

Pakistan's Way Forward: Strengthening Economic Resilience to External Energy Shocks

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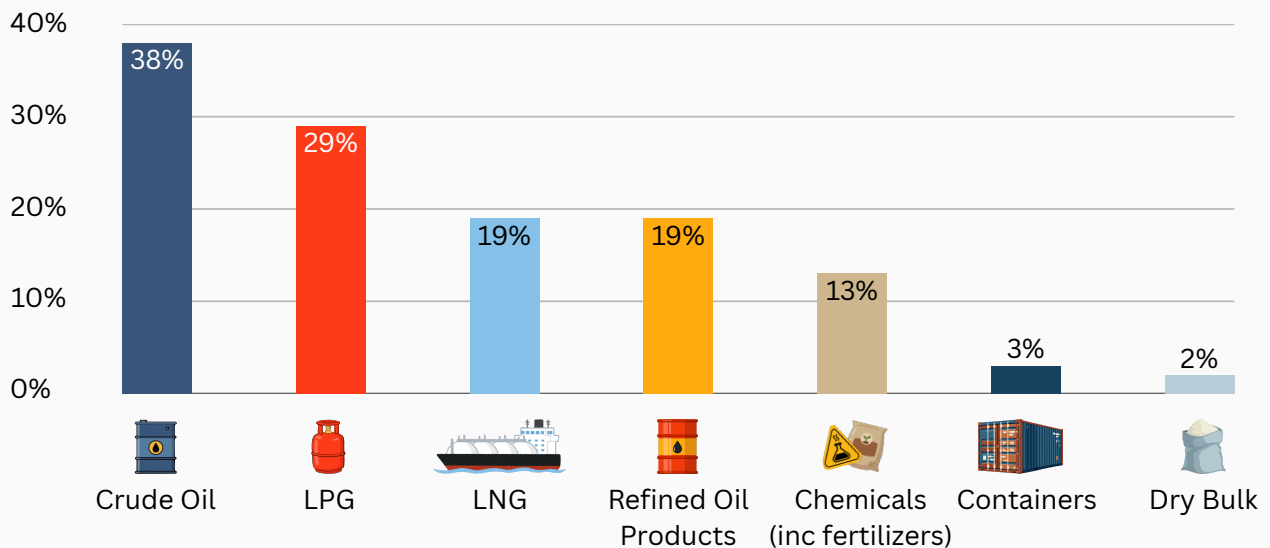
Executive Summary

- Pakistan's macroeconomic stability is increasingly constrained by structural dependence on imported oil and LNG, concentrated exposure to the Strait of Hormuz, and limited fiscal and external buffers. Recent geopolitical shocks, particularly the Iran conflict, have begun to transmit into domestic macroeconomic conditions primarily through fuel prices and imported inflation channels, with early signs of pressure emerging in external accounts. However, the broader impact on inflation, exchange rate dynamics, and macroeconomic imbalances is likely to materialise with a lag, given existing reserves buffer and short-term policy smoothing.
- Operating under an IMF-supported stabilisation framework further limits the use of distortionary subsidies, forcing greater reliance on market-based adjustment mechanisms. Policy response must therefore shift from reactive stabilisation to a resilience-driven framework.
- Key reforms include adopting a transparent, rule-based fuel pricing system with full and timely pass-through of international price movements, supported by higher-frequency price adjustments and a quantified energy conservation framework.
- Energy security requires accelerated diversification through rooftop solar expansion, grid-scale battery storage, completion of major hydropower projects, and phased exploration of green hydrogen as a long-term substitute for imported fuels.
- On the demand side, transport efficiency gains are critical through fuel economy standards, fleet renewal policies, reduced highway speed limits, and accelerated EV adoption backed by nationwide charging infrastructure and fiscal incentives.
- External resilience depends on developing Karachi and Port Qasim as transshipment hubs, diversifying trade routes, introducing a "flag of convenience" registry, and establishing a state-backed insurance mechanism to offset rising war-risk premiums.
- Industrial and services resilience requires SEZ-based export clustering, enforcement of energy-efficient building codes, and strengthened backup energy systems for IT and BPO exports. Together, these shifts point toward a structural transition from subsidy-led adjustment to a rule-based, efficiency-driven, and externally resilient economic framework.

1 Introduction

At the centre of the “war on Iran” is the Strait of Hormuz, a strategic maritime chokepoint for energy transit. This 10-mile maritime passage connecting the Persian Gulf to international trade routes carries around one-fourth of the global seaborne oil shipments, as well as significant amounts of liquefied natural gas (LNG) and fertilisers. The Persian Gulf serves as a “sack” containing the largest energy exporters, including the UAE, Qatar, Iran, and Kuwait. The largest supply of LNG to Asian economies comes through Qatar, and nearly 67% of Urea passes through the Strait of Hormuz. Long-term disruptions can lead to global food shortages, as unlike oil, there are no strategic fertiliser reserves held by the countries. The ongoing military escalation in the region has not only hampered the shipping traffic through the Strait of Hormuz but has also affected the global energy market, maritime transport, and global supply chains.

Figure 1: Energy Trade Passing Through Hormuz One Week Prior to the Conflict



Source: UNCTAD¹

Amid a steadily worsening conflict, the energy markets reacted quickly; energy and fertiliser prices, and transportation costs surged. Energy transshipments slowed down or stopped as the situation intensified. According to UNCTAD, the vessel traffic through the Strait of Hormuz has nearly halted, with an average of 129 ships moving daily through the strait in February, to only 3 ships that crossed the strait on 3rd March, the transit dropped by 97%. The energy corridor of the Asian markets has been cut off. Even the South Asian and East Asian economies with relatively high domestic oil production capacity remain significantly reliant on the Middle Eastern gas exports.

For Pakistan, the implications of the disruptions of the Strait of Hormuz go far beyond a neighbouring geopolitical conflict. As an oil-importing country, this situation has widespread ripple effects across the economy, transmitted through energy dependence, external sector pressures, inflationary risks, and remittance vulnerabilities.

¹ Strait of Hormuz Disruptions: Implications for Global Trade and Development”, UNCTAD, 10 march 2026. Available at: Strait of Hormuz disruptions: Implications for global trade and development | UN Trade and Development (UNCTAD)

2 Pakistan's Macroeconomic Exposure to Hormuz Disruption

Pakistan had only recently achieved a fragile degree of macroeconomic stability, with the economy showing mixed signals of recovery in the first nine months of the current fiscal year. Structural reforms, including tariff rationalisation and privatisation of state-owned enterprises, were beginning to gain traction when the “war on Iran” escalated on 28th February 2026. Although Pakistan has not been directly involved in the conflict, the economy is already experiencing the spillover effects, particularly through heightened volatility in global oil prices across multiple sectors. The energy sector is the primary channel of transmission of these external shocks.

2.1 Energy Sector: Exposure to External Shocks

Pakistan's economic stability is closely intertwined with the structural robustness of its energy sector. The energy markets of the country are defined by intersecting challenges: an import-dependent energy mix and vulnerability to external shocks, rigid long-term contracts, domestic energy supply, and the generational cost of electricity.

2.1.1 Oil & Gas Import Dependency and Price Shocks

Pakistan's reliance on imported fuel remains a key structural vulnerability of its power sector. Out of the total oil supply of approximately 545,000 barrels/day, only 65,000 barrels/day is sourced from domestic crude production, while around 480,000 barrels/day consists of imported crude and refined petroleum products. This implies that roughly 88% of the oil supply is import-dependent, highlighting a persistent external vulnerability. A similar pattern is observed in the gas sector, under normal conditions, 2,800 MMcfd is sourced from the indigenous gas production, while imported, primarily from Qatar, accounts for 800 MMcfd, bringing the total of gas supply to 3,600 MMcfd. The 22% share of imported LNG highlights the structural reliance on external sources.

This import dependence is further amplified by the structure of demand. Petroleum consumption data for FY2025 show that out of the total consumption of 13,168.07 MT, 80% is concentrated in the transport sector, while the industry, agriculture, and domestic consumption account for 5.7%, 0.07%, and 0.15%, respectively. In the gas sector, consumption is heavily concentrated in the power sector (31%), domestic consumers (24.7%), and fertiliser production (24.3%), which together account for nearly 80% of the total demand, indicating strong macroeconomic sensitivity to the supply disruptions.²

In the current regional war, the geographical concentration of Pakistan's energy imports further amplifies vulnerability. Around 70-80% of crude oil imports originate from Saudi Arabia, the United Arab Emirates, and Kuwait, highlighting Pakistan's exposure to supply-side risk arising from the limited geographical diversification. Moreover, these imports largely transit through a single strategic chokepoint, the Strait of Hormuz, making supply chains highly exposed to geopolitical risks.

The Iran war has not only exposed the energy sector to the elevated global oil prices, but has also increased the shipping and insurance costs. War-risk insurance premiums increased from a pre-

²“Economic Survey of Pakistan 2024-2025”, Finance Division. Available at : Strait of Hormuz Disruptions: Implications for Global Trade and Development”, UNCTAD, 10 march 2026. Available at: Strait of Hormuz disruptions: Implications for global trade and development | UN Trade and Development (UNCTAD)

conflict range of 0.1-0.25% of vessel value to approximately 4-10% following escalation, implying a 16-40 times increase in coverage costs.³ In parallel, crew salaries increased by up to 100%, while the hull & machinery premiums rose from around 0.2% to 1.0% with the first 48 hours of the war, reflecting extreme risk repricing in the maritime markets.⁴

In the international markets, Middle Eastern export volumes have declined significantly from 15 million barrels/day to 7 million barrels/day, indicating that physical supply constraints, rather than only price effects, are becoming increasingly binding. Against this backdrop, Pakistan currently maintains approximately 26 days of petrol and 16 days of diesel coverage. While the authorities have stated that existing reserves are sufficient to ensure an uninterrupted supply in the short-term, the economy remains highly exposed to prolonged disruptions in the supply chains. PIDE estimates that the annual import bill of Pakistan will roughly increase by \$1.8-2.0 billion with every \$10 per barrel increase in price.⁵

The transmission from external shock to macroeconomic stress is not a risk to be modelled; it is already underway.



