

Key Insights

PAKISTAN ECONOMIC SURVEY

2025-26

PRAC Team

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OVERVIEW

- **Economic Growth Accelerates Modestly:** Real GDP growth improved to 3.70% in FY2026, up from 3.18% in FY2025, indicating a gradual recovery supported by macroeconomic stabilization and improved sectoral performance. However, the pace remains moderate rather than transformative, suggesting that growth is still constrained by structural bottlenecks, weak productivity, global uncertainty, and volatile energy markets.
- **Agriculture Recovers Partially Amid Mixed Crop Yields:** Agriculture grew by 2.89% in FY 2026, compared from 1.53% in the prior year, backed by a 3.75% sustained expansion in livestock. Important crops grew by a modest 0.65%, with wheat and sugarcane production expanding by 4.3% and 6.2% respectively, whereas critical cash crops like cotton (-0.5%) and maize (-2.68%) contracted, showing vulnerability to climate conditions.
- **Industrial Rebound Driven by Large-Scale Manufacturing:** The industrial sector grew by 3.51% in FY 2026, heavily propped up by Large-Scale Manufacturing (LSM), which staged a sharp turnaround to expand by 6.11% after a 0.69% contraction in FY 2025. This manufacturing rebound was led by stellar performances in automobiles (61.66%) and transport equipment (39.93%), though restricted by contractions in pharmaceuticals (-5.14%).

- **Services Sector Leads as Main Growth Engine:** The services sector expanded by 4.09% in FY 2026, generating a significant point contribution of 2.39% to total GDP growth, surpassing the combined contributions of agriculture (0.68%) and industry (0.64). Growth was driven by a 3.71% rebound in wholesale and retail trade, education (5.23%) and health (6.85%).

KEY PERFORMANCE INDICATORS

Economic Indicators	FY 2025	Targets FY 2026	Actual Figures FY 2026	Period (Actual Figures)
Economic Growth and Sectoral Performance				
GDP Growth Rate (%)	3.2	4.2	3.7	FY 2026
Agriculture Growth (%)	1.5	4.5	2.9	FY 2026
Industrial Growth (%)	5.6	4.3	3.5	FY 2026
Services Growth (%)	3.1	4.0	4.1	FY 2026
Fiscal and Monetary Indicators				
Inflation (Annual, %)	4.8	7.5	6.7	Jul-May FY26
Overall Fiscal Deficit (% of GDP)	2.6	3.9	0.7	Jul-Mar FY26
Primary Surplus (% of GDP)	3.0	2.4	3.2	Jul-Mar FY26
Total Revenues (PKR Billion)	13,367	19,278	14,800	Jul-Mar FY26
Tax Revenues (PKR Billion)	9,137	14,131	10,167	Jul-Mar FY26
Non-Tax Revenues (PKR Billion)	4,230	5,147	4,633	Jul-Mar FY26
Expenditures (PKR Billion)	16,337	17,573	15,656	Jul-Mar FY26
Tax Revenues (% of GDP)	8.0	-	8.0	Jul-Mar FY26
Expenditures (% of GDP)	14.3	-	12.3	Jul-Mar FY26
External Sector & Trade				
Current Account Balance (US\$ Billion)	1.7	-2.1	0.07	Jul-Mar FY26
FOREX Reserves (US\$ Billion)	16.1*	-	22.6	Jul-May FY26
Exports (Goods, US\$ Billion)	24.7	35.3	22.7	Jul-Mar FY26
Imports (Goods, US\$ Billion)	47.4	65.2	50.7	Jul-Mar FY26
Trade Deficit (Goods, US\$ Billion)	22.7	29.9	27.9	Jul-Mar FY26
Exports (Services, US\$ Billion)	6.3	9.6	7.4	Jul-Mar FY26
Imports (Services, US\$ Billion)	8.6	14.0	9.4	Jul-Mar FY26
Trade Deficit (Services, US\$ Billion)	2.3	4.4	2.1	Jul-Mar FY26
Remittance (US\$ Billion)	28.0	-	30.3	Jul-Mar FY26
FDI (US\$ Billion)	1.9	-	1.4	Jul-Mar FY26
Investment & Income				
Investment (% of GDP)	14.4	14.7	14.4	FY 2026
National Savings (% of GDP)	14.9	14.3	14.1	FY 2026
Per Capita Income (US\$)	1,751	-	1,901	FY 2026

Sources: Pakistan Economic Survey (PES) 2025–26, Federal Budget Brief & Speech 2025–26, Annual Plan 2025, Ministry of Planning Development & Special Initiatives.

