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PAKISTAN

Economic activity in Pakistan gained momentum in FY26 as domestic demand strengthened. However, the conflict in the Middle East will significantly affect the growth outlook as disruptions to energy markets, and trade routes raise Pakistan's import bill, weigh on exports and remittances, and dampen domestic activity. Fiscal discipline, oil price pass-through, exchange rate flexibility, and structural reforms are critical to managing risks and sustaining growth.

Population[1]	Poverty[2]
million	millions living on less than $4.20/day
255.2	114.9
Life expectancy at birth[3]	**School enrollment[4]**
years	primary (% gross)
67.6	83.7
GDP[5]	**GDP per capita[6]**
current US$, billion	current US$
407.9	1598.1

Sources: WDI, MFMod, and official data. 1/ 2025. 2/ 2024 (2021 PPPs). 3/ 2023. 4/ 2024. 5/ 2025. 6/ 2025.

Key conditions and challenges

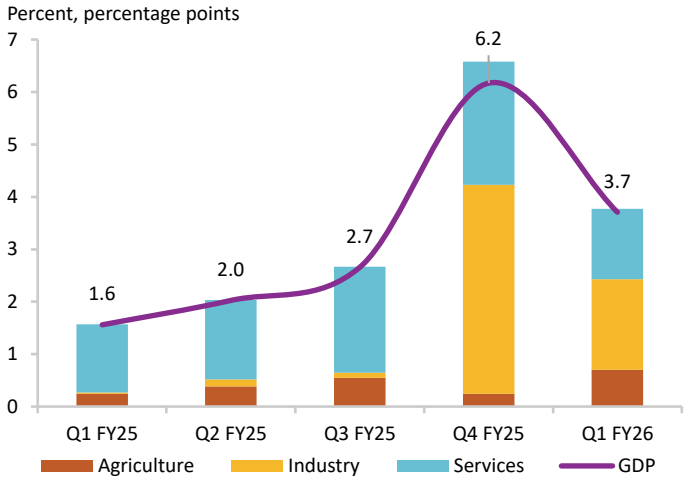
Pakistan's economy stabilized in FY25 supported by fiscal discipline, and prudent monetary policy. Stabilization dividends began to materialize in H1 FY26, as economic activity accelerated supported by an industrial rebound and stronger confidence. However, the conflict in the Middle East will significantly impact Pakistan's economic activity through end-2026, by widening the current account deficit, disrupting access to energy, and pressuring limited fiscal and external buffers. A protracted conflict would amplify these shocks further. Maintaining fiscal discipline, exchange rate flexibility, and sustained oil price pass-through—alongside support to vulnerable households—will be critical to contain the impact of the conflict. Structural reforms—including trade liberalization, a new National Finance Commission award, power sector restructuring, private participation in state-owned enterprises, and strengthened social service delivery—remain essential to support higher sustained growth, job creation, and poverty reduction.

Recent developments

Economic activity gained momentum in Q1 FY26, with real GDP expanding by 3.7 percent y-o-y, compared to 1.6 percent in FY25. Agriculture, employing 33 percent of the labor force, grew by 2.9 percent, as strong livestock performance offset flood-related damage to crop production. Industry, employing 26 percent of the workforce, grew by 9.4 percent, driven by a rebound in large-scale manufacturing. Services, employing 41 percent of the workforce, expanded by 2.4 percent, reflecting positive spillovers from commodity-producing sectors.

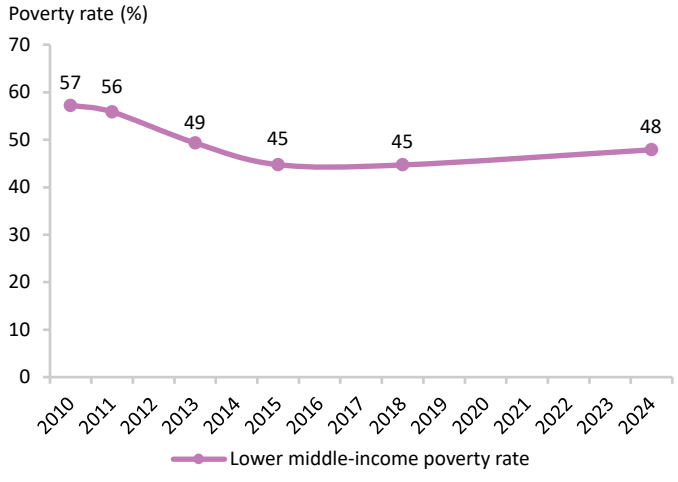
The current account registered a US$1.2 billion deficit in H1FY26, from a surplus of US$1.0 billion in H1FY25. This reflected a decline in food exports (-35.5 percent y-o-y), following India's resumption of rice exports and Pakistan's sugar export ban. Eased import controls and stronger domestic demand raised goods imports by 12 percent y-o-y. Services exports sustained double-digit growth (16.5 percent y-o-y), driven by the Information and Communication Technologies (ICT) sector. Nevertheless, a 15.8 percent increase in services imports from a higher base more than offset these gains.