2.1.2 Domestic Energy Supply, LNG Contracts, and Electricity Generation Cost

The crisis came at a time when Pakistan had already entered the phase of energy transition. The persistently increasing cost of electricity and a non-consumer-centric electricity model encouraged both domestic and industrial consumers to install rooftop solar PV systems. In FY25, net-metering consumers injected 1,431 GWh of electricity into the national grid, demonstrating an increased consumer participation in the decentralised renewable energy generation.⁶ This was not a policy accomplishment; it was a revolt against a costly grid.

The result was a structural LNG surplus driven by a combination of factors: slow industrial expansion, constantly high tariffs that squeezed demand, and LNG-based generation was increasingly becoming inefficient in the merit order as the cheaper alternatives started replacing it. The result was a structural LNG surplus. From a peak of 8.2 million tonnes in 2021 to 6.1 million tonnes by the end of 2025, the demand decreased drastically. The government had just started reselling the surplus when the war changed the numbers instantly. Between January and March 2026, the number of LNG shipments decreased from 12 to only 2, resulting in an 83% decline in a single month. The contractual structure provides no cushion. Pakistan-Qatar LNG agreements are Brent-linked, which implies that a rise in oil prices immediately translates into higher gas prices, no physical shortage required. Even before the war's full impact was materialised, the average

³ Zhiming, Bao., "Hormuz Insurance Crunch Sends Shipping Costs Soaring", 25 March 2026. Available at: <https://www.caixinglobal.com/2026-03-25/hormuz-insurance-crunch-sends-shipping-costs-soaring-102427159.html>

⁴ "War Risk Premiums Hit 1% of Hull Value—Making Hormuz Transits Economically Impossible", Gosships Intelligence, 3 March 2026. Available at: <https://www.gosships.com/p/war-risk-premiums-hit-1-of-hull-value-making-hormuz-transits-economically-impossible>

⁵ Naurin, Abida., "World Oil Price Volatility, Middle East Geopolitics, and Pakistan's Inflation Dynamics", PIDE. Available at: "War Risk Premiums Hit 1% of Hull Value—Making Hormuz Transits Economically Impossible", Gosships Intelligence, 3 March 2026. Available at: <https://www.gosships.com/p/war-risk-premiums-hit-1-of-hull-value-making-hormuz-transits-economically-impossible>

⁶ "State of Industry Report 2025", National Electric Power Regulatory Authority (NEPRA), 2025. Available at: <https://nepra.org.pk/publications/State%20of%20Industry%20Reports/State%20of%20Industry%20Report%202025.pdf>

purchase cost increased from \$10.47/MMBtu on 13th February to \$12.49/MMBtu by 12th March.⁷ This transition towards solar rooftop provides a little relief by lowering the daytime demand of the grid. However, it doesn't address the transportation fuel issue, which constitutes of 80% of petroleum goods demand, and the gas shortage, which directly affects the fertiliser production. Although a significant volumes of urea are produced domestically, the primary input used in the production is gas. The burden of this crisis will fall unevenly; the solar consumers with battery insulation will remain protected at least from the high electricity tariffs, but the grid consumers might continue to experience electricity outages.

2.2 External Sector: Vulnerability Under the Price Shock

Pakistan's external account position was fragile even before the conflict. The Iran war has landed on the pre-existing fragility, putting pressure on every component of the balance of payment, import bill, export competitiveness, remittance flow, and the exchange rate. The trade deficit for July-January FY2026 had already surged to USD 22.03 billion, up from USD 17.18 billion in the same period last year. This deficit was not driven by imports alone, but by a decline in export earnings, which fell to USD 18.19 billion, as industries, especially the textile sector, lost international competitiveness owing to high energy tariffs.⁸

Import Bill, an Acute Structural Vulnerability for Pakistan: Pakistan remains dangerously dependent on imported energy, with the petroleum group alone accounting for 25.3% of the total import bill in FY25.⁹ The supply disruptions through the Strait of Hormuz have increased the cost of already expensive imports. The potential rerouting of oil imports through the Red Sea via Yanbu will significantly increase landed costs due to higher shipping distances and insurance surcharges. With increased distance and high freight and insurance premiums, the cargoes arriving at Karachi are now more expensive than a litre of petrol at the pump.

Export Competitiveness under Pressure: Pakistan's export bill has essentially remained stagnant between USD 25 billion and 35 billion for the last fifteen years. This war has added a layer of operational challenges for the already struggling sector. Heightened insurance premiums and freight costs are reducing the export margins, particularly in the textile sector, which is vulnerable to these rising operational costs. Prolonged delivery timelines threaten the supply chain obligations to the international market, which may result in the cancellation of contracts or diversion of contracts to competitors. The industrial sector has already been dealing with the energy tariffs that range between 60-70% of the cost of raw materials; this challenge will erode the already vulnerable export competitiveness in the international markets. These war impacts are not just limited to the industrial sector; similar concerns are noted in the agricultural trade. Elevated freight surcharges, suspension of Middle Eastern routes, and suspension of trade with Afghanistan have put a halt to the maritime trade, especially the perishable commodities like kinnow and potatoes, due to security concerns and route disruptions. Land routes through Iran continue to remain

⁷ Hussain, Abid." How war on Iran turned Pakistan's LNG surplus into a looming shortage", Al-Jazeera, 3 April 2026. Available at: Zhiming, Bao., "Hormuz Insurance Crunch Sends Shipping Costs Soaring", 25 March 2026. Available at: <https://www.caixinglobal.com/2026-03-25/hormuz-insurance-crunch-sends-shipping-costs-soaring-102427159.html>

⁸ "Monthly Summary on Foreign Trade Statistics for Jan, 2026", PBS, Jan, 2026. Available at: Monthly Summary on Foreign Trade Statistics for Jan, 2026 - Pakistan Bureau of Statistics

⁹ "Import Payments by Commodities and Groups", SBP. Available at: https://www.sbp.org.pk/ecodata/Import_Payments_by_Commodities_and_Groups.pdf

inefficient, unable to replace traditional routes. This crisis has added to the losses of the agricultural exports and a reduction in export competitiveness.

Remittances: A critical Buffer for the External Account Stability: Remittances have historically provided critical short-term stability to Pakistan’s current account of the country, and the early signals from the crisis are encouraging. In March 2026, remittances from Saudi Arabia alone reached USD 0.91 billion, sharply rising from USD 0.68 billion in February, a surge attributable in part to Ramzan and Eid seasonal transfers. Pakistanis workers in the Gulf are concentrated in construction, healthcare, and retail sectors less vulnerable to immediate downsizing than manufacturing and finance, leading to some structural durability to the flows. However, there’s a critical conditionality: it holds only as long as the conflict is resolved in the near future. However, escalations in Saudi Arabia and the UAE, where the majority of Pakistani labour is employed, will result in labour market disruptions and evacuation pressures, threatening the most reliable buffer to the external sector.

Foreign Exchange Reserves and Financial Obligations: The country’s fragile foreign exchange reserves had just started improving, with its import cover increasing to three months, when the war began. This relatively stable position is now deteriorating from multiple directions at once: an increased import bill, expected remittance reduction, and declining FDI as the investors adopt a “wait-and-see” approach during periods of regional instability, potentially delaying capital injections into projects and a heavy external repayment calendar. In April 2026, the country is expected to repay USD 1.3 billion as the Eurobond matures and a USD 3.5 billion rollover repayment to the UAE government. Serving these obligations while also absorbing substantially high import bills provides virtually no room for mistakes. If the conflict prolongs, the reserve cushion that has nearly developed in two years might be significantly depleted in a single quarter.

2.3 Industrial Sector: Energy Cost, Input Inflation and Lost Competitiveness

Pakistan’s industrial sector, already working under severe energy cost, has entered the Iran war shock. Exporting industries have long been uncompetitive in the international markets because of high energy tariffs. In response to high energy costs, a significant number of industries completely shifted from the national grid to solar rooftop PV systems. Major textile industries, including Nishat Mills, Interloop, and Artistic Milliners, installed multi-megawatt solar systems to reduce the cost and eliminate the outage-related production interruptions!¹⁰ Industrial electricity consumption from the national grid declined by 11%, indicating an intentional disconnection rather than economic contraction!¹¹ This shift to Solar PV will give a cost buffer to such industries amid the crisis. However, the industries still reliant on the national grid will be exposed to the extreme supply constraints coupled with high energy costs. Apart from energy, the war has added a layer of cost, increased insurance premiums, and insurance surcharges have added USD 3000 per container in freight costs, increasing the prices of industrial exports. The regional conflict is expected to exacerbate the pre-existing structural constraints in the industrial sector. Elevated

¹⁰ “PAKISTAN SOLAR ENERGY MARKET SIZE & SHARE ANALYSIS - GROWTH TRENDS AND FORECAST (2026 - 2031)”, Mordor Intelligence. Available at: <https://www.mordorintelligence.com/industry-reports/pakistan-solar-energy-market>

¹¹ “Pakistan Electricity Review 2025”, Renewables First, May 2025. Available at: https://uploads.renewablesfirst.org/Pakistan_Electricity_Review_2025_89f0b613d6.pdf

energy tariffs and expected supply disruptions will increase the cost of production, reducing export competitiveness and restricting industrial output and growth.

