export competitiveness, diversifying the export base, reducing dependence on imported energy, and improving the investment climate to attract stable foreign capital.

Merchandise Trade

Pakistan's merchandise trade performance in March 2026 and during the cumulative period of 9MFY2025–26 reflects a continued deterioration in the external sector, underscoring deep-rooted structural weaknesses in the economy. Despite a slight moderation in monthly imports, exports remained subdued, resulting in a significantly wider trade deficit. It highlights Pakistan's persistent dependence on imports and limited export competitiveness.

A critical review of the latest trade data reveals that merchandise exports in March 2026 stood at Rs 635.5 billion (US\$ 2.275 billion), compared to Rs 636.6 billion (US\$ 2.276 billion) in February and Rs 740.8 billion in March 2025 (US\$ 2.65 billion). This represents a marginal month-on-month decline of 0.17 percent and a substantial year-on-year contraction of 14.21 percent in PKR and 13.99 percent in US\$. The continued weakness in exports is particularly concerning because it reflects more than a temporary fluctuation, reflecting structural inefficiencies in production, weak global competitiveness, and inadequate diversification of Pakistan's export base.

During the first nine months of FY2026 (July–March), exports amounted to US\$ 22.74 billion (Rs. 6,393 billion), declining by 7.99 percent from US\$ 24.718 billion in the same period last year.

Pakistan's export basket remains concentrated in a narrow range of low to medium value-added textile products, including knitwear, readymade garments, bedwear, cotton cloth, and towels. While these sectors continue to generate the bulk of export earnings, their dependence on traditional markets and limited technological upgrading constrain their ability to compete effectively in an increasingly sophisticated global market. The absence of significant growth in engineering goods, chemicals, electronics, and other technology-intensive sectors further limits Pakistan's export potential and resilience to external shocks.

On the import side, imports in March 2026 were recorded at Rs 1,430 billion, down by 3.44 percent from Rs 1,481.3 billion in February 2026 and 3.25 percent lower than in March 2025, when they stood at Rs 1,478 billion. Although this decline provided some short-term relief, the broader trend remains expansionary. During July–March FY2026, total imports rose to Rs 14,255 billion, compared to Rs 13,200 billion in the corresponding period last year, reflecting an increase of 7.98 percent. The sustained rise in imports indicates continued reliance on foreign goods, particularly petroleum crude, petroleum products, LNG, palm oil, machinery, iron and steel, and industrial raw materials.

Imports in March 2026 totaled US\$ 5.11 billion, compared to US\$ 5.29 billion in February 2026, marking a decline of 3.33 percent month-on-month and 3.11 percent from March 2025, when imports stood at US\$ 5.28 billion. During July–March FY2026, imports totaled US\$ 50.66 billion, marking a 6.89 percent increase from same last year when imports stood at US\$ 47.39 billion.

As a result, the merchandise trade deficit widened sharply. In March 2026 alone, the deficit amounted to approximately Rs 794.8 billion (US\$ 2.84 billion). Cumulatively, during July–March FY2026, the trade deficit reached Rs 7,861.5 billion (around US\$ 27.9 billion), an increase of nearly 23 percent over the same period last year. This widening gap highlights that import growth continues to outpace export earnings significantly, putting pressure on the balance of payments, exchange rate stability, and foreign exchange reserves.

From a structural perspective, these trends expose fundamental weaknesses in Pakistan's economic model. The economy remains heavily reliant on imported energy, machinery, and industrial inputs, while domestic production lacks the technological sophistication and scale necessary to compete globally. Limited progress in import substitution and industrial deepening means that even routine production processes depend on imported raw materials and intermediate goods. This structural dependence increases vulnerability to external shocks, including global commodity price fluctuations and exchange rate depreciation.

Moreover, Pakistan's weak export competitiveness is driven by longstanding challenges, such as high energy costs, elevated financing rates, inconsistent policy implementation, logistical bottlenecks, and insufficient investment in innovation, research, and workforce development. Without addressing these underlying constraints, temporary improvements in trade indicators are unlikely to translate into durable external sector stability.

Pakistan's trade in services showed a mixed but generally improving performance in February 2026 and during the first eight months of FY 2025–26 (July–February). On a month-on-month basis, both exports and imports of services declined compared to January 2026. Services exports fell by 7.3 percent to US\$ 812.3 million, while imports decreased more sharply by 20.9 percent to US\$ 910 million. As a result, the trade deficit in monthly services narrowed significantly from US\$ 273.6 million in January to US\$ 97.8 million in February, reflecting a substantial 64.3 percent improvement.

On a year-on-year basis, services exports increased by 16.9 percent from US\$ 694.9 million in February 2025 to US\$ 812.3 million in February 2026, due to increased receipts from sectors, such

as information technology, telecommunications, transport, and other business services. At the same time, services imports declined by 4.4 percent to US\$ 910 million. The increased exports and decreased imports narrowed the month-on-month deficit, reaching US\$ 97.8 million from US\$ 257.3 million.

During (July–February) FY 2026, Pakistan's services exports increased by 18.4 percent to US\$ 6.46 billion, compared to US\$ 5.46 billion in the same period last year. However, imports of services also increased by 14.2 percent to US\$ 8.60 billion. Consequently, the cumulative services trade deficit widened modestly by 3.1 percent to US\$ 2.14 billion from US\$ 2.08 billion in the corresponding period of FY2024–25.

Overall, the services sector demonstrated robust export growth, supported largely by continued expansion in the IT and business services sectors. Although imports also increased over the cumulative period, their slower pace relative to exports suggests gradual strengthening in Pakistan's services export capacity. The sharp narrowing of the monthly deficit in February 2026 is a positive development and indicates improving external sector dynamics in the services account.

Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) during the first ten months of FY2026 underscores the continuing fragility of Pakistan's investment environment. Net FDI declined by 31 percent to US\$1.41 billion, compared with US\$2.04 billion in the same period last year, indicating that investor confidence remains weak despite improvements in macroeconomic stability.

The power sector remained the principal recipient of foreign investment, particularly in hydel and coal-based projects, while financial business and electronics also recorded modest positive inflows. However, the communications sector posted net outflows due to substantial profit repatriation and capital withdrawals by telecom companies, highlighting a recurring weakness in Pakistan's FDI profile where sectors with strong growth potential often fail to attract fresh investment.

The country composition of inflows reveals a high degree of concentration. China contributed US\$833 million and Hong Kong contributed US\$235 million, together accounting for nearly three-quarters of total net FDI, largely directed to the power sector. At the same time, notable net outflows from Norway, Malta, and Germany offset part of these gains, underscoring the limited participation of a broader group of international investors.

Overall, Pakistan's FDI base remains narrow and heavily dependent on a few countries and sectors. Persistent challenges—including policy uncertainty, regulatory bottlenecks, high-energy costs, tax distortions, and geopolitical risks—continue to undermine the country's attractiveness to foreign investors. As a result, annual FDI inflows have remained stuck at around US\$1–2 billion, far below Pakistan's potential. Achieving sustained growth in foreign investment will require a stable policy framework, greater political continuity, and reforms that improve the ease of doing business and diversify investment opportunities across the economy.

Large Scale Manufacturing (LSM)

The Quantum Index of Manufacturing (QIM) for March 2026 presents a strong and broad-based recovery in Pakistan's large-scale manufacturing sector. During July–March FY 2025–26, the QIM reached 123.03, reflecting a substantial increase of 6.48 percent over the same period last year.

In March 2026 alone, the QIM stood at 124.89. Large-scale manufacturing output increased by 11.09 percent year-on-year. On a month-on-month basis, however, output declined by 5.19 percent, which may reflect seasonal adjustments, temporary production slowdowns, or inventory normalization.

The overall growth of 6.48 percent was supported by a wide range of industries. The largest contribution came from wearing apparel, which added 1.08 percentage points, highlighting improved export orders and stronger textile-related activity.

The automobile sector was another major driver, contributing 1.50 percentage points, reflecting rising consumer demand and easing supply constraints. Food manufacturing made a substantial contribution of 1.79 percentage points, reflecting higher production of essential consumer goods.

Petroleum products contributed 0.79 percentage points, supported by increased refining activity and stronger energy demand. Cement added 0.50 percentage points, signaling continued momentum in construction and infrastructure. Other positive contributors included electrical equipment (0.30), other transport equipment (0.24), tobacco (0.18), textiles (0.13), and furniture (0.26).

Some sectors, however, exerted downward pressure on overall growth. Pharmaceutical production reduced growth by 0.31 percentage points, while iron and steel products lowered growth by 0.27 percentage points. Chemical products and machinery and equipment also recorded modest negative contributions. These declines suggest persistent challenges in certain industries, including higher input costs, imported raw material constraints, and subdued investment in capital goods.

A broader review of industrial performance during (July–March) FY 2026 shows expansion in food, beverages, tobacco, textiles, wearing apparel, coke and petroleum products, rubber products, non-metallic mineral products, fabricated metal products, computer and electronics, electrical equipment, automobiles, and other transport equipment. These gains indicate that growth was diversified rather than concentrated in a few sectors, strengthening the outlook for sustained industrial development.

Conversely, declines were observed in leather products, chemical products, pharmaceuticals, iron and steel products, and machinery and equipment. The cases of decline may include cost pressures, import restrictions, or slower investment demand. Addressing these structural constraints will be important to ensure that industrial growth remains balanced and durable.

Overall, LSMI in March 2026 reflects a notable improvement in Pakistan's manufacturing sector. The 6.48 percent growth during the first nine months of FY2026 underscores stronger industrial activity, particularly in consumer goods, automobiles, petroleum products, and construction-related industries. If supportive macroeconomic conditions continue and bottlenecks in underperforming sectors are addressed, the manufacturing sector is well positioned to make a substantial contribution to economic growth and employment in the remainder of the fiscal year.

