PAKISTAN ECONOMY

ANALYSIS REPORT — 2026

Executive assessment. Pakistan entered 2026 from a position of greater macroeconomic stability than during the 2022–24 crisis period, but the recovery remains fragile. The IMF's May 2026 review projects real GDP growth of 3.6% for FY2025/26, average inflation of 7.2%, and general-government debt including IMF obligations of about 70.1% of GDP. The central policy challenge is to convert stabilization into durable, investment-led growth.

The economy's near-term picture is best described as stabilization without a completed structural transformation. External reserves have improved, the current account remains close to balance, and monetary conditions have eased substantially. At the same time, weak productivity, a narrow export base, high public debt, energy-sector inefficiencies, low tax collection, and limited investment constrain the pace at which living standards can rise.

KEY FINDINGS

Real GDP growth	3.6% FY2025/26	Moderate recovery
Average inflation	7.2% FY2025/26	Much lower than crisis levels
Govt. debt incl. IMF	70.1% of GDP	High; limits fiscal space
Gross reserves	US$17.8bn projection	Improved external buffer
Current account	-0.4% of GDP projection	Near balance

1. MACROECONOMIC PERFORMANCE

Pakistan's recent economic cycle has moved from acute external and inflationary stress toward stabilization. Real GDP contracted by 0.2% in FY2022/23, recovered by 2.6% in FY2023/24, and expanded by 3.1% in FY2024/25. The IMF projects FY2025/26 growth at 3.6%, followed by 3.5% in FY2026/27.

Inflation has fallen sharply from the exceptional levels of FY2022/23 and FY2023/24. The IMF projects average CPI inflation of 7.2% in FY2025/26 and 8.4% in FY2026/27. This is a major improvement in price stability, but it also means that monetary and fiscal policy must remain coordinated.

The recovery is therefore positive but moderate. A mid-3% growth path can stabilize the economy, yet it is unlikely by itself to generate rapid improvements in per-capita incomes or employment. The quality and productivity of growth matter as much as its headline rate.

MONETARY CONDITIONS

Reuters reported in February 2026 that the State Bank's policy rate stood at 10.5% after 1,150 basis points of cuts since 2024. Easing financial conditions can support investment and working capital, but durable expansion requires parallel progress on fiscal discipline, energy reform and investor confidence.

FY2022/23	-0.2%	29.2%
FY2023/24	2.6%	23.4%
FY2024/25	3.1%	4.5%
FY2025/26 proj.	3.6%	7.2%
FY2026/27 proj.	3.5%	8.4%

2. FISCAL POSITION AND PUBLIC DEBT

Fiscal consolidation is central to Pakistan's stabilization strategy. The IMF projects the general-government overall deficit, including grants, at 3.2% of GDP in FY2025/26, with an underlying primary balance of 2.0% of GDP. General-government debt including IMF obligations is projected at 70.1% of GDP, declining gradually thereafter.

KEY FISCAL CONSTRAINTS

1. Low revenue capacity. Broadening the tax base and improving compliance is more sustainable than repeated increases in rates.
2. Debt-service pressure. A large debt stock makes the budget sensitive to interest rates, exchange-rate movements and refinancing conditions.
3. Energy-sector liabilities. Inefficiencies in electricity and gas pricing, collection and distribution can create quasi-fiscal pressures.
4. Development trade-off. Consolidation should protect high-return human-capital, infrastructure and climate-resilience spending.

ASSESSMENT

The direction of travel is positive, but fiscal sustainability depends on making consolidation structural rather than temporary. A credible medium-term framework should combine stronger revenue mobilization with expenditure reform and a higher-quality public-investment pipeline.

Overall balance (% GDP)	-5.4%	-3.2%
Underlying primary balance	1.3%	2.0%
Govt. debt incl. IMF	72.8%	70.1%

3. EXTERNAL SECTOR, TRADE AND RESERVES

Pakistan's external adjustment has been one of the most important components of stabilization. The IMF projects a current-account deficit of only 0.4% of GDP in FY2025/26 and gross official reserves of about US$17.8 billion. The improvement is significant, but reserve adequacy remains a vulnerability because the economy continues to depend heavily on imported energy, intermediate goods and external financing.

EXPORT STRUCTURE

Textiles remain Pakistan's principal merchandise export category, with the IMF listing US$17.3 billion in textile exports for FY2024/25. This concentration is both a strength and a vulnerability: Pakistan has established capabilities and market access, but remains exposed to demand cycles, energy costs, cotton supply, trade policy and competition.
The strategic objective should be to increase foreign-exchange earnings per unit of labor and capital. Priority areas include technical textiles, apparel design and branding, engineering goods, pharmaceuticals, processed foods, IT-enabled services and other higher-value tradable activities.

EXTERNAL-SECTOR RISK

A recovery led by imports without a matching rise in exports could quickly recreate external pressure. Reserve accumulation, export diversification and predictable access to foreign exchange should therefore remain central policy objectives.

Current account (% GDP)	0.5%	-0.4%
Gross reserves	US$14.5bn	US$17.8bn
Merchandise exports	+4.4%	-1.3%
Merchandise imports	+11.2%	+11.1%

4. SECTORAL STRUCTURE AND INVESTMENT

Pakistan has a broad economic base spanning agriculture, manufacturing and services, but productivity differs sharply across sectors. The strongest medium-term opportunities are in activities that can raise productivity, attract investment and generate exportable output.