2.4 Agriculture: A Double Cost Shock

Iran's war has exposed the agriculture sector to a double cost shock, the cost of fuel and fertiliser supply, that too at a time when the sector is welcoming the Rabi season. Although produced locally, the feedstock of urea is gas; in FY2025, 764 MMCFD gas was consumed for the fertiliser production.¹² Therefore, disruption in the imported LNG will result in a trade-off between the gas allocation for the power sector, households, or fertiliser production. Secondly, the fuel shock has also hit the agriculture sector directly. High Speed Diesel (HSD) constitutes 50-55% of the total petroleum demand, and this demand is largely concentrated in Pakistan's freight and agricultural economy. From harvests, threshers, tractors, and trucks moving grains from fields to mills and storage facilities, all run on Diesel. Earlier in March 2026, when HSD price increased from Rs 280.86 to RS 520.35 per litre, an 85% increase implies that the price increase has transmitted across the cycle of production and will translate into higher food prices. The shortage of imported LNG has created a trade-off between food security and energy security in the trade bill. Any possible delay in fertiliser availability might reduce productivity, making the import necessary at high prices. Additionally, Pakistan might face food demand from the Gulf countries, securing food imports in the face of supply uncertainty. Under these circumstances, agriculture becomes a channel of transmission for energy, trade shocks, inflation, and external sector pressures.

2.5 Services Sector: Transportation Bearing the Burden

The services sector serves as the most immediate transmission channel of the war shock, primarily through transportation linkages. According to the Economic Survey of Pakistan 2025, the transport sector accounts for around 80% of the petroleum product consumption, making it highly sensitive to fuel price shocks.¹³ Brent crude prices increased to USD 119 per barrel on 9th March 2026, following the escalation of the conflict, leading to higher freight and insurance costs in global shipping markets. In response to rising international oil prices, the domestic petrol and HSD prices in Pakistan also increased, translating into higher local transportation costs and contributing to inflation across the economy. With the increase in diesel prices, the railway fares also rose, with increase of 5% and 10% increase in economy and air-conditioned class tickets; while the cargo train fare also increased by 20%.¹⁴

The aviation sector has also been significantly affected. Between 1st March and 21st March, jet fuel prices in Pakistan increased by nearly 150%, rising from Rs 150 per litre to Rs 472 per litre. This sharp increase has placed considerable pressure on Pakistan International Airlines, which is already in a phase of restructuring and attempting to restore operational credibility following past restrictions on European routes. As a result, fuel surcharges on both international and domestic

¹² "Economic Survey of Pakistan 2024-25", Finance Division, 2025 Available at: https://www.finance.gov.pk/survey/chapter_25/14_Energy.pdf

¹³ Ibid.,5.

¹⁴ "Pakistan Railways increases fares following fuel price hike", Dawn, 7th March, 2026. Available at: <https://www.dawn.com/news/1979450#:~:text=The%20new%20prices%20will%20take,at%20feedback@dawn.com>

prices have substantially increased. Overall, the transportation sector is under significant stress, with rising logistics, freight, and trucking costs collectively increasing the cost of moving goods within the economy. This has directly weakened the competitiveness of time-sensitive exports, particularly perishable agricultural commodities. While the IT sector remains largely insulated from physical disruptions caused by the conflict, it is not entirely immune to its spill-overs. Prolonged energy shortages and load management measures may disrupt productivity in time-sensitive digital services, particularly affecting freelancers, call centres, and medical billing operations in Pakistan.

3 Fiscal Strain and Government Response

The country's fiscal position is coming under pressure amid external shocks arising from the Iran conflict and continued tension with Afghanistan. These developments unfolding at a time when the economy is operating under the IMF-supported stabilisation program. Under this framework, the government's commitment to fiscal consolidation and deficit reduction is being tested by the rising energy costs and managing inflationary measures through targeted relief measures. When the war in Iran started on 28th February 2026, Brent crude prices increased sharply, leading to a corresponding rise in fuel prices globally. The Government of Pakistan responded through domestic price adjustment, although the response remained uneven over time. Table 1 presents the dynamics of fuel price adjustments since the onset of the conflict.

Table 1: Fuel Prices Dynamics in Pakistan Since the Start of the USA-Israel-Iran War

Date		Petrol (Rs/Litre)		HSD (Rs/Litre)
March 1, 2026	↑	8	↑	5.16
March 6, 2026	↑	55	↑	55
April 3, 2026	↑	137.24	↑	184.32
April 4, 2026	↓	80	↕	0
April 10, 2026	↓	12	↓	135

Before the conflict, petrol and HSD prices stood at Rs 259.30 per litre and Rs 279 per litre, respectively. Embedded within these prices were the petroleum levies of Rs 89 per litre on petrol and Rs 79 per litre on HSD. In response to the initial surge in international oil prices, the government allowed the pass-through, including a significant increase of Rs 55 per litre in both petrol and HSD prices on 6 March 2026. Alongside price adjustments, the government announced a nationwide crackdown on hoarding and introduced a national austerity plan aimed at demand compression and fiscal consolidation. Following is a snapshot of the measures announced by the Prime Minister.

Table 2: Snapshot of Fiscal Measures in Response to the Iran War

Demand Reduction- National Austerity Plan	Fiscal measures	Strategic & Diplomatic Actions
4-day workweek for government offices at federal & provincial institutions	50% reduction in all government department expenditure	Saudi Arabia \$5 billion deposit was sought for 10 years
50% WFH policy for the government	Ministry of IT to deploy demand and supply monitoring systems for government energy efficiency	IMF was requested to provide relief on the petroleum levy to cushion consumers from the global crude spike.
Two-month salary waiver for the cabinet	Gas & LNG prioritised for fertilisers, domestic, and industry	The Pakistan Navy started operation Muhafiz ul Bahr on 9 th March to secure sea lanes and protect maritime export corridors
Online classes for schools, colleges, and universities		
50% reduction in fuel allowances for official vehicles, ban on additional protocol/ VIP cars		

Despite these measures, the government absorbed a significant portion of the price shock through delayed pass-through. The decision to freeze fuel prices for several weeks resulted in a Price Differential Claim (PDC) of approximately Rs 125 billion, representing a substantial financial cost. This policy marked a deviation from IMF program conditionalities, which emphasise cost-reflective pricing mechanisms. Similar policy responses during the 2022 global oil price shock have previously contributed to macroeconomic imbalances, underscoring the fiscal risks associated with the interventions. In an attempt to generate fiscal space, the government imposed an additional Rs 200 per litre levy on high-octane fuel, increasing the total levy to Rs 300 per litre. While expected to generate approximately Rs 9 billion per month, this measure reflects a shift towards selective taxation. Although politically appealing, such differential pricing introduces distortions, undermines policy neutrality, and may encourage rent-seeking behaviour. Concerns have also been raised by stakeholders, including the aviation sector, regarding broad-based subsidies and pricing distortions, particularly in diesel.¹⁵ In contrast, the IMF has maintained its position against the broad subsidies on petroleum products and urged the government to address the price distortions as soon as possible. However, this is not a new argument; this is a structural flaw that resurfaces whenever Pakistan experiences an external price shock. The 2022 episode of the government freezing the fuel prices in response to the Russia-Ukraine war, when the economy came to the verge of default, casts a long shadow over every decision taken in March and April. Subsequently, the government introduced targeted transport subsidies, including monthly payments of Rs. 100,000 for passenger buses, Rs 40,000 for wagons and mini-buses, Rs 70,000 for trucks, Rs 80,000 for cargo vehicles, and Rs 35,000 for delivery vans. Alongside, temporary free public transport services in selected urban areas. The provincial government also implemented demand-side measures, including early market closures and restrictions on commercial activity.¹⁶ To contain petroleum demand and manage energy shortages, the power division implemented nationwide load-shedding of approximately two hours during peak periods, alongside a scheduled reduction in gas supply to domestic consumers. To contain the petroleum demand, the Power Division also announced nationwide 2 hours' load-shedding during peak hours, and gas supply for domestic consumers has decreased according to the set schedule. These measures attempt to rebalance limited energy availability, although at the expense of significant disruptions to household consumption and economic activity.

4 Beyond Short-term Relief: Building Economic Resilience

While the government announced that austerity measures might provide short-term relief, they fail to address the underlying structural vulnerabilities exposed by the crisis. The Iran war is not an isolated shock, but rather a constant reminder of Pakistan's reliance on imported energy and trade routes. This stresses the critical need to shift from reactive policymaking to building long-term economic resilience through targeted structural reforms. The following are short- to long-term reforms that must be implemented by the government to build a resilient economy.