Fiscal Development

Pakistan's fiscal performance during 9MFY2025–26 reflects a significant strengthening in public finances, underpinned by higher revenue collection, improved tax administration, and continued fiscal discipline. According to consolidated fiscal operations data, the government has made substantial progress toward restoring macroeconomic stability and maintaining the fiscal consolidation path agreed under its reform agenda.

Total revenue increased by 11.6 percent to Rs 14,799 billion during 9MFY26, compared to Rs 13,367 billion in the same period last year. This growth was driven by both tax and non-tax revenues. Tax revenue increased by 8 percent to Rs 10,167 billion, while non-tax revenue increased by 3.64 percent to Rs 4,633 billion. Within tax revenue, Federal Board of Revenue (FBR)'s share reached Rs 9,306 billion, marking a 10 percent increase over last year. Direct taxes posted a growth of 12 percent, indicating improved income tax collections, while indirect taxes increased by 8 percent, supported by higher sales tax receipts, which grew by 9 percent.

On the expenditure side, total expenditure declined by 4 percent to Rs 15,656 billion from Rs 16,337 billion in the corresponding period of FY 2024–25. Current expenditure was reduced by 2 percent to Rs 14,267 billion, largely due to a substantial 23 percent decline in mark-up payments, which fell to Rs 4,948 billion. This reduction reflects lower interest costs and better debt management. At the same time, development expenditure and net lending increased by 19 percent to Rs 1,832 billion, while defense spending also increased by 19 percent to Rs 1,690 billion, indicating that fiscal consolidation has been achieved without curtailing priority expenditures.

As a result of stronger revenue mobilization and expenditure restraint, the overall budget deficit narrowed significantly to Rs 856 billion, equivalent to 0.7 percent of GDP, compared to Rs 2,970 billion, i.e., 2.6 percent of GDP in the same period last year.

The primary balance recorded a surplus of Rs 4,092 billion, or 3.2 percent of GDP, up from Rs 3,469 billion (3.0 percent of GDP) last year.

Pakistan's fiscal performance during 9MFY2026 has been highly encouraging. Strong growth in tax and non-tax revenues, a marked decline in debt servicing costs, and prudent expenditure management have substantially reduced the fiscal deficit while generating a sizeable primary surplus. These developments have strengthened macroeconomic stability and improved investor confidence. Going forward, sustaining this progress will depend on continued tax reforms, broadening the tax base, rationalizing expenditures, and maintaining momentum on structural economic reforms.

Monetary Aggregate

Monetary developments during FY2025–26 indicate a gradual strengthening of macroeconomic conditions, supported by improving external balances and a recovery in domestic credit. Broad money (M2) expanded by 7.28 percent during 1 July–1 May FY2026, compared with 3.78 percent in the same period last year, reflecting stronger growth in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA). The increase in NFA by Rs 1.52 trillion points to improved foreign exchange inflows and reserve accumulation, while the rise in NDA by Rs 1.43 trillion indicates a revival in domestic liquidity and credit creation.

Private sector credit showed encouraging momentum, increasing to Rs 904 billion from Rs 732 billion last year, suggesting improved business confidence and greater financing for productive activities. Government borrowing from the banking system, although lower than last year, remained substantial at Rs 884 billion, highlighting continued fiscal pressures and the risk of crowding out private investment.

The State Bank of Pakistan's decision to maintain the policy rate at 11.5 percent reflects a cautious approach aimed at supporting economic recovery while containing inflation. Overall, monetary aggregates point to improving liquidity conditions and stronger credit growth; however, the sustainability of these gains will depend on continued fiscal discipline, stable external inflows, and structural reforms to strengthen investor confidence and support long-term economic growth.

Public Debt

Pakistan's public debt position during 9MFY2026 reflects a continued reliance on domestic borrowing to meet the government's financing requirements. However, progress has been made in reducing external liabilities and limiting exposure to short-term refinancing risks.

By the end of March 2026, the central government's total debt stock reached a historic high of Rs 80.52 trillion, compared to Rs 77.89 trillion in June 2025, registering an increase of Rs 2.64 trillion during the first nine months of the fiscal year.

This increase was largely driven by higher long-term domestic borrowing, undertaken to finance the fiscal deficit and refinance maturing obligations.

The composition of debt reveals a significant shift toward domestic sources. Domestic debt increased by Rs 3.1 trillion, i.e., 5.6 percent, reaching Rs 57.57 trillion by March 2026 from Rs 54.47 trillion at the beginning of the fiscal year.

This increase primarily reflects enhanced borrowing from scheduled banks through market-based instruments, particularly Pakistan Investment Bonds (PIBs). The government strategically reduced its dependence on short-term Treasury Bills (T-bills) by setting auction targets below or close to maturities, leading to net retirement in this category. At the same time, higher auction targets for PIBs enabled the government to lock in financing at longer maturities and at relatively lower interest rates as monetary easing continued.

This strategy represents a sustained debt management approach. By increasing the share of long-term fixed-rate instruments, the government has reduced rollover and interest rate risks associated with short-term debt. The bulk of financing was raised through PIBs-Fixed, followed by PIBs-Floating (Semi-Annual Coupon), reflecting efforts to diversify instruments while lengthening the average time to maturity of domestic debt. This shift is particularly important in strengthening debt sustainability, as it lowers the frequency of refinancing and cushions the budget against abrupt changes in market interest rates.

On the external front, debt declined by Rs 458 billion during 9MFY2026, reducing from Rs 23.42 trillion in June 2025 to Rs 22.96 trillion in March 2026. This reduction can be attributed to repayments, exchange rate stability, and restrained new external borrowing. The decline in external debt is a positive development because it reduces Pakistan's exposure to exchange rate fluctuations and external financing vulnerabilities.

Another notable achievement during this period is continued retirement of the government's outstanding debt to the State Bank of Pakistan (SBP). This is an important structural reform, as central bank borrowing is generally inflationary and undermines monetary discipline. By replacing SBP borrowing with market-based financing, the government has improved transparency and aligned debt operations with sound macroeconomic management practices.

Despite these encouraging developments, the overall level of public debt remains elevated and continues to pose a major fiscal challenge. The debt stock of over Rs 80 trillion implies a substantial debt servicing burden, which absorbs a significant share of government revenues and limits fiscal space for development and social spending. Although lower policy rates may ease future interest payments, debt sustainability will ultimately depend on sustained fiscal consolidation, stronger revenue mobilization, and robust economic growth.

Inflation and Prices

Headline inflation measured by Consumer Prices Index (CPI) increased by 10.9 percent in April 2026, whereas Core inflation, both Urban and Rural, also inched up to 8.0 and 8.5 percent, respectively. The increase in CPI was driven by selected items, with liquefied hydrocarbons rising by 38 percent, transport by 28 percent, motor fuel by 18 percent, and fresh vegetables by 40 percent on a month-on-month (MoM) basis. However, these short-term increases did not significantly alter the broader trend, as average inflation during July–April was recorded at 6.2 percent.

A closer assessment suggests that the recent uptick is not primarily demand-driven but stems from supply-side disruptions and imported inflation. March 2026 underwent a sharp increase in WPI inflation—particularly the 5.9 percent rise month-on-month compared to 0.7 percent in February—signaling a marked escalation in input costs. This surge is closely linked to global geopolitical tensions, notably the Iran–US conflict, which has driven up international fuel prices. The transmission from higher import prices to domestic retail inflation is evident, with a lagged but significant pass-through from WPI to CPI.

Sectoral analysis of CPI further reinforces the cost-push nature of inflation. Transport inflation, rising by over 29.9 percent year-on-year, is the primary driver, reflecting higher prices of motor spirit, diesel, and kerosene oil. Similarly, housing, gas, and electricity costs increased by around 16.9 percent, driven by upward tariff adjustments and energy price revisions. The rise in liquefied hydrocarbons and gas charges highlights continued vulnerability to external energy shocks, with strong second-round effects across production and distribution channels.

SPI inflation has increased to 12.6 percent, suggesting pressures on essential commodities. This is particularly significant for lower-income households, where food carries a high consumption weight.

Core inflation (NFNE) has also increased to 8 percent in urban areas, increasing from 7.4 percent in April 2025. Its recent upward movement on both a year-on-year and month-on-month basis suggests persistent inflationary expectations. This stickiness complicates the policy environment, indicating that inflation pressures may be becoming more entrenched than previously anticipated.

From a policy perspective, the situation presents a constrained trade-off for the State Bank of Pakistan. While tighter monetary policy may help anchor expectations and limit second-round effects, its effectiveness is limited in a predominantly supply-driven inflation environment. At the same time, higher interest rates risk raising borrowing costs, dampening investment, and slowing industrial recovery.

The risk of stagflation cannot be ruled out, as rising inflation coincides with potential moderation in growth amid tighter financial conditions. This reflects Pakistan's structural vulnerabilities, including energy import dependence, exchange rate sensitivity, and fiscal constraints.

The inflation outlook for April 2026 signals a re-emergence of macroeconomic pressures after a period of relative stability. The dominance of cost-push and imported inflation highlights the limited effectiveness of demand management tools in isolation. A coordinated policy response, combining targeted fiscal support for vulnerable groups and measures to stabilise supply chains, will be essential. Without such coordination, inflationary pressures may persist and increasingly constrain both stability and growth.

Assessment and Review of PSDP FY2026

The Public Sector Development Programme (PSDP) for FY2025–26 highlights the government's continued challenge of balancing an ambitious development agenda with tight fiscal constraints. While the budget formulation followed the established process—inviting project proposals through a call letter, assessing demands, and prioritising projects through committee scrutiny—the outcome reflects a clear tension between extensive development needs and limited fiscal space.