*Values have been taken from SBP. Inflation figures have been taken from PBS.

KEY ACHIEVEMENTS

- **Current Account Surplus:** Current Account Balance showed marginal improvement in Pakistan's external sector performance, shifting from a surplus of US\$1.7 billion in FY25 to a lower but still positive surplus of US\$0.07 billion in FY26. Although this represents a year-on-year decline, the account remained in surplus and, also outperformed its deficit target of US\$ 2.1 billion for FY26. This surplus was supported by 8.2 percent growth (YoY) in workers' remittances during July–March FY2026, higher services exports, and lower external debt interest payments, which helped narrow the primary income deficit and strengthen external stability
- **Digitally Enabled Exports Gain Momentum:** Services exports surged by 17.2%, significantly outpacing import growth of 10.7%, led by a robust 19.8% increase in IT exports. This strong performance narrowed the services trade deficit and underscored the rising contribution of digitally enabled exports to external sector resilience.
- **LSM Rebounded Sharply:** Large-scale manufacturing grew 6.11% in FY2026, reversing a contraction of 0.69% last year, with strong gains in food processing, automobiles, petroleum products, and electrical equipment.
- **Remittance Bolster Economic Resilience:** Workers' remittances increased by 8.2 percent to US\$30.3 billion in FY2026 (Jul-Mar), providing crucial support to Pakistan's external sector. Higher inflows from overseas Pakistanis strengthened foreign exchange reserves, helped contain external financing pressures, and contributed to greater stability in the balance of payments amid a challenging global environment.
- **Robust Growth in Capital Market:** Pakistan's equity market recorded strong performance during Jul-Mar FY2026, with the KSE-100 Index rising by 18.4 percent from 125,627 to 148,743 points. Market capitalization also increased by 8.5 percent to Rs 16.5 trillion, reflecting improved investor confidence, stronger corporate earnings expectations, and optimism surrounding macroeconomic stabilization and economic recovery.
- **Exchange Rate and External Buffer Stabilization:** The Pakistani Rupee maintained a broadly stable trajectory during the fiscal year, recording an average exchange rate of Rs. 281.1 per US dollar during the July–March FY2025-26 period. This stability provided essential predictability to the market, insulating the domestic economy from severe import-cost shocks despite intense regional geopolitical tensions and global energy market volatility.

- **Private GFCF Expansion:** Private sector Gross Fixed Capital Formation grew by 12.8% to reach Rs. 12,161.9 billion in FY 2026, becoming the major component of total GCFC.
- **Notable Progress in Out-of-School Children Ratio:** The share of out-of-school children fell from 38% in 2023 to 28% in 2025, with improvement across all provinces including a sharp decline in Balochistan (69% to 45%). Female participation in the PM Laptop Scheme reached 54%, signalling some progress on gender equity in digital access. These improvements, if sustained, will have long-term human capital dividends.