¹⁵ "New PIA owners rattled by rising jet fuel costs, worry about sustainability", Dawn, 29th March, 2026. Available at: <https://www.dawn.com/news/1986553/new-pia-owners-rattled-by-rising-jet-fuel-costs-worry-about-sustainability>

¹⁶ "PM Shehbaz announces Rs70,000 monthly subsidy for transporters to curb price hikes", Business Recorder, April 5,2026. Available at: <https://www.brecorder.com/news/40414884/pm-shehbaz-announces-rs70000-monthly-subsidy-for-transporters-to-curb-price-hikes>

4.1 Short-term Macroeconomic Response

Price Adjustments over Subsidies: There is a need to anchor fuel pricing in a transparent, rule-based framework that ensures full and proportional pass-through of international oil price movements across all the petroleum products. Delay in price adjustments or the reliance on broad subsidies causes severe fiscal stress and market distortions, weakens price signals and threatens macroeconomic stability.

Daily Fuel Price Adjustments: Daily fuel price adjustments, instead of the fortnightly or weekly practice, would improve the price mechanism's responsiveness to variations in global oil prices. In addition, Power Division should establish a quantitative conservation framework, measuring efficiency gains in physical terms such as million tonnes of equivalent oil or megawatt rather than relying on ad hoc administrative constraints. This policy will increase transparency, accountability, and develop trust in demand-side management measures.

Demand-Side Transport Efficiency: Demand-side management must prioritise structural efficiency gains over short-term administrative regulations. In the short-term, there is a need to adopt initiatives such as lowering motorway and highway speed restrictions to 90-100 km/h for immediate fuel saving of up to 20-25%, with an estimated annual savings of roughly USD 600 million throughout the national vehicle fleet. Over the medium to long term, Pakistan needs to introduce fuel economy requirements and, along with a formal vehicle retirement framework, address recurring inefficiencies caused by an aged and inadequately regulated fleet.

Maritime and Insurance Support: War risk surcharges have significantly affected the private marine insurance market, leaving commercial coverage extremely costly for Gulf-bound shipping. In response, Pakistan may consider establishing a state-backed insurance or guarantee fund, comparable to the United States DFC's USD 20 billion maritime reinsurance support for Gulf oil flows, to mitigate shipping risks and stabilise trade costs.¹⁷ Meanwhile, naval protection under "Operation Muhafiz ul Bahr" provides a complementary risk-mitigation channel that can help reduce insurance rates while maintaining the sustainability of crucial maritime routes.

Gas Supply Security: The Iran–Pakistan (IP) gas pipeline remains a key structural option to ease Pakistan's chronic gas shortages and reduce dependence on costly RLNG imports. With Iran's segment reportedly completed and Pakistan's construction delayed due to sanctions and financing constraints, recent diplomatic engagement has reopened discussion on its revival. If operational, the pipeline could supply up to around 750 mmcf/d of comparatively cheaper pipeline gas, helping reduce exposure to volatile LNG prices, improve supply security, and ease pressure on the power, fertiliser, and industrial sectors.

4.2 Medium-Term Energy & Fiscal Reforms

Power Sector Reforms: Reduce losses and improve reliability by implementing structural improvements in the power distribution sector. Privatisation and/or PPP model for DISCOs can

¹⁷ DFC Announces \$20B Plan for Maritime Reinsurance in the Gulf, U.S. International Development Finance Corporation, 6th March 2026. Available at: <https://www.dfc.gov/media/press-releases/dfc-announces-20b-plan-maritime-reinsurance-gulf#:~:text=,the%20implementation%20of%20this%20plan>

result in private capital, enhance operational capacity, and governance. The IMF program also includes the privatisation of selected DISCOs and private sector licensing. Combined with strict regulatory control, these improvements can help reduce financial losses while increasing service delivery. Additionally, modifying the merit-order dispatch system to allocate gas and electricity based on economic efficiency rather than political considerations will improve allocative efficiency and maximise scarce energy sources.

Energy Supply Diversification: Accelerate domestic clean energy markets development. This can be done through:

- **Renewable Energy & Solar PV:** Pakistan’s rooftop solar capacity has expanded significantly, reaching approximately 6.1 GW of net-metering installations by mid-2025. Instead of discouraging small-scale solar through measures such as reduced export tariffs, distributed photovoltaic (PV) generation should be recognised as a strategic energy asset. A stable and predictable net-metering regime, coupled with improved grid integration and targeted incentive structures, is essential to maximise the contribution of distributed generation to the national energy mix.
- **Grid-Scale Battery Storage:** Invest in large-scale battery storage systems to address renewable intermittency and manage peak demand pressures. Battery Energy Storage Systems (BESS) can store excess solar generation during periods of high supply and discharge during evening peak hours, thereby reducing grid stress and improving system reliability. Encouraging both utility-scale and behind-the-meter storage solutions through targeted financing mechanisms and fiscal incentives would further enhance grid stability and facilitate higher integration of renewable energy into the power system.
- **Hydro and Emerging Fuels:** Complete priority hydropower projects such as Dasu and Diamer-Bhasha to expand the base of low-cost, indigenous electricity generation and reduce dependence on imported fuels. Simultaneously, explore emerging energy pathways such as green hydrogen, leveraging surplus renewable energy for future fuel substitution. Regional initiatives are already assessing hydrogen’s potential as a cost-effective transport fuel alternative. While still in early stages, such investments can play a strategic role in reducing long-term reliance on imported oil and enhancing energy security.
- **Electric Mobility Transition:** Accelerating electric vehicle (EV) adoption is critical for reducing Pakistan’s transport-sector fuel dependence and exposure to oil price shocks, particularly given the high import intensity of petroleum consumption. However, adoption remains constrained by limited charging infrastructure, high upfront vehicle costs, and weak regulatory signalling. To address these bottlenecks, a phased national charging network should be developed along highways and urban clusters through public–private partnerships, supported by standardised charging protocols and grid-upgrade planning to avoid localised load stress. In parallel, targeted fiscal incentives such as reduced import duties, concessional financing, and preferential electricity tariffs for EV charging can improve affordability and demand uptake. Complementary measures, including electrification of public transport fleets

(buses, taxis, and two- and three-wheelers) and integration of EVs into urban mobility planning, would further strengthen scale effects and accelerate the transition toward a lower-import, energy-resilient transport system.

Labour Market Adaptation: Anticipate shifts in regional labour demand arising from geopolitical disruptions, particularly in conflict-affected Middle Eastern economies. As labour mobility patterns adjust, South Asian workers, including those from Pakistan, may gain relatively stronger demand in reconstruction and service-intensive sectors. Policy preparedness should therefore focus on improving workforce competitiveness through skill upgrading, certification alignment, and overseas employment facilitation to better position Pakistani labour in emerging post-conflict labour markets.

4.3 Long-term Structural Resilience

Regional Trade Integration: Leverage Pakistan’s geographic position to diversify external supply routes and mitigate exposure to chokepoint risks such as the Strait of Hormuz. In light of disruptions to Gulf shipping lanes, Karachi Port and Port Qasim should be strategically developed as regional logistics and transshipment hubs. Recent policy shifts permitting transshipment of bulk cargo, vehicles, and LCL consignments represent an initial step toward this repositioning. By capturing rerouted maritime flows from the Middle East, Pakistan can generate additional transshipment revenues and foreign exchange inflows while strengthening port utilisation. In parallel, deeper integration into regional trade architectures, such as pursuing observer or membership status in frameworks like RCEP, can help embed Pakistan within diversified supply chains and reduce overdependence on any single trade corridor.

Maritime and Regulatory Strategy: Explore innovative non-tax revenue streams through the establishment of a “flag of convenience” registry for foreign vessels. By offering competitive vessel registration, regulatory flexibility, and maritime protection under the Pakistani flag, the government could attract international shipping companies seeking cost-efficient flagging options. In return, this would generate recurring fee-based revenues, expand the country’s maritime footprint, and enhance strategic diplomatic and commercial linkages within global shipping networks.

Industrial and Agricultural Cluster Development: Stimulate export-oriented industrial clusters within Special Economic Zones (SEZs) by aligning incentive structures with high-value manufacturing sectors such as electronics, auto parts, and textiles, particularly those integrated into Chinese and regional supply chains. Strengthening joint ventures and technology transfer mechanisms under CPEC and related bilateral frameworks can enhance productivity and export competitiveness, as also reflected in recent Pakistan–China agricultural cooperation initiatives. In the agriculture sector, co-branding and value-chain integration for high-value crops such as red chilli and sesame, supported by Chinese processing and marketing expertise, can expand access to premium export markets. Concurrently, enforcing energy-efficient building codes (ECBC 2023) and upgrading HVAC efficiency standards in commercial and residential sectors can help moderate structural demand pressures, particularly during peak summer loads, thereby improving overall

energy system efficiency.

Tourism and Services Sector Expansion: Develop non-traditional growth avenues within the services sector to enhance foreign exchange earnings and employment generation. Pakistan's northern regions, including Skardu and Gilgit, alongside coastal tourism corridors, can be strategically marketed to high-value international tourists, particularly from emerging markets such as China, thereby expanding service exports and supporting local economies. In parallel, the IT and BPO sector should be strengthened through improved energy resilience, given its increasing role in export earnings and skilled employment. Policy incentives for on-site backup power solutions, including generators and battery storage systems, for data centres and call centres, can help ensure operational continuity amid load-shedding risks, thereby safeguarding service export competitiveness.