The funding demand of over Rs 3,271 billion for 1,588 projects significantly exceeded available fiscal space. The large throw-forward of Rs 10,212 billion further highlights a persistent structural issue in Pakistan's development planning, namely the proliferation of projects without corresponding financing. This points to weaknesses in project selection discipline in earlier years, where projects may have been included without adequate appraisal or assured funding. As a result, the PSDP carries a substantial backlog, which dilutes the impact of annual allocations and extends implementation timelines.

The role of Priority Committee Meetings in rationalising projects and identifying core and foreign-aided initiatives reflects an effort to improve allocative efficiency. However, such exercises often remain largely reactive rather than strategic. Instead of restructuring the project portfolio, adjustments are typically made within constrained fiscal ceilings, resulting in the thin dispersion of resources across a large number of projects. This reduces completion rates and weakens the overall economic impact of public investment.

A key constraint shaping PSDP FY2026 is the macroeconomic stabilisation framework, particularly commitments under the IMF programme. The downward revision of the federal PSDP from Rs 1 trillion to around 837.16 billion illustrates the prioritisation of short-term fiscal targets over longer-term development objectives. While fiscal consolidation is necessary for macroeconomic stability, repeated compression of development spending may weigh on growth prospects. Public investment plays a catalytic role in infrastructure development, crowding in private investment and supporting productivity; therefore, reduced PSDP allocations can dampen medium-term growth multipliers.

The reallocation of around Rs 100 billion from PSDP towards fuel subsidies further reflects policy trade-offs driven by external shocks. While such subsidies may provide short-term relief, they are fiscally costly and economically distortionary. Diverting resources from development expenditure to recurrent spending weakens the long-term growth base and reduces the efficiency of public investment. In addition, frequent reallocations create execution uncertainty, contributing to delays and cost overruns, particularly in an inflationary environment.

Implementation challenges also remain a significant concern. Reduced allocations against approved project costs disrupt annual phasing plans outlined in PC-Is, leading to underfunding and stalled progress. Delayed payments to contractors not only slow down physical execution but also increase

project costs due to claims and contractual disputes. The impact on private sector confidence is particularly noteworthy. Public investment under PSDP is expected to act as a signal and support mechanism for private investment, especially through Public-Private Partnership (PPP) models. However, uncertainty regarding project completion, funding continuity, and payment timelines undermines investor's confidence. This is especially problematic in a context where private investment is already subdued, and economic recovery depends on revitalizing business sentiment.

At a broader level, the PSDP FY2026 reflects a misalignment between development ambitions and fiscal realities. Although the National Economic Council approved a total public sector development outlay of Rs 4,224 billion, including provincial ADPs and SOE investments, the effectiveness of this aggregate figure depends heavily on execution capacity and coordination across tiers of government. Weak intergovernmental coordination, coupled with capacity constraints in project management, further limits the impact of development spending.

The PSDP FY2026 underscores the need for fundamental reforms in development planning and public investment management system. There is an urgent need to prioritize project selection based on economic returns, limit the number of ongoing projects, and ensure adequate funding for timely completion. EPBD's review of 800 PSDP projects revealed that 91 projects can be either eliminated or devolved, saving up to Rs 1.5 trillion. Strengthening appraisal mechanisms, improving implementation capacity, and protecting development spending from ad hoc fiscal adjustments are essential to enhance the effectiveness of PSDP. Without such reforms, the program will continue to suffer from inefficiencies, undermining its role as a driver of sustainable economic growth and development.

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Social Sector Development in Pakistan

Pakistan's long-term economic stability and sustainable development are intertwined with its social sector's performance, particularly when poverty rate has reached 28.9% in FY2024-25. Despite being a lower-middle-income country with significant demographic potential, Pakistan has consistently underperformed in human development indicators compared to regional peers.

Overview of the Social Sector in Pakistan

The social sector encompasses health, education, social protection, water and sanitation, and population welfare. However, health and education remain the most critical pillars as they directly influence human capital formation. Pakistan's ranking in global human development indicators reflects persistent challenges in these areas. Limited fiscal space, low tax-to-GDP ratio, and competing priorities such as debt servicing and defense spending have historically restricted public investment in social services.

Public expenditure on education hovers around 1.5–2 percent of GDP, while health spending remains below 1.5 percent of GDP, significantly lower than international benchmarks recommended for developing countries. This chronic underfunding has resulted in weak infrastructure, poor service delivery, and widening inequalities between urban and rural populations.

Health Sector in Pakistan: Challenges and Gaps

Health sector faces multiple systemic challenges that hinder its effectiveness and accessibility. One of the most pressing issues is inadequate infrastructure. Public hospitals and basic health units (BHUs) often suffer from shortages of essential medicines, outdated equipment, and insufficient staffing. Rural areas are particularly underserved, leading to disparities in healthcare access.

Another major concern is the shortage of trained healthcare professionals. Although Pakistan produces a considerable number of doctors annually, many migrate abroad due to better opportunities, resulting in a domestic “brain drain.” Additionally, the distribution of healthcare workers is uneven, with a concentration in urban centers.

Preventive healthcare remains largely neglected. Pakistan continues to struggle with communicable diseases such as tuberculosis, hepatitis, and malaria, while non-communicable diseases like diabetes and cardiovascular conditions are on the rise. Immunization coverage, though improved in recent years, still faces challenges due to misinformation, logistical constraints, and weak outreach systems.

Maternal and child health indicators further reflect systemic inefficiencies. High maternal mortality rates, child malnutrition, and stunted growth are persistent issues, especially in underdeveloped regions. These outcomes are closely linked to poverty, lack of awareness, and inadequate primary healthcare services.

Governance and management issues also undermine the health sector. Corruption, lack of accountability, and inefficient allocation of resources contribute to poor service delivery. Furthermore, the absence of a robust health insurance system limits financial protection for low-income households, often pushing them into poverty due to out-of-pocket healthcare expenses.

Education Sector: Structural Weaknesses

The education sector is characterized by low enrollment rates, high dropout rates, and poor quality of education. Despite some progress, millions of children remain out of school, making Pakistan one of the countries with the highest number of out-of-school children globally.

One of the fundamental issues is the lack of access to education, particularly in rural and marginalized communities. Many areas lack basic school infrastructure, and where schools exist, they often suffer from inadequate facilities, including absence of clean drinking water, sanitation, and electricity.

Quality of education is another critical concern. The curriculum is often outdated and does not align with modern economic needs. Teaching methods rely heavily on learning rather than critical thinking and problem-solving skills. Teacher training and accountability mechanisms are weak, leading to inconsistent learning outcomes.

Gender disparity remains a significant challenge. Although progress has been made, girls' enrollment rates still lag behind boys in many regions due to cultural norms, safety concerns, and economic constraints. This gender gap not only limits individual potential but also hampers overall economic development.

The fragmentation of the education system further exacerbates inequalities. Pakistan has multiple parallel systems, including public schools, private institutions, and religious seminaries (madrassas), each offering different standards of education. This divide creates disparities in opportunities and perpetuates social inequality.

Interlinkages Between Health, Education, and Economic Development

Health and education are mutually reinforcing sectors that play a crucial role in economic growth. A healthy population is more productive, while an educated workforce drives innovation and competitiveness. In Pakistan, deficiencies in these sectors have resulted in low human capital development, limiting the country's growth potential.

Poor health outcomes reduce labor productivity and increase economic burden through healthcare costs. Similarly, inadequate education restricts skill development, leading to a workforce that is ill-equipped for modern economic demands. This creates a cycle of poverty and underdevelopment, which is difficult to break without targeted interventions.

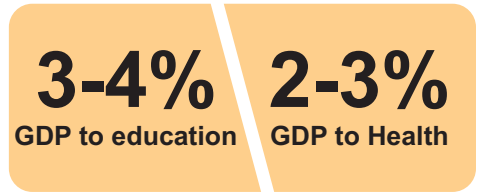
Social Inequality and Regional Disparities

One of the defining features of Pakistan's social sector is the presence of stark inequalities. Urban areas, particularly major cities, have relatively better access to health and education services compared to rural and remote regions. Provinces also exhibit significant disparities, with some regions lagging far behind in social indicators.

Income inequality further compounds these issues. Wealthier households can afford private healthcare and education, while low-income families rely on under-resourced public services. This dual system entrenches inequality and limits social mobility.

Policy Recommendations and Way Forward

Addressing the challenges in Pakistan's social sector requires comprehensive and sustained reforms. First and foremost, increasing public investment in health and education is essential. Allocating at least 3–4 percent of GDP to education and 2–3 percent to health would significantly improve service delivery and infrastructure.



In the health sector, strengthening primary healthcare systems should be a priority. Expanding preventive care, improving immunization coverage, and investing in maternal and child health can yield high returns. Additionally, implementing a universal health insurance system would provide financial protection to vulnerable populations.

For education, reforms should focus on improving access, quality, and equity. Building more schools in underserved areas, upgrading infrastructure, and ensuring availability of trained teachers are critical steps. Curriculum reforms aimed at promoting critical thinking, digital literacy, and vocational skills are also necessary to align education with market needs.

Governance reforms are equally important. Enhancing transparency, accountability, and efficient resource allocation can significantly improve outcomes in both sectors. Leveraging technology for service delivery, monitoring, and data collection can further enhance efficiency.

Public-private partnerships can play a vital role in bridging gaps in service provision. Encouraging private sector participation while maintaining regulatory oversight can improve quality and expand access.

Finally, addressing socio-cultural barriers, particularly those affecting female education and healthcare access, is crucial. Awareness campaigns, community engagement, and targeted incentives can help shift societal norms and improve participation rates.