AGRICULTURE

Agriculture remains a major employer and food-supply base. Higher yields, water efficiency, cold chains, storage and food processing can raise rural incomes while increasing value-added exports.

MANUFACTURING

Manufacturing is central to export competitiveness. Energy costs, access to finance and technology gaps remain constraints; upgrading textiles, engineering, chemicals and pharmaceuticals can improve value added.

IT AND SERVICES

Digital services can provide scalable export earnings with relatively low physical-import intensity. Skills, broadband, digital payments, cybersecurity and export facilitation are key enablers.

ENERGY AND LOGISTICS

Reliable and competitively priced energy, efficient ports, rail freight, warehousing and digital customs are economy-wide productivity investments. Their benefits extend across manufacturing, agriculture and services.

INVESTMENT ENVIRONMENT

Investors need predictable regulation, taxation, energy supply, foreign-exchange access and contract enforcement. Incentives are most effective when linked to measurable investment, productivity and export outcomes.

5. STRUCTURAL CHALLENGES

The stabilization programme can reduce immediate crisis risk, but it does not automatically resolve the structural causes of recurring balance-of-payments and fiscal pressure.

A. PRODUCTIVITY AND HUMAN CAPITAL

Education quality, technical skills, digital capabilities, health outcomes and labor-force participation are economic variables. Human-capital investment should be treated as productive infrastructure.

B. ENERGY AND INFRASTRUCTURE

High system losses, costly energy and unreliable supply weaken manufacturing competitiveness. Grid modernization, better collection and a more efficient generation mix can reduce economy-wide costs.

C. TAX AND STATE CAPACITY

A broader and more predictable tax system is essential. Simpler administration, digital compliance and fewer exemptions can increase revenue while improving the business environment.

D. CLIMATE AND WATER RISK

Floods, heat, water scarcity and other climate shocks can affect agriculture, infrastructure and public finances. Resilience should be integrated into investment and risk-management decisions.

E. EXTERNAL FINANCING DEPENDENCE

Recurring external programmes reflect the interaction of low domestic savings, limited exports, import dependence and fiscal constraints. The durable solution is a larger domestic resource base and broader export economy.

6. OPPORTUNITIES, RISKS AND SCENARIOS

Pakistan's medium-term outlook is balanced between a credible stabilization path and the risk of renewed external or fiscal stress. The difference will largely depend on reform execution.

UPSIDE SCENARIO

If fiscal consolidation remains credible, inflation stays contained, reserves continue to rebuild and structural reforms improve the business environment, private investment could recover more strongly. Export-oriented manufacturing and digitally delivered services could become important sources of incremental foreign exchange.

BASELINE SCENARIO

The most plausible near-term path is moderate growth around the mid-3% range, gradual debt reduction, contained current-account pressure and continued reliance on policy discipline and external programme credibility.

DOWNSIDE SCENARIO

Higher global energy prices, weaker export demand, climate shocks, renewed currency pressure, fiscal slippage or reform delays could reduce reserves and raise inflation. Pakistan's external buffers make early risk management particularly important.

STRATEGIC OPPORTUNITIES

• Export upgrading: higher-value textiles, engineering, pharmaceuticals, food processing and services.
• Digital economy: software, BPO, fintech and creative services.
• Energy efficiency: renewables, grid modernization, storage and industrial efficiency.
• Regional trade: customs reform, logistics corridors and deeper commercial integration.

7. POLICY PRIORITIES AND CONCLUSION

The central objective should be to turn stabilization into a self-sustaining growth model. Pakistan needs growth that produces exports, jobs, productivity and fiscal capacity.

TEN PRIORITIES

1. Maintain fiscal discipline while protecting high-return spending on education, health, infrastructure and climate resilience.
2. Broaden the tax base and improve compliance through simpler digital administration.
3. Accelerate energy-sector reform and reduce the cost of electricity and gas.
4. Build exports in higher-value manufacturing, agribusiness and digital services.
5. Improve logistics, customs and trade facilitation.
6. Create predictable rules for domestic and foreign investors.
7. Strengthen technical, STEM and employability-focused skills.
8. Improve SME access to finance and digital tools.
9. Expand climate-resilient agriculture, water management and disaster-risk financing.
10. Use external financing as a bridge to reform, not a substitute for domestic resource mobilization.

CONCLUSION

Pakistan's economy is materially more stable than during its recent crisis period, but stabilization should be viewed as the starting point rather than the destination. The IMF's projections point to moderate growth, falling debt ratios and improved reserves, while inflation and external financing needs remain meaningful. The decisive test is whether reforms raise productivity and broaden the export base enough to reduce the frequency of future balance-of-payments crises.

SOURCE NOTE

Primary quantitative source: IMF, Pakistan: Third Review Under the Extended Arrangement under the Extended Fund Facility and Second Review under the Resilience and Sustainability Facility, May 2026. Supplementary current context: Reuters, February 2026 reporting on Pakistan's monetary policy and growth outlook. Recommendations are TEDRIC synthesis based on these sources.

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