5 Conclusion

The current phase of geopolitical instability, particularly the Iran conflict and associated disruptions in regional trade routes, has exposed and intensified Pakistan's structural macroeconomic fragilities. The economy's heavy reliance on imported energy, concentrated supply chains through the Strait of Hormuz, and limited fiscal and external buffers have translated external shocks into immediate pressures on inflation, the current account, and growth momentum. These vulnerabilities are transmitted across sectors, with transport, industry, agriculture, and services experiencing cost escalations that further erode competitiveness and widen macroeconomic imbalances. Within an IMF-supported stabilisation framework, these developments constrain policy space, forcing a difficult balance between price pass-through, fiscal consolidation, and short-term relief measures. The experience underscores that such shocks are no longer cyclical but increasingly structural in nature, requiring forward-looking risk management rather than reactive stabilisation. Accordingly, continuous monitoring of geopolitical risks must be embedded within macroeconomic planning. The policy recommendations in this report collectively point toward reducing import dependence, improving energy efficiency, strengthening external resilience, and shifting toward rule-based fiscal and energy management frameworks.

Rightsizing the Government is the Government's own Achilles' heel

Dr. Khalil Ahmad



The road to SOEs' hell is paved with good intentions!

Here is the example:

Finally, “the government formally decided to wind up the dysfunctional Sarmaya-e-Pakistan Ltd (SPL), which was created during the PTI tenure to handle the financial and governance affairs of more than 441 state-owned enterprises (SOEs) for their turnaround, following models used in Malaysia and Singapore.”

During the period from January to April, no developments took place regarding the reduction in the physical size of the government and its non-development spending. Mind that by "development" here is meant any statement, at the minimum, by any government functionary. Even that didn't happen.

The good news is that the landmark privatization of one of the greatest SOEs, PIA, is on track to materializing. More to it, there are plans to divest the remaining 25% shares to the successful bidder, Arif Habib Consortium.

For another smaller entity, the First Woman Bank, the process of its privatization stands completed.

To fast-track the privatization, experts are being hired. In other words, that amounts to

admitting the failure on the part of the government and the privatization commission. Didn't they hire any experts earlier?

As far as accumulating the losses by the SOEs is concerned, the government is in a denial mode, though the figures don't lie: SOEs' losses surge 300% to Rs123bn in FY2025.

No positive news is bad news on the front of GENCOs' and DISCOs' privatization. Turkey is being invited to help with the former, and the latter's privatization has been delayed.

The competitive power market has made a slight movement forward. The summary to the effect of a 200 MW trade under the CTBCM model has been sent to the prime minister for approval.

And the government says they have ended the policy of sugar price controls. Has it really been ended? It is yet to show any effects in the market in the form of price stabilization or price reduction.

What relevant information was reported in various newspapers regarding the incumbent government's efforts to limit its footprint in the economy from January 30 to April 10, 2026, has briefly been arranged with issues and entities collated together.

What Happens When the Dust Settles

Dr. Vaqar Ahmed



What happens when the dust settles? That is the question the policymakers should be asking today. Not whether the guns will fall silent in the Middle East, but what comes after.

An economist learns to distinguish between a pause and a cure. The region will remain volatile. The fault lines that produced this conflict will not disappear anytime soon. And Pakistan's economy, already navigating a demanding reform programme, now faces a choice: return to business as usual, or build the buffers that will outlast the next external shock.

Pakistan has already taken the first, painful steps. The authorities passed through some of the necessary fuel price adjustments and put in place administrative measures including early closure of commercial activities daily. They maintained a cautious monetary stance to anchor inflation. And they secured a staff level agreement with the IMF. That agreement validates the difficult measures of the past year and provides a floor under foreign exchange reserves.

But resilience is built when the dust settles. And it is built by specific hands, within specific institutions, navigating a specific political economy. Let me suggest what needs to be done, and who will have to do it.

The Energy Buffer: From Days to Months

The first lesson of this conflict is that a tactical oil reserve designed for peacetime is not a buffer. When the strait was threatened, the global supply chain seized within hours. Pakistan must now build a strategic petroleum reserve measured in months, not days.

Beyond storage, Pakistan needs refining sovereignty. Upgrading existing facilities to process alternative crude sources would allow the country to bypass the most volatile international spot markets and create a supply chain that does not depend on a single chokepoint. The political economy obstacle here is the resistance of established interests that profit from the current import heavy regime. The government can overcome this by linking refinery upgrades to targeted tax incentives, conditional on demonstrable increases in local processing capacity.

Yet the most powerful energy buffer is also the most distributed: solar power. Pakistan has already imported an enormous quantity of solar panels, equivalent to a substantial share of its national grid capacity. Within a few years, a significant portion of the country's electricity will come from the sun. Every rooftop in the commercial capital and every tube well in the agricultural heartland that runs on solar power is a miniature foreign exchange

reserve. Each locally generated kilowatt is a dollar not spent on imported fuel. The central bank can accelerate this by mandating that commercial banks offer low interest, long term solar financing with minimal collateral. Provincial governments can amend building codes to require solar ready infrastructure for new housing schemes. This is not an environmental luxury; it is a national security imperative.

The Food Buffer: Strategic Silos and Cross Border Zones

The second buffer is food security. The disruption of western border crossings during the conflict proved that Pakistan's supply lines are fragile. International assessments have long highlighted a significant yield gap in wheat production. Closing that gap through better seed systems, water management, and agricultural extension would allow Pakistan to move from hand to mouth stocks to a permanent strategic reserve.

Regional cooperation in agriculture and livestock can help. The idea of joint agricultural zones along the western border with Afghanistan and Iran carries potential. The political economy here is delicate: it requires trust between neighbors, as well as a mechanism to insulate these zones from international sanctions. The solution is to structure the arrangement as a barter trade, not dollar denominated transactions, and to limit the zones to essential food crops. A pilot initiative should be given a chance at the earliest.

The External Buffer: Converting Debt into Stakeholding

The third buffer is external resilience. Pakistan cannot borrow its way to security. The current external assistance is a stabiliser, not a

solution. The recent staff level agreement provides much needed breathing room, but fragile economic stability remains tied to debt accumulation. The goal may be to convert liabilities into permanent buffers.

The most promising opportunity lies with Pakistan's partners in the Gulf. They currently hold substantial short term deposits in the central bank. These may be converted into long term equity in strategic projects in energy, transport, and water resources sectors. The experience from the CPEC projects have increased official capabilities to package such transactions. The negotiations to make this happen will require personal diplomacy at the highest level but the template already exists in previous equity investments, for example, in Pakistan's ports.

A second external buffer is the diaspora. The Roshan Digital Account initiative has been a genuine success, but it remains a demand based instrument. To turn remittances into a counter cyclical buffer, the central bank may introduce a geopolitical risk insurance product. An expatriate who commits to a long term fixed term deposit would receive a guaranteed exchange rate on maturity, regardless of interim volatility. This is not a subsidy; it is a hedge. The premium can be funded by a small fraction of the central bank's reserves. The political economy here is straightforward: diaspora Pakistanis want to help but need certainty. Give them a product that rewards long term commitment, and the inflows will become sticky.

Finally, Pakistan may institutionalise regional barter settlements. Trading manufactured goods and agricultural produce for essential energy and wheat bypasses the international financial messaging system entirely, protecting

foreign exchange reserves from sanction related disruptions. The mechanism already exists in principle through existing barter agreements for rice and electricity. The political economy obstacle is the fear of secondary sanctions. The answer is to keep barter transactions small, transparent, and focused on essential goods, food and energy, that no serious sanctions regime can fully block without triggering global price spikes.

The Regional Architecture: Prosperity as the Ultimate Buffer

The buffers described above are necessary, but they are defensive. They protect Pakistan from shocks. The deeper, more durable solution is to make shocks less likely in the first place. That requires moving beyond bilateral transactions and toward a genuine regional economic architecture, one that transforms Pakistan from a buffer state into a bridge.

The recent Riyadh communiqué provided a diplomatic opening. But diplomacy opens doors; only economic integration keeps them open. The most sustainable way to solidify the gains of that summit is to transition Iran into a genuine stakeholder in a Gulf led economic corridor. This is not a concession. It is a strategic recognition that shared prosperity produces the kind of interdependence that makes conflict unthinkable.

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This is where Pakistan becomes indispensable. Its location at the crossroads of South Asia, Central Asia, and the Arabian Gulf, combined with its emerging role as a logistics hub, makes it an essential node in this regional architecture. A 'prosperity first' vision can be achieved through three interconnected investment frameworks, each of which Pakistan is uniquely positioned to anchor.

The first framework is joint asset investment. Instead of competing over energy resources that lie across national boundaries, countries may form joint ventures backed by sovereign wealth funds. For Iran, this offers an economic lifeline: Gulf sovereign wealth funds possess the capital expenditure it desperately needs. This model gains critical mass when Pakistan enters the equation. Pakistan has secured Gulf interest in its refinery sector. A new refining facility, potentially located near a port in Iran, offers a natural anchor for trilateral cooperation. Pakistan contributes its refining capacity, the Gulf provides the capital at attractive terms, and Iran provides the crude. The political economy challenge is the history of mistrust. The solution is to start small: a single joint venture, with transparent governance and an exit mechanism, that proves the model works.

The second framework focuses on regional trade infrastructure. The goal is to replace fragmented systems with common rules that bring Iran's commerce into the high efficiency networks already serving the Gulf. For Iran, this means moving away from costly shadow trade toward formal, reliable markets. Pakistan offers something compelling: a gateway to a dense, fifth largest population in the world and overland routes to Central Asia and beyond. By moving goods through Pakistani ports under shared digital customs rules, Iran gains not just efficient shipping but also direct access to Pakistan's domestic market and its trade networks further east. What was once competition becomes a partnership that opens new markets for everyone. The political economy obstacle is the fear of losing transshipment revenue. The answer is to demonstrate that formalisation increases total trade volume, benefiting all parties. A single trade corridor can be piloted say, from a western border crossing to a Pakistani port, with harmonised documentation and joint customs verification.