Mohenjo-Daro (Sindh)



Chapter 4 | Five-Year Macroeconomic Outlook Projections for Pakistan: FY2026–31

This chapter presents a five-year macroeconomic forecast for Pakistan, spanning FY2026 to FY2031, anchored to a targeted trajectory of 8.5 percent GDP growth by FY2031. Starting from a base of approximately 4.2 percent in FY2026, the projection models a gradual acceleration driven by seven interlinked reform pillars: fiscal consolidation, monetary easing, investment mobilisation, export diversification, human capital development, energy sector reform, and institutional strengthening.

The projections cover five macroeconomic domains:

- ⦿ GDP growth — sectoral decomposition and per capita income convergence
- ⦿ Inflation — headline, core, food, and monetary policy normalization
- ⦿ Investment & Savings — public, private, FDI, and the saving-investment gap
- ⦿ Balance of Payments — trade, remittances, current account, and reserves
- ⦿ Fiscal accounts — revenue, expenditure, deficit, and debt trajectory

The chapter also quantifies multiplier effects through which reform-driven investments generate secondary rounds of income, employment, and output—the engine of sustainable growth. Risk factors and their potential impact on GDP are also mapped.

Key Assumptions & Proposed Structural Reform Framework

Macroeconomic Assumptions

The base case rests on the following assumptions:

Assumption Domain	Detail / Parameter
IMF Program Continuity	Pakistan remains on the US\$ 7bn Extended Fund Facility through FY2027; conditionality is met; structural benchmarks achieved on schedule
Monetary Easing Path	SBP policy rate falls from 11.5% (FY26) to 7.0% by FY2031 as inflation is durably anchored within the 5–7% target range
Fiscal Consolidation	Primary surplus maintained above 2.4% of GDP throughout; tax-to-GDP rises from 10.5% to 18.0% by FY31 through base broadening, FBR digitization, and reduced evasion
Exchange Rate	PKR remains broadly stable with modest real depreciation (2–3% annually) to maintain export competitiveness; no disorderly adjustment
Global Environment	Global growth of 3.2–3.3%; oil price US\$ 70–80/bbl; remittance-sending countries (GCC, UK) maintain growth; global inflation continues easing
Energy Reform	Circular debt flow is arrested by FY2027; IPP renegotiation delivers savings; renewable capacity additions of 5,000 MW by FY2031 reduce energy cost per unit
CPEC Phase II	Active industrial zone investment; SEZs operational by FY2028; Chinese FDI disbursements of US\$ 2–3bn/year begin flowing
Political Stability	Policy continuity; sustained commitment to URAAN Pakistan
Climate Events	Average monsoon severity; no repeat of 2022-scale floods; climate adaptation spending of 1.5% of PSDP annually
Demographic Dividend	2.5% labour force growth per year; 50% labour force participation from 46.3%; 3 million trained workers added via skills programs

Seven Pillars of Proposed Structural Transformation

Achievement of 8.5% growth is conditional on simultaneous progress across all seven pillars. Each pillar has a GDP contribution pathway:

Pillar 1 — Fiscal Consolidation & Tax Reform (GDP contribution: +0.6 pp)

- ▶ Raise tax-to-GDP from 10.5% to 18.0% through base broadening — agriculture, real estate, retail
- ▶ Rationalise PSDP allocation with efficiency gains in execution
- ▶ Eliminate circular debt flow in energy sector

Pillar 2 — Monetary Normalization & Credit Expansion (GDP contribution: +0.5 pp)

- ▶ Reduce policy rate to 6-7% by FY2031 — unlocking private sector credit at affordable cost
- ▶ Private sector credit-to-GDP rises from ~15% to 25%, financing SMEs, agriculture, manufacturing
- ▶ Banking sector's Non-Performing Loan (NPL) ratio reduced; financial inclusion expanded through digital banking
- ▶ SBP foreign reserves to exceed providing 6+ months import cover

Pillar 3 — Investment Mobilization (GDP contribution: +1.2 pp)

- ▶ Gross investment increases from 14.5% to 25.0% of GDP, bridging the savings-investment gap
- ▶ FDI reaches 3.0% of GDP by FY2031 (from 0.6% now), targeting technology, manufacturing, logistics
- ▶ CPEC Phase II SEZs generate US\$ 5bn+ in manufacturing investment over the projection period
- ▶ Domestic capital mobilization through Sukuk, pension fund reform, and equity market deepening
- ▶ Local investment into industries and productive sector increases via incentivization for enhancing domestic productivity

Pillar 4 — Export Diversification (GDP contribution: +0.8 pp)

- ▶ Export revenue growth from US\$ 32bn to US\$ 78bn by FY2031
- ▶ IT/digital exports scale from US\$ 3.5bn to US\$ 10bn; non-textile manufactured exports triple
- ▶ Value-added agricultural exports (processed foods, fruits, dairy) expand
- ▶ Reduced trade deficit through import substitution in energy and intermediate goods

Pillar 5 — Energy Sector Reform (GDP contribution: +0.5 pp)

- ▶ Reduced cost of electricity — eliminating the competitive disadvantage for industry
- ▶ 30% renewable energy in the mix by FY2031 — reducing import dependence on LNG and oil
- ▶ End of load shedding for industry by FY28 through transmission upgrades
- ▶ Energy subsidy rationalization saving 1.0–1.5% of GDP annually

Pillar 6 — Human Capital & Productivity (GDP contribution: +0.6 pp)

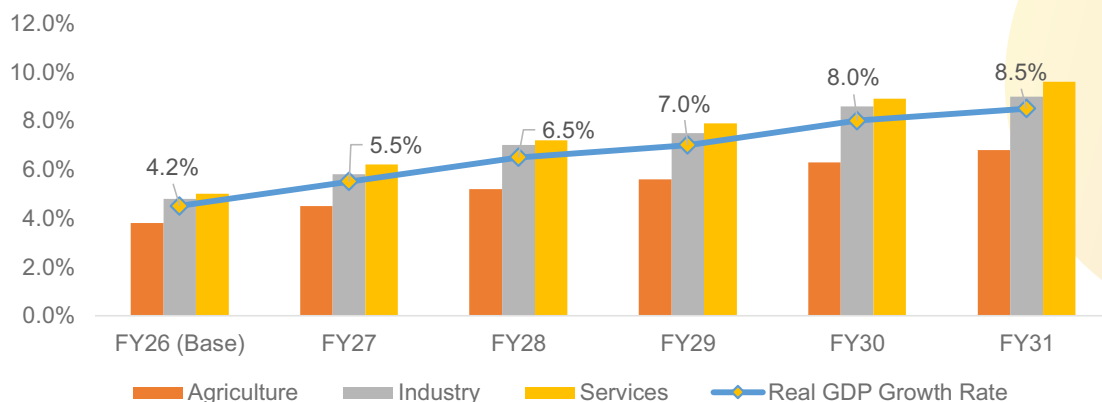
- ▶ Education spending increased to 4.5% of GDP by FY2031
- ▶ 3 million skilled workers trained through Kamyab Jawan and TVET programs over 5 years
- ▶ Youth unemployment reduced from 11.5% to 7.5% through industry-academia linkages
- ▶ AI and technology skills included in national curriculum by FY28

Pillar 7 — Governance & Institutional Reform (GDP contribution: +0.8 pp)

- ▶ Corruption cost reduced from 5–6.5 to 3–4 percent of GDP through digitization and transparency
- ▶ Single National Window for trade; business registration in 24 hours
- ▶ Privatization of 10 loss-making SOEs by FY2029 — reducing contingent liabilities
- ▶ Judicial reform for contract enforcement improving investor protection ranking

GDP Growth & Sectoral Decomposition

Growth Transformation Path



Pakistan's GDP growth trajectory is modelled from a base of 4.2 percent in FY2026, accelerating through a structured reform timeline. The current GDP growth rate, i.e., 3.7 percent has been used for the baseline scenario under scenario analysis explained subsequently. The growth path is non-linear — reforms in fiscal, energy, and trade policy have lagged multiplier effects of 12–36 months. By FY2031, the 8.5 percent target is envisaged to reflect broad-based, multi-sectoral expansion rather than a single-sector-led surge.

Indicator	FY26 (Base)	FY27	FY28	FY29	FY30	FY31
A. GDP Size & Overall Growth						
Nominal GDP (US\$ Billion)	452	491	535	582	632	688
Real GDP Growth Rate	4.2%	5.5%	6.5%	7.0%	8.0%	8.5%
B. Sectoral Real Growth Rates						
Agriculture (22% of GDP)	3.6%	4.5%	5.2%	5.6%	6.3%	6.8%
Industry (20% of GDP)	4.3%	5.8%	7.0%	7.5%	8.6%	9.0%
Services (58% of GDP)	4.8%	6.2%	7.2%	7.9%	8.9%	9.6%

Growth Transformation Path

The strategy begins with a base GDP growth of 4.2% in FY2026 and gradually accelerates to a target of 8.5% by FY2031. Nominal GDP is projected to rise from US\$ 452 billion in FY2026 to US\$ 688 billion by FY2031. This represents a 57% increase in five years, driven by structural reforms and sectoral diversification.

Agriculture (22% of GDP): Growth improves steadily from 3.6% in FY2026 to 6.8% in FY2031, reflecting modernization, improved and regulated seed production, better water management, and value-added crop production.

Industry (20% of GDP): The fastest-growing sector, rising from 4.3% in FY2026 to 9.0% in FY2031, supported by industrial policy reforms, energy reliability, and export competitiveness.

Services (58% of GDP): The sector expands from 4.8% in FY2026 to 9.6% in FY2031, driven by IT, finance, logistics, and retail.