KEY CHALLENGES

- **GDP Growth Remains Well Below Potential:** At 3.70%, GDP growth barely keeps pace with Pakistan's ~2% population growth, leaving per capita income improvement marginal and at \$1,901, Pakistan remains one of the lowest per-capita-income countries in Asia. The services sector at 4.09% is doing the heavy lifting, while agriculture and industry lag. Pakistan needs sustained 6–7% growth to make a dent in poverty and unemployment.
- **Public Debt Stock Continues to Rise:** Pakistan's total public debt reached Rs 83.285 trillion by end-March 2026, comprising Rs 57.566 trillion in domestic debt and Rs 25.720 trillion in external public debt. While the pace of accumulation moderated, the absolute size of debt remains a major constraint on fiscal flexibility. Total debt servicing declined by 23 percent year-on-year, falling from Rs 6.439 trillion in Jul–Mar FY2025 to Rs 4.948 trillion in Jul–Mar FY2026. This improvement reflects lower policy rates, reduced reliance on expensive short-term borrowing, and better cash-flow management.
- **Widening Merchandise Trade Deficit:** The merchandise trade deficit widened significantly to US \$27.9 billion during July-March FY2025-26, compared to US \$22.7 billion in the corresponding period of the prior year. This 22.9% expansion in the trade gap was catalyzed by a 6.9% surge in imports (totaling US \$50.7 billion) as domestic industrial activity resumed, and was further compounded by the National Tariff Policy 2025-30, whose tariff reductions contributed to a rise in luxury goods imports. This widening goods deficit highlights a persistent structural vulnerability and an inadequate policy response; liberalization was introduced before domestic industries had achieved competitiveness, deepening import reliance and becoming a channel for luxury imports.
- **Persistent Investment Challenges:** Despite continued inflows into the power and financial sectors, net FDI fell by 26.3% year-on-year, from US\$ 1.9 billion to US\$ 1.4 billion during July–March FY2026, highlighting challenges in maintaining strong foreign investment momentum. The concentration of inflows in a few sectors points to the need for deeper reforms to expand investor participation across the wider economy.

- **Stagnant Investment and Savings Dynamics:** Pakistan's investment-to-GDP ratio remained virtually flat, edging down to 14.38% in FY2025-26 from 14.42% last year, indicating that macroeconomic stabilization has not yet translated into a meaningful revival of capital formation. At the same time, the national savings-to-GDP ratio declined to 14.13%, with domestic savings at only 7.03% of GDP, underscoring a persistent savings-investment gap. This reflects a deeper structural weakness: Pakistan continues to depend on external financing to support investment, rather than generating sufficient domestic savings to fund productive expansion.
- **Stubborn Core and Headline Inflationary Pressures:** Despite administrative and monetary interventions, average headline CPI inflation climbed to 6.19% during July-April FY2025-26, up from 4.73% in the same period last year. The resurgence was starkly evident on a year-on-year basis, with April 2026 inflation peaking at 10.89% compared to a low base of 0.28% in April 2025, driven heavily by international crude oil shocks and escalating domestic petroleum prices.
- **Severe Human Capital Deficiencies:** Public expenditure on critical social sectors remains unsustainably low, with both education and health spending stagnating at a meager 0.8% of GDP each during FY2024-25. While national literacy crawled up to 63.0%, massive disparities persist between urban (74.0%) and rural (55.0%) areas, as well as between genders.
- **Education Gaps and Inequality Persist:** Pakistan's literacy rate remains modest at 63%, with pronounced gender disparity (male: 73%, female: 54%) and a sharp rural-urban divide (74% vs 55%), highlighting structural inequalities in education attainment. Furthermore, despite a reduction in out-of-school children to 28%, the absolute narrative remains alarming, leaving millions of youth detached from the productive labor force.
- **Rising Poverty and Inequality Pressures:** Poverty increased to 28.9% in 2024–25, reversing earlier gains achieved from 50.4% in 2005–06 to 21.9% in 2018–19, reflecting renewed socioeconomic stress. At the same time, the Gini coefficient rose from 28.4 (2018-19) to 32.7 (2024-25), indicating widening income inequality, despite improvements in select social indicators such as education, health access, and basic services.
- **Energy Import Dependence & Rising External pressures:** Pakistan's import bill increased to US\$ 8.9 billion from US\$ 8.4 billion, reflecting a 6.3% rise driven by higher import volumes and volatile international oil prices. Continued reliance on imported petroleum, amid constrained domestic production and geopolitical instability in global energy markets,

particularly in the Middle East; has further increased the energy import burden, intensifying pressure on the external account despite recent macroeconomic stabilization efforts.