The third framework focuses on energy infrastructure that is long overdue. Iran and Pakistan should prioritise expediting the Iran Pakistan gas pipeline. This project has been pending for years, delayed by sanctions, financing gaps, and geopolitical hesitation. The recent conflict showed the cost of that delay. When the Strait of Hormuz was threatened, every liquefied natural gas cargo became uncertain and expensive. A functioning overland pipeline would provide a secure, price stable alternative, immune to maritime chokepoints.

These three frameworks share a common logic. When economies are intertwined, peace

becomes the only sensible option. When a refinery depends on a neighbour's oil, when ports share common customs rules, when an electricity grid connects across borders, conflict stops being a political choice and starts being an economic disaster. For Iran, this means stepping out of isolation and into a network of transparent trade and stable energy markets. For Pakistan, it means no longer being forced to choose between neighbours. For the Gulf states, it means a safe and stable neighbourhood where security is reinforced by shared prosperity, not just by military arrangements.

Who will drive this architecture?

The Special Investment Facilitation Council (SIFC) could test these ideas. For decades, this region was defined by a zero-sum calculus where one country's gain was another's loss. The 'prosperity-first' framework challenges that logic, offering an architecture where Pakistan serves as a bridge. The infrastructure can be built and the investments secured; what remains is the political will to recognise that shared prosperity is a strategic investment in everyone's future.

None of these buffers, defensive or offensive, will build themselves. Pakistan's governance is characterised by fragmented institutions, short electoral horizons, and powerful vested interests. The question of who will execute this agenda is as important as what that agenda contains. Two provinces neighbour with two most challenging economies on the western side. Provincial leadership need to be onboard.

The Peace Dividend That Matters

When the dust settles, there is always a temptation to go back to the business-as-usual. That would be a mistake. The region will remain volatile. The Strait will always be a

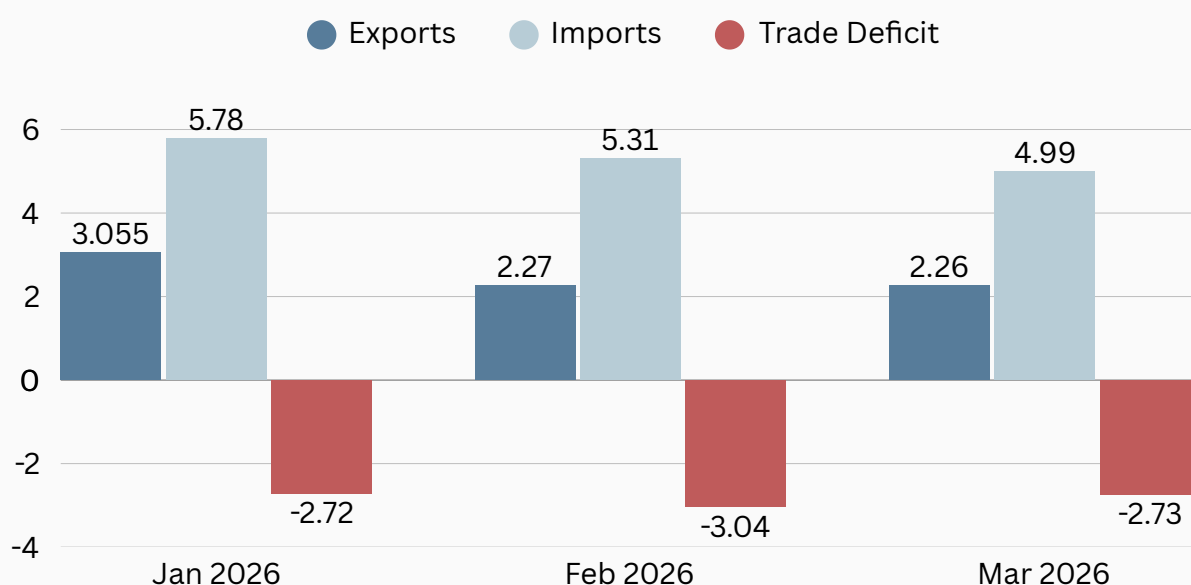
flashpoint. And Pakistan's dependence on imported energy and food will not vanish overnight.

What happens when the dust settles is a choice. Pakistan can return to the pre crisis fragile, reactive, living hand to mouth. Or it can use this window to build strategic depth. The defensive buffers: energy storage, food reserves, external resilience, are the immediate priority. But the deeper, more transformative work is regional integration.

Macroeconomic Analysis

External Sector- Trade Statistics of Pakistan

Figure 2: Trade Statistics of Pakistan (USD Billion)

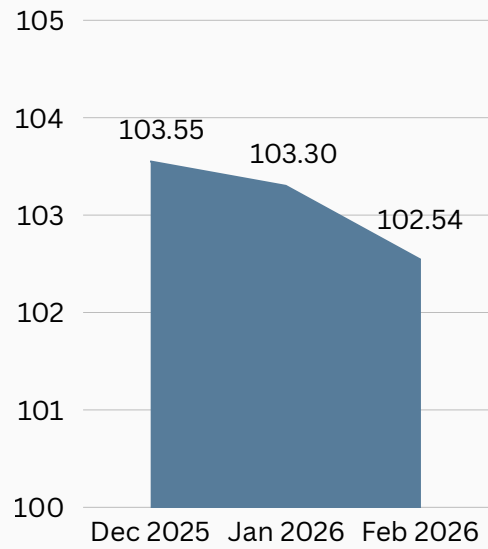


Source: Pakistan Bureau of Statistics (PBS)

- In the January-March quarter, there has been a sharp decline in both exports and imports, keeping the trade deficit largely unchanged at around \$2.7 billion per month.
- From Jan to Feb, Textile exports fell by 7%, with knitwear 13.43%, readymade garments 4.38%, and bed wear saw a decline of 8.50%. The import bill is cooling unevenly rather than structurally improving. The imports of the transport group recorded a significant increase of 22.65%, the Machinery group increased 9.45%, and the import payment of Aircraft, ships, and boats increased 83.6%. While imports of metal groups decreased by 9.21%, agri & other chemical imports fell by 19.87%.
- Export weakness is noticeable in the trade balance, particularly in textiles, where declining global demand, high domestic energy tariffs, and loss of preferential market access to competitors, e.g. Bangladesh, Vietnam, continue to erode confidence.
- Policy note: Provide targeted lower energy tariffs for exporting industries, offer low-cost, seasonal loans tied to export performance to ease liquidity constraints for SMEs, invest in modern storage and refrigerated transport to reduce post-harvest losses, and support exporters in accessing new markets through trade missions, market intelligence and promotional campaigns.

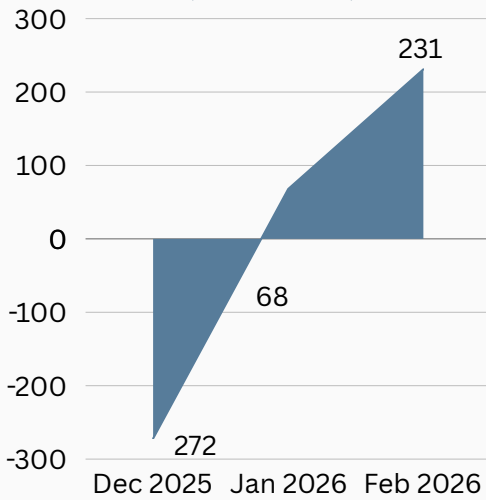
- REER above 100 indicates that currency is overvalued in real terms. However, there has been a consistent marginal decline in REER from Dec to Feb.
- This slight depreciation in REER is somewhat beneficial to export competitiveness, but it is insufficient to significantly counteract the structural energy and input cost disadvantages.
- Even if the nominal exchange rate is maintained around RS280/USD, the real appreciation pressures on the currency will increase as the inflation will increase, while peer economies like India with average inflation around 4% even amid regional war while Pakistan’s inflation rate hovers at 7.3% in March.
- Policy note: SBP’s open market dollar purchases help stabilize the nominal exchange rate in the short-run but, amid high domestic inflation, contribute to real appreciation that weakens export competitiveness; a more calibrated approach would limit FX intervention to smooth volatility and allow gradual inflation differentials.