The balanced expansion across agriculture, industry, and services ensures resilience against external shocks. Achieving this path requires consistent policy implementation, fiscal discipline, and investment in human capital.

Inflation Outlook & Monetary Policy

Inflation management is pivotal to sustaining the growth trajectory. Pakistan's CPI has significantly declined from its 2023 peak of ~38% to the 6–7% range. The projection maintains inflation durably within the SBP's 5–7% medium-term target range, enabling a gradual policy rate reduction that unlocks private investment.

Inflation Outlook and Monetary Policy

Indicator	FY26 (Base)	FY27	FY28	FY29	FY30	FY31
A. Inflation Indicators						
Headline CPI Inflation	6.5%	6.0%	5.5%	5.5%	5.0%	5.0%
Food Inflation	8.0%	7.5%	6.5%	6.0%	5.5%	5.0%
Core Inflation	6.0%	5.5%	5.0%	5.0%	4.5%	4.5%
B. Monetary Policy						
SBP Policy Rate	11.5%	9.5%	8.5%	8.0%	7.5%	7.0%

Medium-term outlook reflects that inflation remains broadly contained while monetary policy gradually eases. The SBP policy rate is projected to decline from 11.5% in FY26 to 7.0% by FY31, suggesting improving macroeconomic stability and lower inflationary pressure over time.

Headline CPI is expected to stay moderate, moving from 5.7% in FY26 to 5.0% by FY31, while core inflation, which is less volatile, gradually declines. Since inflation will remain manageable, the central bank will be able to support growth through a cautious reduction in interest rates.

Food inflation, which disproportionately affects lower-income households, is projected to decline most sharply as agricultural productivity rises, supply-chain bottlenecks ease, and commodity import costs moderate. Core inflation tracks toward 5% by FY2031, consistent with structural price stability. The 350 basis points of additional policy rate cuts (from 11.5% to 7.0%) release a powerful credit multiplier into the economy.

Savings, Investment and the Financing Gap

Pakistan has a persistently low investment rate at 14% of GDP, among the lowest in Asia. Achieving 8.5% growth requires raising gross investment toward 25% of GDP. This section models the investment-savings dynamics and their financing implications.

Indicator	FY26 (Base)	FY27	FY28	FY29	FY30	FY31
A. Investment						
Gross Fixed Investment / GDP	14.0%	17.0%	19.0%	21.0%	23.0%	25.0%
— Public Investment / GDP	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%
— Private Investment / GDP	11.0%	12.5%	14.0%	15.5%	17.0%	18.5%
— FDI / GDP	0.5%	1.1%	1.5%	1.7%	1.9%	2.3%
B. Savings						
Gross National Savings / GDP	12.5%	14.5%	16.0%	18.0%	20.5%	22.5%
— Domestic Savings / GDP	10.0%	11.0%	12.5%	14.0%	16.0%	17.5%
— Remittances / GDP	8.85%	8.96%	8.97%	8.76%	8.73%	8.72%
C. Financing Gap						
Savings–Investment Gap / GDP	-1.5%	-2.5%	-3.0%	-3.0%	-2.5%	-2.5%

The saving–investment gap is projected to widen temporarily in the medium term (FY2027–FY2029), as investment is front-loaded ahead of the corresponding adjustment in domestic savings—a pattern consistent with a typical development financing phase. By FY2030–FY2031, rising domestic savings, supported by higher incomes, financial deepening, and pension reforms, are expected to narrow the gap, with remittances continuing to provide a stable external financing buffer.

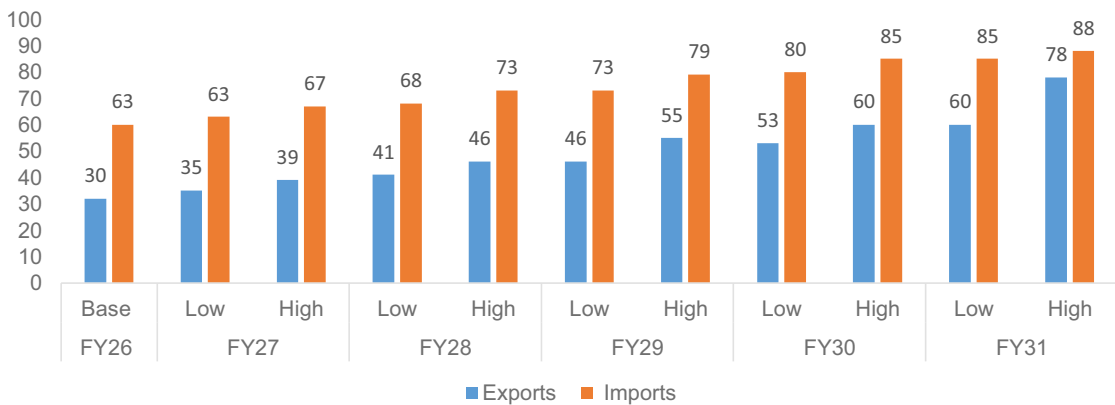
The projections show gross fixed investment rising steadily to 25% of GDP by FY31, while national savings also improve from 12.5% to 22.5% of GDP.

By FY2030–31 rising domestic savings (driven by higher income, financial deepening and remittances) continue as stable financing source.

The core message is that achieving around 8.5% growth depends on significantly increasing both domestic investment and savings.

Balance of Payments & External Sector

Merchandise Trade Projections (\$ Billion)



Pakistan's external sector faces various structural challenges. The trade deficit is driven by low export base, high energy costs and import dependency. However, remittances provide a critical buffer, and the projection models a sustained export push alongside reserve accumulation.

Projected Trade-Related Indicators (\$ billion)

Indicator	FY26 (Base)	FY27		FY28		FY29		FY30		FY31	
		Low	High	Low	High	Low	High	Low	High	Low	High
Exports (Goods)	30	35	39	41	46	46	55	53	65	60	78
Services Exports	10	12.5	13.7	16	17	20	23	25	29	29	33
Merchandise Imports	63	63	67	68	73	73	79	80	84	85	88
Services Imports	12	13	14	14	15	15	18	17	21	20	23
Trade Balance(G&S)	-30	-28.5	-28.3	-25	-25	-22	-19	-19	-11	-16	0
Workers' Remittances	40	43	44	46	48	49	52	52	56	55	60
Current Account/GDP %	-1	0.2	0.1	0.5	2	0.8	3	1.5	3.3	3	5

Pakistan's ability to achieve 8.5 percent sustained growth over the next five years depends critically on strengthening its external sector. Historically, growth acceleration in Pakistan has been constrained by the balance of payments, where rising imports—particularly energy, machinery, and intermediate goods—have outpaced export growth. The proposed trajectory under both low and high scenarios reflects a deliberate attempt to break this cycle by expanding export capacity and diversifying products and markets.

The current account is projected to shift from a small deficit to a surplus by FY2027 onwards, reflecting a structural adjustment. This is driven by: (1) exports increasing from US\$ 32 billion to US\$ 78 billion; (2) remittances remaining robust at around US\$ 60 billion; and (3) improvement in the services balance as IT exports expand. Together, these factors support a gradual strengthening of Pakistan's external position.

Although imports remain elevated, the trade deficit is expected to narrow over time and approach balance by FY2031. The central message is that sustained export expansion, alongside stable remittance inflows, is essential for external stability and long-term growth.

Sustained export expansion requires robust export finance. Pakistan's Export Finance architecture is constrained by structural distortions that limit its role in driving export expansion and diversification. The Export Finance Scheme (EFS), administered since 1973, has grown in utilization — disbursements rising from Rs. 383 billion in 2019 to Rs. 737 billion by December 2024 — but the scheme's design, capped at 180-day tenures and tethered to transaction-level collateral, structurally excludes newer exporters and SMEs seeking longer-term working capital. Financing under EFS remains very limited and heavily skewed toward large, incumbent exporters, particularly in low value-added textile segments, due to reliance on historical export performance and commercial banks' risk aversion. This has resulted in persistent exclusion of SMEs and new exporters, and weak credit transmission to higher value-added and non-traditional sectors. At the same time, distortions in the Export Facilitation Scheme—particularly asymmetric taxation of domestic versus imported inputs and delayed or partial refunds—by FBR raise liquidity costs for local manufacturers and undermine competitiveness of domestic value addition, giving 18% more advantage to foreign raw materials industry.

Multiplier Effect: Transmission Channels & Magnitudes

The fiscal and investment multiplier measures how much additional GDP is generated per unit of initial stimulus or investment. In Pakistan's context, multipliers are shaped by: (1) the degree of spare capacity in the economy; (2) import leakage (high imports reduce the domestic multiplier); (3) the efficiency of public investment; and (4) the crowding-in or crowding-out effect on private investment.

Pakistan's multipliers are currently below average for emerging markets due to high interest rates (crowding-out private investment), energy bottlenecks (limiting productive capacity), and import intensity of investment goods. However, they are projected to rise substantially as reforms take hold from around 1.2–1.5x currently to 1.9–2.5x by FY2031.