FIGURE 1 / Real GDP growth and sectoral contributions to real GDP growth



Sources: Pakistan Bureau of Statistics and World Bank.

FIGURE 2 / Poverty headcount rate at lower middle-income poverty line (US$4.20/day)



Source: World Bank.

Strong remittance and external financing inflows kept the balance of payments in surplus, raising reserves to US$17.4 billion.

Headline inflation declined to 5.2 percent y-o-y in H1FY26 from 7.2 percent in H1FY25, reflecting easing supply side pressures and improved macroeconomic conditions. Food inflation moderated after a flood-related uptick, while exchange rate stability helped contain imported inflation. Core inflation eased but remained in high single digits, signaling persistent underlying pressures. With headline inflation declining, the policy rate was reduced from 11 to 10.5 percent in December 2025.

Fiscal adjustment remained on track, with the primary surplus widening from PKR 3.6 trillion to PKR 4.1 trillion (an 8 percent real increase y-o-y). Total revenues grew by 4 percent in real terms, but remained below target, reflecting subdued direct tax performance, with gains driven by indirect taxes, notably the petroleum levy. Total expenditure declined by 15 percent in real terms, as lower interest payments more than offset higher primary spending. Consequently, the consolidated fiscal account recorded a surplus of PKR 542 billion, compared to a PKR 1.5 trillion deficit in H1FY25.

New official estimates indicate poverty rose from 44.7 to 47.9 percent at the lower-middle-income poverty line over FY19–25. Despite higher nominal consumption, overlapping shocks—persistently high inflation, macroeconomic instability, and devastating floods—eroded purchasing power for 70 percent of the population, pushing inequality to a twenty-year peak.

Outlook

Real GDP growth at factor cost is projected to decline from 3.1 percent in FY25 to 3.0 percent in FY26 and remain subdued at 3.2 percent in FY27, as disruptions to energy markets and trade routes significantly constrain the pace of economic recovery. These disruptions should nonetheless remain manageable, provided the conflict de-escalates by end-2026 and exchange rate flexibility and market-based fuel pricing are sustained. Headline inflation is projected to average 7.4 percent y-o-y in FY26 and 8.2 percent in FY27, reflecting pass-through from higher commodity prices. By FY28, as the global shock subsides and demand strengthens, growth is projected to reach 3.7 percent, while headline inflation returns to around 7 percent.

The current account deficit is projected to reach 1.2 percent of GDP in FY26 and 1.1 percent in FY27, as elevated oil prices and softer remittance inflows from Gulf states add to pre-existing pressures from subdued goods exports. Over the medium term, the current account deficit is expected to remain close to 1 percent of GDP amid steady demand. The fiscal deficit is projected to narrow to 4.3 percent of GDP in FY26, contingent on sustained fiscal consolidation amid subdued revenue performance, increasing yields and spending pressures from the commodity shock. During FY27–28, the fiscal balance is projected to remain around 4.4 percent, supported by modest revenue growth, and restrained primary spending.

Poverty is expected to decline only gradually, as limited progress in human capital investments constrains the transmission of growth into poverty reduction. The commodity shock will slow poverty reduction further, as elevated prices erode poor households' real incomes, increasing vulnerability.

Recent history and projections

	2022/23	2023/24	2024/25e	2025/26f	2026/27f	2027/28f
Real GDP growth, at constant market prices	-0.4	3.1	3.7	3.0	3.2	3.7
Private consumption	2.0	6.1	2.2	4.7	3.4	3.0
Government consumption	-3.9	-8.7	10.1	2.3	1.3	2.4
Gross fixed capital investment	-16.1	-1.3	13.5	1.5	2.5	5.3
Exports, goods and services	2.9	-1.3	0.6	-8.7	3.1	4.3
Imports, goods and services	0.6	5.8	2.5	4.0	2.5	1.3
Real GDP growth, at constant factor prices	-0.2	2.6	3.1	3.0	3.2	3.7
Agriculture	2.2	6.4	1.5	2.5	2.9	3.2
Industry	-3.9	-0.9	5.3	4.0	4.1	4.7
Services	0.0	2.3	3.1	3.0	3.1	3.7
Employment rate (% of working-age population, 15 years+)	49.7	49.7	49.7	49.7	49.7	48.6
Inflation (consumer price index)	29.2	23.4	4.5	7.4	8.2	7.0
Current account balance (% of GDP)	-1.0	-0.6	0.5	-1.2	-1.1	-0.7
Net foreign direct investment inflow (% of GDP)	0.2	0.6	0.6	0.3	0.6	0.6
Fiscal balance, including grants (% of GDP)	-7.8	-6.8	-5.4	-4.3	-4.4	-4.4
Revenues (% of GDP)	11.6	12.6	15.8	15.8	15.2	15.0
Debt (% of GDP)	81.8	72.9	76.1	73.2	70.9	69.3
Primary balance, including grants (% of GDP)	-0.9	0.9	2.4	2.1	1.6	0.9
GHG emissions growth (mtCO2e)	0.5	3.4	4.8	3.6	3.8	1.8

Source: World Bank, Fiscal Policy & Growth Department. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.