Figure 3: Real Effective Exchange Rate of Pakistan Dec-Feb 2026



Source: State Bank of Pakistan

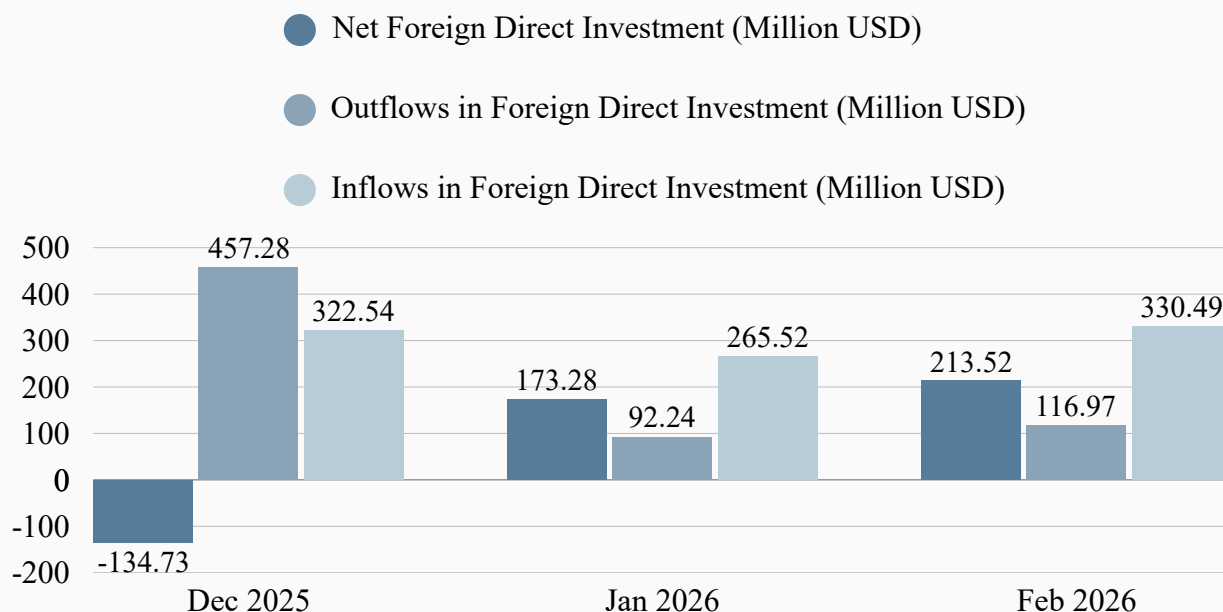
Figure 4: Current Account Balance (USD Million)



Source: State Bank of Pakistan

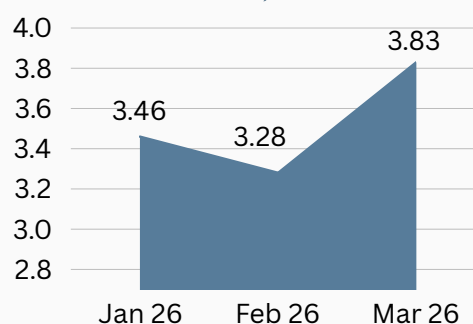
- Over the quarter, the current account shifted sharply, from a deficit of USD 265million in Dec to a surplus of USD 68 million in Jan to a far greater surplus of USD 27 million in Feb 2026. This month-on-month positive shift requires a critical examination because the underlying driver is remittance, not export.
- Decline in imports from Jan to Feb by 8.1% has also supported this account surplus.
- Remittances have been acting as Pakistan’s external account stabiliser, however the current Middle Eastern conflict underscores the fragility of external stability.
- Policy note: With the ongoing conflict disrupting global oil supply chains, Pakistan must diversify its energy mix to protect the current account from geopolitical shocks and global oil price volatility.

Policies should incentivise rooftop solar adaptation and ensure an uninterrupted supply of storage batteries to enhance energy security and industrial resilience.

Figure 5: Foreign Direct Investment (USD Million)

Source: State Bank of Pakistan

- Following an outflow of \$134.73 million in Dec, net FDI went positive, rising to \$173.28 million in Jan and \$213.52 million in February.
- Net FDI of December was mainly caused by Telenor's exit from Pakistan's telecom sector, which resulted in large one-off divestment outflows from Norway.
- In Feb, China contributed \$151.1 million, accounting for 4.74% of total inflows concentrated in power, construction, and manufacturing sectors under CPEC.
- Policy Note: While CPEC-linked investment provides a stable baseline, an FDI structure reliant on a single country for large inflows increases sovereign concentration risks. Peer countries, including Vietnam and Bangladesh, are able to attract FDI from diverse sources, including Japan, South Korea, and the EU, reflecting a more competitive investment climate. Corporate tax rationalisation and regulatory simplification are prerequisites for attracting diversified FDI beyond CPEC.
- Remittances remain critical but volatile; inflows declined from \$3.46bn in January to \$3.28 in February, before rebounding to \$3.83bn in March, indicating short-term fluctuations in external flows.
- Remittances from Saudi Arabia, Pakistan's largest source, dropped 10.7% MoM in Feb, overtaken by the UAE. Other GCC inflows (Oman, Qatar, Kuwait, and Bahrain) also saw a decline of 4%.
- March saw a strong recovery, particularly from Saudi Arabia (\$0.91bn) and the UAE(\$0.82bn), reflecting seasonal inflows. This surge is largely attributable to Eid-ul-Fitr-related transfers, which typically drive temporary increases, suggesting that the underlying remittance trend remains exposed to regional instability.

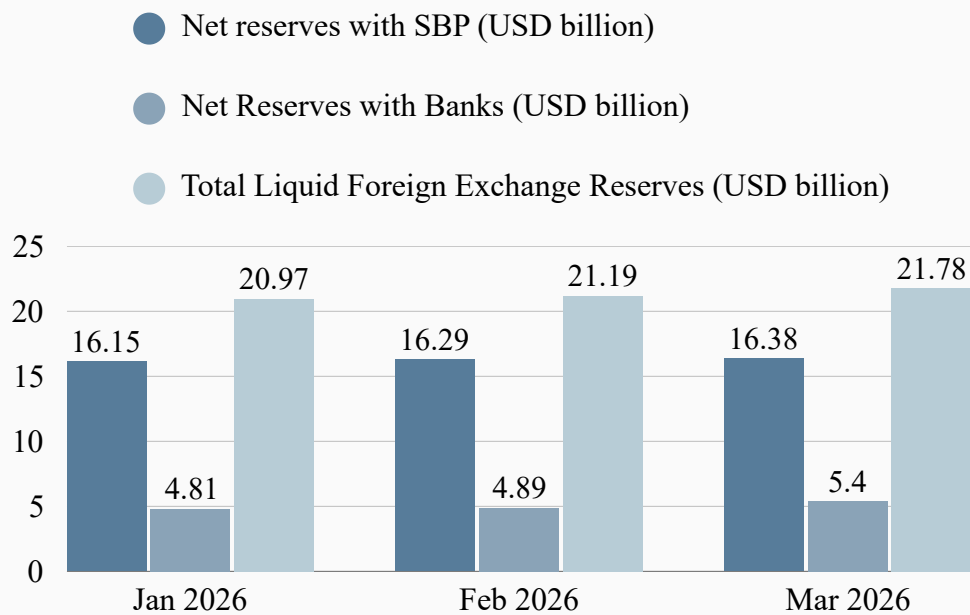
Figure 6: Worker's Remittances (USD Billion)

Source: State Bank of Pakistan

- Policy note: Treat remittance vulnerability as a macro emergency: strengthen diaspora engagement via premium accounts, diaspora bonds, and bilateral labor protection, diversify migration corridors (Malaysia, South Korea, Japan, EU), and maintain crackdown on informal hawala channels.
- Accelerate export-competitive growth to reduce dependency on a single region; a \$3–4bn remittance shortfall could fully current account gains.

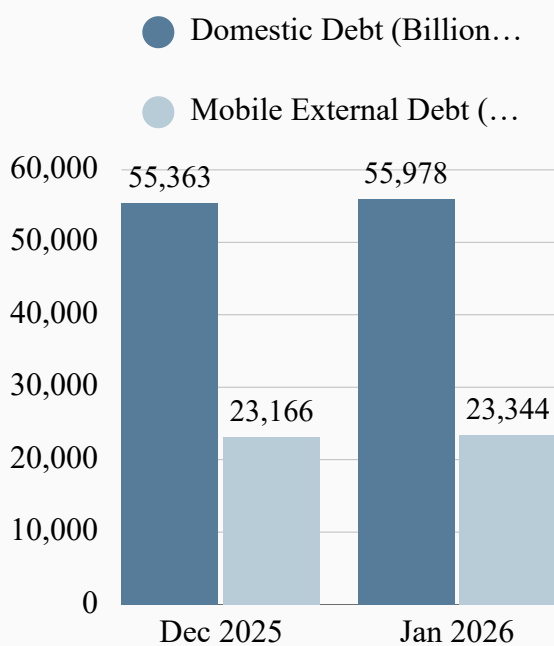
Monetary & Fiscal Conditions

Figure 7: Total Liquid Foreign Reserves (USD Billion)



Source: State Bank of Pakistan

- From Jan to March, Pakistan's total liquid foreign reserves saw a consistent upward trend.
- While reserves stood at \$21.78 billion at March end, external repayment obligations, including \$3.5 billion rollover to the UAE and \$1.3 billion matured Eurobond in April, will significantly strain the reserves.
- Even without the repayments in April, the country's reserves position is relatively thin compared to its import bill (which is expected to increase if the war continues) and debt servicing obligations.
- Policy note: There is a need to re-profile bilateral deposits into long-term investments to ease rollover pressures and stabilise reserves structurally.

Figure 8: Pakistan's Debt Profile (PKR Billion)

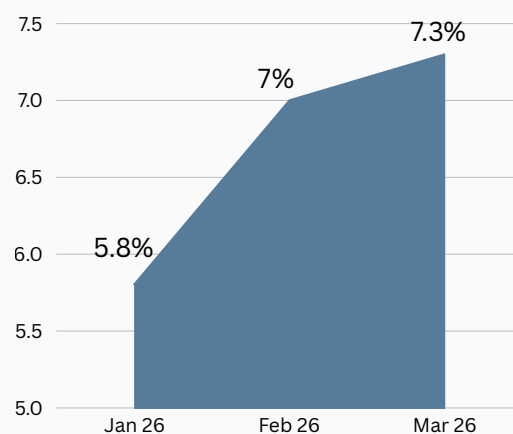
Source: State Bank of Pakistan

- Total debt of the country has totalled to PKR 79.3 trillion, significantly constraining fiscal space and complicating monetary policy management.
- The credit flow continues to remain skewed towards government financing, limiting the growth of the private sector, especially affecting SMEs and the agriculture sector.
- Policy note: Prioritise fiscal consolidation through stronger revenue mobilisation and expenditure rationalization and reallocate credit towards the private sector to support sustainable economic growth.
- Pakistan spends half of its tax revenues on debt service payments, and this is unsustainable in the short and long term. The current crisis in the Middle East will have an exceptionally hard inflationary impact on the global south

economies and subsequently pressure on central banks to increase interest rates. A comprehensive plan with the IMF and other bilateral lenders for debt restructuring should be considered as an urgency.