Channel-by-Channel Multiplier Estimates

Channel / Mechanism	Sector Impacted	Multiplier (FY26)	Multiplier (FY31)	Transmission Lag	Key Condition
Public Infrastructure Investment	Industry / Construction	1.2–1.5	1.6–2.0	12–18 months	Efficient PSDP execution
Private Sector Credit Expansion	Services / Industry	1.3–1.6	1.7–2.1	6–12 months	Policy rate reduction
FDI Inflows (CPEC Phase II & SEZs)	Manufacturing / Exports	1.5–1.8	2.0–2.5	18–24 months	Investor confidence, governance
Worker Remittances	Consumption / Housing	1.6–1.9	1.9–2.2	Immediate	Formal channel use
Export-Led Growth (Diversification)	FX Earnings / Employment	1.4–1.7	1.8–2.2	24–36 months	Trade policy, competitiveness
Agricultural Productivity Gains	Rural Income / Food Inflation	1.1–1.3	1.3–1.6	12–24 months	Water / seed / extension services
Human Capital (Education / Skills)	Labor Productivity	0.8–1.0	1.5–2.0	5–10 years	Education spend + reform
Fiscal Consolidation (Debt↓, Space↑)	All Sectors	0.9–1.1	1.3–1.6	24–36 months	Tax-to-GDP target hit
Technology & Digitization	Services / Tax Base	1.2–1.5	2.0–2.5	18–30 months	Digital infra investment

Composite Growth Multiplier Dynamics

The overall GDP growth multiplier, defined as the ratio of cumulative GDP gains to cumulative reform investment, is estimated at 1.6x over the five-year projection period, rising to 2.2x by the end of FY2031. This implies that every Rs 100 invested in the reform agenda generates Rs 220 in GDP by FY2031, including secondary and tertiary rounds of income generation.

Multiplier Metric	FY26 (Base)	FY27	FY28	FY29	FY30	FY31
Investment Multiplier	1.5	1.6	1.7	1.8	1.9	2.0
Government Spending Multiplier	1.2	1.3	1.4	1.5	1.5	1.6
Remittance Multiplier	1.8	1.8	1.9	2.0	2.0	2.1

The remittance multiplier is notably high (1.8–2.1x) because remittances flow directly into household consumption, housing construction, and small business investment—all labor-intensive sectors with low import content, maximizing domestic income circulation. As financial inclusion deepens and remittances increasingly flow through formal banking channels, their economic impact amplifies.

The multiplier effect is particularly important for Pakistan because structural gaps in productivity mean that well-targeted investments can generate broader and faster spillovers across the economy. When different sectors expand together, their combined impact on income, employment, and demand is significantly larger than their individual contributions.

In agriculture, productivity improvements raise rural incomes, which quickly circulate into local trade, transport, and small manufacturing. This creates a strong rural consumption multiplier, especially in areas where agriculture remains the dominant livelihood.

Manufacturing has one of the highest multipliers in Pakistan. Expansion in textiles, food processing, and light industry creates direct jobs and stimulates linked sectors, such as logistics, packaging, and services. It also strengthens exports, bringing in foreign exchange and enabling sustained reinvestment.

The IT multiplier amplifies productivity across nearly every sector. As its core, digitization enhances efficiency across all sectors by reducing transaction costs, improving financial inclusion and expanding market access. As digital adoption spreads, it creates network effects that increase productivity and formalization in the economy, while automation and software solutions raise productivity in both services and industry. A key feature is its network effect. As more users join digital ecosystem such as e-commerce platforms, digital payments and fintech services, the value of the system increases exponentially.

Human development—education, skills, and health—acts as a long-term multiplier by improving labor productivity and enabling structural transformation. A healthier and more skilled workforce attracts investment and supports high-value industries.

Credit expansion supports growth by financing private investment, entrepreneurship, and SME development. When directed toward productive sectors, it increases capital formation and job creation, though its impact depends on financial discipline and allocation efficiency.

Ease of doing business strengthens all multipliers by reducing regulatory friction, improving contract enforcement, and encouraging formal investment. This is especially important for attracting domestic and foreign capital into export-oriented industries.

Public infrastructure plays a catalytic role. Investments in roads, energy, ports, and logistics reduce the cost of doing business and crowd in private investment. Infrastructure also connects markets, integrates regions, and raises overall productivity, amplifying returns across all sectors.

Housing and construction have a particularly strong short- to medium-term multiplier because they are labor-intensive and deeply linked with cement, steel, transport, and services. Expansion in housing directly creates employment for low- and semi-skilled workers while stimulating demand across upstream industries.

Workers' remittances act as a powerful, stabilizing and consumption multiplier. They increase household incomes, support domestic demand, improve living standards, and provide foreign exchange stability. A significant portion of remittances flows into consumption, housing, and small-business investment, reinforcing demand-driven growth.

Finally, export-led growth remains the strongest structural multiplier. It brings in external demand, foreign exchange, and economies of scale, allowing domestic industries to expand sustainably and integrate into global value chains.

In essence, Pakistan's growth potential depends on the simultaneous activation of multiple multipliers. When agriculture, industry, infrastructure, finance, human capital, housing, remittances, and exports reinforce each other, the combined effect on growth and employment is far greater than the sum of individual sectoral gains.

Unlocking Multiplier Potential

Multiplier potential of structural reforms

Structural Issues	Key Reform Lever	Multiplier Effect	Gain Over 5 Years
Agriculture			
44% losses in lined water courses, 66% in unlined water courses. Fragmented landholdings, seed quality gap, unutilized millions of acres, weak certification. Climate threat.	Land consolidation, cooperative farming model, precision farming and certified seed programmes. Cultivating unutilized land. Climate vulnerability and risk management	1.1–1.3	US\$ 10 Billion
Public Infrastructure			
PSDP utilisation below 60%; procurement corruption inflates costs 25-40%.	Ensure efficient implementation of NDP. Mandate multi-year rolling project pipelines focused on Mineral & Mining Development. Energy efficiency.	1.2–1.5	US\$ 15 Billion
Manufacturing			
High-cost energy. Limited access to finance. Policy inconsistency. Low FDI. Weak SME integration	Ensure energy reliability. Incentivise export-oriented industry. Expand SME participation via credit access, cluster development, export facilitation	1.5–1.8	US\$ 18 Billion

Private Sector Credit Expansion			
Crowding out by government. Weak financial inclusion.	Reduce government borrowing. Low interest Rate. Financial sector deepening.	1.7–2.1	US\$ 20 Billion
Housing and Construction			
Housing deficit, inadequate financing for commercial and housing, international market presence deficit, high cost of doing construction, limited housing finance. Weak land record.	Digitize land record, expand housing finance, tax realization, reduce cost of construction. 100k houses per year construction	2.0 – 2.5	US\$ 25 Billion
Worker's Remittances			
Inflows channelled to consumption and real estate. Not productive sectors. No remittance-linked investment products or diaspora bonds exist.	Focus on soft infrastructure. Diaspora bonds. Investment instruments.	1.9–2.2	US\$ 20 Billion
Human Capital (Education – Skill)			
Labour productivity low (0.8% – 1.2% vs 3% – 4% India, Vietnam 5% - 6%. Education 1.7% of GDP vs 4% – 6% norm. High out-of-school children. Skill shortage. Limited TVET capacity	Raise education spending to 4% GDP. Enrol 10M out-of-school children in 3 years. Revamp TVET with industry co-design.	1.5–2.0	US\$ 18 Billion
Technology, IT & Digitization			
Broadband penetration low. IT exports just \$3.2bn vs India \$250bn. Services export underutilized. Limited certification program. Limited RD investment in IT sector. Skills gap insufficient. Expertise in AI	Expand digital public infrastructure nationwide. Ensure quality IT services Facilitate IT firms' participation in international trade events. Established IT focus investment funds. Target high exports via freelancer facilitation and tech SEZs.	1.8–2.3	US\$ 20 Billion

Export-Led Growth			
High cost of production. Exchange rate volatility, narrow export base. Weak industrial base	Reduce cost of doing business. Improve export financing. Trade facilitation. Market access.	1.8–2.2	US\$ 19 Billion
Fiscal Consolidation			
Low tax to GDP 10.5% vs 18- 22% in peers. Narrow tax base. Excessive taxes on Corporate and Salaried class. Large informal economy. Over-regulation. Provinces contribute just 1% of GDP .	Mandatory e-invoicing, POS integration, and FBR, NADRA, SBP and Provincial authorities' integration to widen tax net and check tax evasion. Rationalize tax on agriculture, and real estate. Fed/ Provinces to increase Tax to GDP ratio.	1.3–1.6	US\$ 15 Billion
Cost of Doing Business			
Crosscutting multiplier factor.	Ease of Doing Business.	2-2.5	US\$ 56 Billion

Scenario Analysis

Two scenarios are modelled. The base case (presented in all tables above) assumes consistent reform implementation. EPBD's projected scenario assumes faster global tailwinds and governance breakthroughs.

Scenario	2026	2027	2028	2029	2030	2031	
Baseline Projections %	3.7	4.5	5.2	5.9	6.5	7.0	Gradual reforms implementation.
EPBD's Projections %	4.2	5.5	6.5	7.0	8.0	8.5	Full reforms + favourable global environment

EPBD's scenario projections are projected to create 20 million jobs by FY2031 in major economic sectors via implementation of proposed reforms.

Risk Assessment Matrix

The base case projections are subject to the following principal risks. Each risk is assessed by probability, GDP impact, and mitigation pathway:

Risk Factor	Probability	Impact on GDP	Mitigation Strategy
Global trade fragmentation / tariff escalation	High	-0.5 to -1.0 pp	Export diversification; bilateral FTAs
Climate shocks (floods / drought)	High	-0.3 to -0.8 pp	Climate-resilient agriculture; flood infrastructure
Political instability / policy reversal	Medium	-0.5 to -2.0 pp	Institutional reform; broad consensus on economics
Failure to meet IMF program conditions	Medium	-0.5 to -1.5 pp	Tax broadening; FBR reform; PSDP discipline
Energy sector circular debt overhang	High	-0.4 to -0.9 pp	IPP renegotiation; renewable energy transition
External debt rollover risk	Medium	-0.3 to -0.7 pp	Eurobond issuance; reserve buildup; FX management
AI & tech disruption displacing exports	Low–Medium	-0.2 to -0.5 pp	Skills development; IT export policy

Priority Policy Plan

Immediate Actions (FY26–FY27)

- Complete IPP renegotiations to reduce energy cost burden on industry
- Launch Single National Window for trade facilitation targeting top-50 export ranking
- Operationalize at least 3 SEZs under CPEC Phase II with investor-friendly frameworks
- Expand FBR digitization: mandatory e-invoicing, track-and-trace for key sectors

Medium-Term Structural Actions (FY27–FY29)

- Introduce a comprehensive agriculture income tax with farmer threshold protections
- Launch a sovereign wealth fund seeded from privatization proceeds
- Mandate 30% women labor force participation targets in public procurement contracts
- Introduce skills and demand driven education to TVET graduates with employment

Long-Term Transformation (FY29–FY31)

- Target graduation from IMF program stand-alone macroeconomic stability
- Achieve investment-grade sovereign credit rating (BB- or above)
- Reach US\$ 78bn in annual exports with 40% share from non-textile manufactured goods
- Reduce debt-to-GDP below 60% eliminating vulnerability to external debt crises

Ease of Doing Business: Foundational Driver of Economic Transformation

Improving the ease of doing business is not merely a regulatory reform agenda; it is a macroeconomic growth strategy capable of reshaping Pakistan's economic trajectory. Evidence from the World Bank, International Monetary Fund, and broader academic research suggests that a stronger business environment is among the most effective levers for economic transformation. For developing economies such as Pakistan, ease of doing business is a key determinant of investment inflows, private sector expansion, and employment generation.

While Pakistan has undertaken reforms in recent years, particularly in business registration and digitisation, it continues to lag behind regional peers such as India and Bangladesh in creating a more conducive business environment. This gap has important implications for investment, productivity, and overall economic performance. Core challenges include:

- Regulatory fragmentation between federal and provincial authorities
- A complex and distortionary tax regime
- Weak contract enforcement mechanisms
- Limited access to finance, particularly for SMEs
- Policy inconsistency and governance risks

As a result, while starting a business has become relatively easier, operating and scaling a business remain difficult, discouraging both domestic and foreign investment. Policy priorities should therefore focus on mobilising domestic capital and improving the ease of doing business for homegrown entrepreneurs.

Comparative Analysis: Pakistan vs India vs Bangladesh

Factor	Pakistan	India	Bangladesh
Regulatory efficiency	Moderate (fragmented)	High (streamlined reforms)	Moderate
Tax system	Complex, multi-layered	Unified (GST)	Simpler than Pakistan
Contract enforcement	Weak	Improving	Weak
Policy consistency	Low	High	Moderate-High
Access to finance	Limited	Expanding	Moderate
Export orientation	Low diversification	Diversified	Strong (textiles-led)
Informal economy	Very large	Large but shrinking	Large

Improving ease of doing business (EODB) does not only generate direct gains; it also triggers multiplier effects across the broader economy. The economic cost of existing constraints is substantial, amounting to tens of billions of dollars annually in lost GDP potential. By focusing on tax reform, regulatory simplification, and policy stability, Pakistan can unlock:

- Significant investment inflows
- Higher productivity
- Large-scale job creation
- Sustainable long-term growth
- Employment generation

Recommendations

Macroeconomic Sector

- Treat time as an economic variable. Measuring and publicly reporting approval timelines, customs delays, and dispute resolution speeds can raise productivity without fiscal cost. Around 60 percent of public sector development projects face time overruns, while 40 percent experience cost overruns. Delays extending over several years have pushed cumulative cost overruns into the billions.
- Focus on soft infrastructure in capital markets. Strengthening equity market institutions and investment channels can help transform diaspora remittances into productive investment, supporting sustainable economic growth.
- Shift from consumption-led to investment-led growth, prioritising productive job creation over short-term stimulus measures.
- Restore investor confidence by stabilising the regulatory environment, allowing profit repatriation, and rationalising energy costs to help stem the outflow of foreign capital.

Sustainable Export Growth

- Enhancing exports requires a comprehensive national strategy that strengthens competitiveness, improves productivity, and creates a business environment that supports sustainable growth.
- Prioritize industrial productivity and competitiveness. High production costs, unreliable energy supply, and outdated manufacturing processes reduce the ability of local industries to compete internationally.
- Ensure uninterrupted electricity and gas supply to export-oriented industries at regionally competitive tariffs.
- Investment in modern machinery, automation, and technology transfer should be encouraged through tax incentives and subsidized financing.
- Productivity gains in manufacturing, especially in textiles, engineering goods, pharmaceuticals, and agro-processing, can significantly increase export volumes and improve quality standards.
- Export diversification is essential. Pakistan has traditionally relied heavily on textiles, which makes exports vulnerable to sector-specific shocks and international price fluctuations. The country must expand into high-value sectors such as information technology services, pharmaceuticals, halal food products, engineering goods, chemicals, and renewable energy equipment.
- The IT sector, in particular, offers significant potential because of lower capital requirements and growing global demand for digital services. Supporting startups, improving digital infrastructure, and facilitating international payment systems can accelerate services exports substantially.
- Agriculture and value-added food exports must receive stronger policy attention. Pakistan possesses strong potential in rice, fruits, vegetables, meat, and dairy products, but much of the produce is exported in raw form with limited value addition. Investment in cold chain logistics, food processing zones, packaging standards, and international certifications can

improve access to Middle Eastern, European, and Asian markets. Value-added agricultural exports generate higher margins and create employment across rural supply chains.

- Trade facilitation and Ease of Doing Business should improve. Exporters face delays due to complex customs procedures, slow tax refunds, and regulatory inefficiencies. A fully digitised single-window system for trade documentation, faster duty drawback payments, and simplified compliance would reduce transaction costs and strengthen exporter confidence. Ports, logistics infrastructure, and transport connectivity should also be upgraded to lower shipping costs and improve delivery timelines.
- Financial support for exporters should be strengthened. SMEs often lack access to affordable working capital and export financing. The banking system should expand concessional financing schemes, export refinance facilities, and credit guarantees. Foreign exchange retention rules should remain flexible to support operational needs and international payments. A stable exchange rate framework with limited volatility is essential for export planning and competitiveness.
- Trade diplomacy and market access should be pursued more strategically. Pakistan should deepen engagement with Gulf countries, Central Asia, China, Africa, and Southeast Asia through stronger trade agreements and reduced barriers. Moreover, countries with high trade deficits should be engaged via bilateral agreements, business convoys and identification of demand in these countries. Priority may be given to reconstruction demand in the Middle East, where construction services, engineering, pharmaceuticals, food products, and labour services have potential. Commercial attachés should be made performance-oriented and actively support exporters in market access and buyer identification.
- Policy consistency and investor confidence are fundamental. Policy reversals, tax uncertainty, and regulatory unpredictability discourage long-term export investment. A stable, transparent export policy framework with clear 5–10 year targets would improve investor confidence and commitment.

Agriculture Sector

- Redirect public investment toward livestock and high-value crops. Heavy subsidization of traditional crops crowds out higher-value segments such as horticulture, pulses, and oilseeds, where Pakistan runs large trade deficits. Redirecting support would attract private investment and unlock billions in export potential.
- Agro-zoning needs to be done, and Agriculture Extension Services need to be improved for transiting farmers to better crop selection and practices.
- Modernize farming practices. By adopting advanced planting and harvesting methods, water management and using better quality seeds, yield per acre is expected to increase significantly. Edible oils, which make up about one-third of food imports, should be cultivated domestically.
- Adopt agrotech at scale. Countries using agrotech achieve 20–40 percent higher yields, and Pakistan is only beginning to follow this model precision farming, digital soil testing, and satellite pest alerts must be scaled urgently.
- Open agriculture to competition, removing price-distorting policies that have kept wheat yields growing at just 1.66 percent annually against a 2.5 percent population growth rate.

- Introduce land reforms, stop land fragmentation, and develop agro-markets of entire value chain from inputs to cultivation, storage and output.
- Evaluate research institution's performance with regard to production and service delivery.

Fiscal Sector

- Broaden the tax base aggressively. Increasing revenue fairly and efficiently is essential given the low tax-to-GDP ratio. This requires enhancing tax compliance and shifting taxation toward direct, progressive taxes on undertaxed sectors such as retailers, property, and agriculture.
- Digitize tax administration. The IMF requires Pakistan to implement at least three FBR reforms, including digital invoicing coverage and enhanced audit capacity.
- Eliminate exemptions. The program requires rationalizing tariffs by eliminating exemptions and concessions, and reducing GST exemptions to streamline indirect taxation.
- Bring provinces into the fiscal pact. The National Fiscal Pact formalizes, for the first time, provincial involvement in revenue mobilization, aiming to tax agriculture and property at the provincial level alongside federal retailer taxation.

Debt Sector

- Pursue genuine debt reduction, not just rollover. Replacing expensive short-term domestic debt with longer-maturity instruments must continue, alongside a credible path to primary surplus maintenance.
- Improving the quality of public spending and better managing gross financing needs through improved debt management and extended maturities are crucial. However, the path to debt sustainability is narrow and could be undermined by policy slippages or reduced external financing.
- Privatize loss-making SOEs. SOE governance reforms and privatization are key structural steps needed to unlock private sector-led growth and reduce the fiscal drag from state enterprises.
- Build climate resilience into fiscal planning. Reducing Pakistan's vulnerability to extreme weather events will enhance macroeconomic and fiscal sustainability, as recent floods directly disrupted revenue collection and inflated emergency expenditure.

Analysis of Pakistan's Economy

Pakistan's economy, despite showing signs of short-term stabilization, remains structurally weak and vulnerable to both domestic inefficiencies and external shocks. The recent improvements in macroeconomic indicators are largely policy-driven rather than reflecting deep-rooted structural transformation.