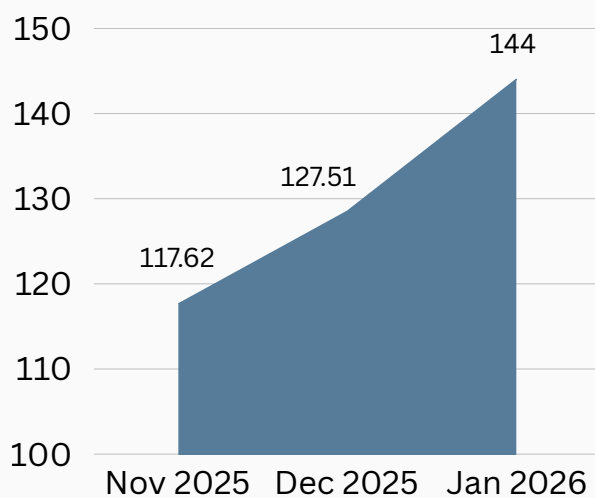
- CPI increased from 5.8% in Jan to 7.3% in March, breaching the SBP's target of 5-7% for the first time since August 2024.
- Sharp rises in wheat/flour (34-38% Y-o-Y basis), motor fuel (18.2%), and electricity (14.2%) are driving inflation, hitting low-income households the hardest.
- The future outlook is more alarming: a sharp increase in petrol and diesel prices, 46.4% and 85.15% from March 1 to April 8 due to the regional conflict, may undo much of the gains on the inflation front in past years.

- Policy Note: The government must coordinate fiscal and monetary policy. Instead of giving broad subsidies and absorbing the prices, the government should allow the prices to adjust in a transparent mechanism, accompanied by targeted social protection for the bottom two income quintiles.

Figure 9: CPI Inflation(%)

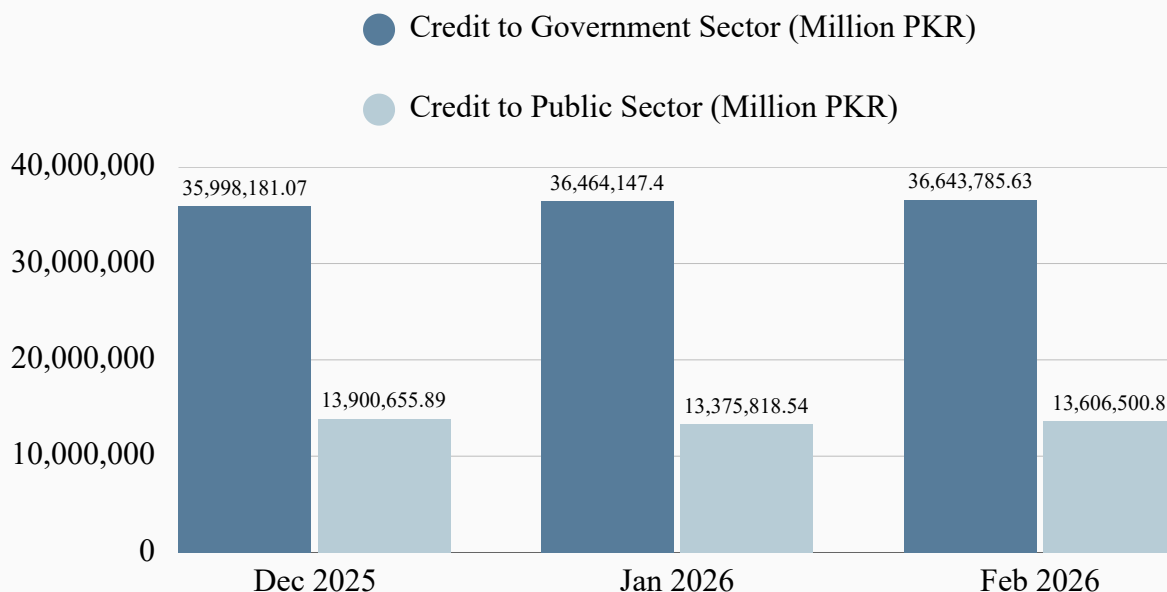
Real Economy/Business Sentiment

Figure 10: Quantum Manufacturing Index



Source: Pakistan Bureau of Statistics (PBS)

- Manufacturing sector data is the most positive economic development of this quarter. QIM jumped from 117.62 in Nov 2025 to 144.00 in Jan 2026. LSMI output grew 10.5% YoY in Jan, with July-Jan FY26 cumulative growth by 5.57%.
 - Recovery was led by the automobile sector (+67YoY), sugar (+24%), and garments & cement (+11%), reflecting improved consumer financing conditions.
 - However, growth is concentrated in domestically-oriented sectors, output declined in chemical & pharmaceutical, iron & steel, and machinery industries, critical for industries' linkages and export diversification.
- Policy note: Reorient manufacturing towards export-generating sectors, i.e., pharma, engineering, value-added textiles, to strengthen the external account, rather than relying solely on domestic-demand growth. Launch an "Export Startup Program" to help pharma firms achieve WHO and PIC/S accreditation for SRA market entry.

Figure 11: Credit to Government & Private Sector (PKR Million)

Source: State Bank of Pakistan

- Credit to the government grew from PKR 35,998bn to 36,643bn over Dec 2025 to Feb 2026, while private sector credit followed a similar trend, showing only a temporary seasonal dip.
- Every rupee lent to the government reduces credit available to SMEs, exporters, and agricultural processors, constraining investment in key growth sectors.
- In FY2025, the Private sector credit to GDP ratio remained at 8.7%, compared to India 53%, reflecting a financial system dominated by government borrowing.
- SME financing accounts for only 6% of total private sector credit, with merely 3% of Pakistan's 5 million non-agricultural SMEs accessing formal banking.
- Agriculture credit disbursement reached PKR 4,942 billion during July-February FY26, yet the sector contributing 23.5% of GDP while employing 33.1% of the workforce, remains underserved. The sector's employment share exceeds its GDP share, reflecting low productivity and informality, therefore, the financing gap translates directly into a household welfare deficit rather than mere output inefficiency.
- Policy note: Implement a coordinated credit rebalancing strategy: commit to a 15-20% reduction in government borrowings from banks over the two fiscal years, operationalise SME financing target (PKR 1.1 trillion by FY29) through risk-sharing credit guarantee scheme for export SMEs.

Annexure

April 14, 2026

1. Physical Size: Government Departments and Employees

2. Non-Development Spending

3. Power Sector: Privatization of GENCOs and DISCOs

Pakistan invites Turkiye to take part in DISCOs' sell-off

Govt pursuing privatisation of distribution firms to ensure long-term sustainability

DISCOs' privatisation delayed again

Govt informs IMF about delay till year-end as reforms are yet to be implemented

4. The SOEs: Privatization of PIA, Pakistan Steel Mills, Etc.

Govt to hire experts to fast-track privatisation

Government winds up dysfunctional Sarmaya-e-Pakistan Ltd (SPL)

CCP approves FWBL sale

Abu Dhabi's Eve Holdings will acquire 100% stake from Pakistan's govt, others

PIA privatisation finalised

Govt finalises PIA privatisation deal with consortium

Deal signed to officially put PIA under new management

Committee told 75% shares sold while liabilities shifted to holding company

Govt may divest PIA's remaining 25% stake

PIA: Govt likely to fetch Rs45bn thru sale of remaining 25pc shares

PIA set to become fully private as consortium to buy remaining 25pc stake

Arif Habib-led group to gain full control of PIA

Dar-led panel clears FFC entry into PIA buyer consortium

FFC's entry into consortium was widely anticipated after Privatisation

Commission Board green-lit its participation

PIA privatisation nears financial close by April-end

Top SOEs see profits slide 15% to Rs622b as governance fails

Report shows only one govt firm earned over Rs100b; only 36% completed audits

SOE returns fall 91% despite support

Ministry warns SOE debt threatens growth as net cash returns plunge to Rs41b

SOEs' losses surge 300pc to Rs123bn in FY25

SOEs drain Rs2.1tr of tax revenue in FY25

SECP issues notices to 41 state enterprises

Govt firms fail to submit audited accounts; regulator pushes for women on boards

SOE losses declining: finance ministry

Roosevelt Hotel deal signed with United States

Pakistan thwarts JPMorgan's bid to buy Roosevelt hotel: report

Pakistan Steel Mills total assets stand at Rs828bn, NA told

Govt to table SOE bills for IMF compliance

5. Liberalization and Deregulation

200MW trade under CTBCM model: Summary sent to PM for approval

Pakistan eyes first 200MW deal under wheeling auction by June

Competitive power market era begins

Sugar policy ends price controls

IMF benchmark met as zoning curbs removed to open sector to competition

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