The economy suffers from a low and unsustainable growth model, driven primarily by consumption instead of investment and exports. Heavy reliance on remittances, imports, and government expenditure highlights the lack of industrial depth and productivity enhancement.

The investment climate remains a critical constraint, with low foreign direct investment due to policy inconsistency, regulatory unpredictability, and weak legal enforcement. This has created a credibility gap that discourages long-term investment.

Export performance is limited by a narrow and low value-added base, dominated by textiles. High energy costs and inefficiencies reduce competitiveness, keeping Pakistan trapped in a low-value export cycle.

Fiscal weaknesses persist despite improvements, with heavy reliance on indirect taxes and petroleum levies. The tax base remains narrow, and provincial tax mobilization is significantly low.

Public debt continues to burden the economy, limiting fiscal space for development and social spending. The country remains caught in a cycle of borrowing and repayment pressures.

The energy sector faces structural inefficiencies, including high tariffs, circular debt, and reliance on imported fuels, which constrain industrial growth.

Externally, the economy is vulnerable due to dependence on oil imports and remittances, making it sensitive to global shocks.

Social sector challenges further weaken long-term growth. Education suffers from low spending and poor quality, leading to skill mismatches. The health sector is underfunded, with limited access and high out-of-pocket costs.

Poverty and inequality remain high, exacerbated by inflation. Unemployment, particularly among youth, reflects underutilized human capital, while the urban-rural divide continues to widen disparities.

Governance and institutional weaknesses, including policy inconsistency and inefficiencies, are at the core of these challenges.

To address these issues, Pakistan must implement structural reforms focusing on improving the investment climate, diversifying exports, broadening the tax base, reforming the energy sector, increasing social sector investment, managing debt effectively, and strengthening governance.

Without these reforms, Pakistan risks remaining in a cycle of low growth, high debt, and recurring economic instability.

Projected Financing Module

Projected Financing Module aligned with the Proposed Reforms for Growth

Indicator	FY26 (Base)	FY27	FY28	FY29	FY30	FY31
A. CURRENT ACCOUNT (USD Billion)						
Exports of Goods	30	39	46	55	65	78
Exports of Services	10	13.7	17	23	29	33
Imports of Goods	63	67	73	79	84	88
Imports of Services	12	14	15	18	21	23
Trade Balance (Goods & Services)	-35	-28.3	-25	-19	-11	0
Workers' Remittances (incl. Inflows from Amnesty)	40	44	48	52	56	60
Current Account Balance / GDP (%)	-1%	0.1%	2%	3%	3.3%	5%
B. EXTERNAL FINANCING SOURCES (USD Billion)						
Multilateral Dev. Banks (MDBs)	—	3.5	4.5	4.8	5	5
Bonds (Eurobonds / Capital Markets)	—	2.7	1.5	1	1.4	2
Bilateral Loans	—	0.6	0.5	0.5	0.5	0.5
Privatization Proceeds	—	0.36	0.38	0.4	0.42	0.5
Exports of Goods — Incremental BOP	—	4.6	4.6	4.6	4.6	4.6
Exports of Services — Incremental BOP	—	5	5.5	6.5	7.5	8.5
Workers' Remittances	—	3.5	3.5	4	4	5
Foreign Direct Investment (FDI)	—	2.5	2	2.5	2.5	3
TOTAL EXTERNAL FINANCING	—	22.8	22.5	24.3	25.9	29.1
C. FINANCING SURPLUS / (SHORTFALL) (USD Billion)						
Total Exports (Goods + Services)	40	52.7	63	78	94	111
Total Imports (Goods + Services)	75	81	88	97	105	111
Trade Balance (G&S)	-35	-28.3	-25	-19	-11	0
Add: Workers' Remittances (incl. Inflows from Amnesty)	40	44	48	52	56	60
Net Current Position (Trade Bal + Remittances)	5	15.7	23	33	45	60
Additional External Financing (MDBs+Bonds+Bilateral+Privatization+FDI)	—	9.66	8.88	9.2	9.82	11
i) TOTAL (Net Current + Additional Financing)	—	25.4	31.8	42.2	54.8	71
Avg. Repayments	—	25	25	25	25	25
ii) TOTAL SURPLUS / (SHORTFALL)	—	0.4	6.8	17.2	29.9	46
iii) FX Reserves	17.5	18	24.3	34.7	47.4	63.5
D. MACRO CONTEXT (Growth Transformation Path as per ESP & FYDP)						
Nominal GDP (USD Billion)	452	491	535	582	632	688
Overall Real GDP Growth Rate (%)	4.2%	5.5%	6.5%	7.0%	8.0%	8.5%
Agriculture (22% of GDP)	3.6%	4.5%	5.2%	5.6%	6.3%	6.8%
Industry (20% of GDP)	4.3%	5.8%	7.0%	7.5%	8.6%	9.0%
Services (58% of GDP)	4.8%	6.2%	7.2%	7.9%	8.9%	9.6%

Source: EPBD

Projected Financing Module aligned with the Proposed Reforms for Growth

Pakistan's proposed growth transformation targeting real GDP growth rising from 5.5% in FY27 to 8.5% by FY31 is financeable. The current account deficit of 1% of GDP in FY26 turns to a +5% surplus by FY31, anchored by workers' remittances growing from \$40 to \$60 billion and export growth steadily outpacing imports. A conservative external financing mix of MDBs, Eurobonds, bilateral loans, privatization, and FDI contributes \$22–29 billion annually, and after debt repayments of \$22-25 billion on average per year, the net position moves from a minor surplus in FY27 to a \$46 billion surplus by FY31. FX reserves, which are projected to hold at \$17 billion in FY26, are on track to more than triple to \$63.5 billion by FY31. Additional upsides: Diaspora and Growth Bonds, remittance formalization, and \$14-15 billion stuck in MDBs' approved funds pipeline, are not reflected in these numbers. The binding constraints are not financial but of critical importance, for instance: full implementation of proposed reforms including energy and tax rates reductions, reducing cost of doing business (CoDB), ensuring ease of doing business (EoDB), and reducing government borrowing's share of domestic credit are what will determine whether the growth path is realized or we keep trading on the same vulnerable path.



Conclusion

Pakistan has grappled with structural economic inefficiencies for decades, which forced it to resort to 25 IMF arrangements since its membership. This indicates that the country faces deep-rooted issues that have only been dealt with short-term fixes, more about treating symptoms than the disease. The current economic trajectory over the past two years reflects a phase of managed stabilisation, achieved through significant policy adjustment and supported by an IMF-backed reform framework. This Shadow Economic Survey — the first of its kind — has sought to assess that trajectory independently, rigorously, and with explicit attention to its implications for households, businesses, and economic opportunity. Its findings are mixed, but its analytical direction is clear.

The macroeconomic indicators examined in this report confirm that stabilisation has taken hold across several fronts. Inflation has declined substantially from crisis peaks, though it has begun trending upward again, reaching over 7 percent in recent months, with wholesale price pressures and energy cost adjustments posing continued risks. The fiscal position has improved considerably, with a primary surplus recorded in the first half of FY2026, driven by revenue growth and declining interest expenditures. The current account has remained broadly stable, underpinned by remittance inflows exceeding \$30 billion. The policy rate has declined meaningfully from its peak, and monetary conditions are gradually easing.

However, this report has also documented the structural limitations that stabilisation alone has not resolved. GDP growth of 3.2 percent in FY2025, while reflecting some recovery, remains significantly below Pakistan's potential and inadequate relative to the demands of its labour market and demographic profile. The investment rate — at approximately 14 percent of GDP — is among the lowest in the region and represents perhaps the most binding constraint on medium-term growth. The trade deficit has widened as goods exports declined and imports rose, while foreign direct investment has continued to contract. The formal sector remains disproportionately burdened by the tax system, and the breadth of the tax base has not improved commensurately with revenue gains.

The forward-looking framework developed in this report models a five-year growth transformation pathway from FY2026 to FY2031, under two distinct scenarios. Under the baseline scenario — involving gradual but sustained reform implementation — GDP growth can rise from 3.7 percent to 7.0 percent by FY2031. Under a high-growth scenario, where reforms are accelerated and supported by favourable external conditions, growth can reach 8.5 percent, accompanied by a structural correction in the trade balance.

The sectoral analysis presented in this report identifies several high-impact intervention areas with strong economy-wide multiplier effects. Rationalising the cost of doing business carries estimated multipliers of 2 to 2.5, with potential gains of up to \$40 billion. An export diversification and value-addition strategy can yield up to \$19 billion while addressing the persistent structural trade imbalance. Housing and construction, manufacturing and SME development, private sector credit expansion, digital economy scaling, and productive deployment of remittances each offer gains ranging from \$18 billion to \$25 billion, with multiplier effects between 1.1 and 2.5. Fiscal reforms, public infrastructure efficiency, and agricultural productivity improvements contribute further compounding impact across sectors.

A \$236 billion GDP expansion is achievable if Pakistan adopts a coordinated, reform-driven strategy. The focus must shift from short-term fixes to structural transformation, leveraging investment, exports, and productivity for sustained growth. The reform pathway modelled in this report is analytically feasible. The sectoral opportunities are documented. The multipliers are quantified. The macroeconomic conditions required to sustain higher growth are specified. What the report ultimately contributes is an evidence-based account of what is possible — and a transparent accounting of what it will require.



Markhor (*Capra Falconeri*)
National Animal of Pakistan



**Tax Policy &
Administration Reforms
2026**

**Shadow
Federal Budget
2026-27**

**Shadow Five Year
Development Plan
2026-31**

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