



OICCI Economic Update

APR 2026

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A Regional War, a Fragile Ceasefire and an Economy Without Buffers

The Iran–US–Israel war has fractured global energy supply. Even with a fragile ceasefire and constructive talks in Islamabad, infrastructure damage will take years to reverse. Pakistan's vulnerability is structural: low energy efficiency, no strategic energy reserves, and external buffers too thin to absorb a prolonged commodity shock.



Energy Shock

Hormuz was closed for 7-8 weeks; ~20% of global supply choked. Damage to Qatar RLNG, Iran's largest gas field, and regional refineries.



Domestic Strain

Petrol +46%, diesel +88% before April easing. CPI heading to 10-13%. Rs130 bn subsidies disbursed.

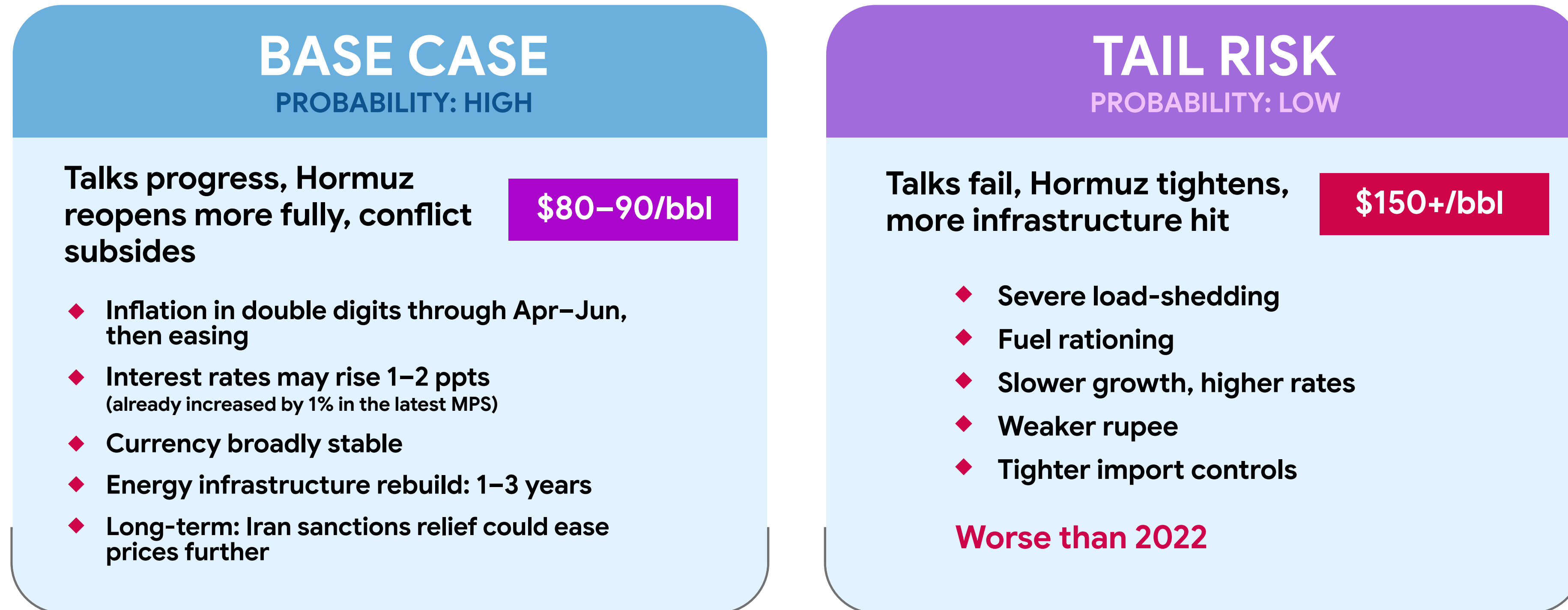


External Fragility

\$4.8 bn April outflows. Half of remittances from GCC. Reserves targets at risk; Saudi concentration rising.

Crude Oil: The Base Case Is Not the Headline

Two scenarios, very different outcomes — and the extreme one is unlikely.

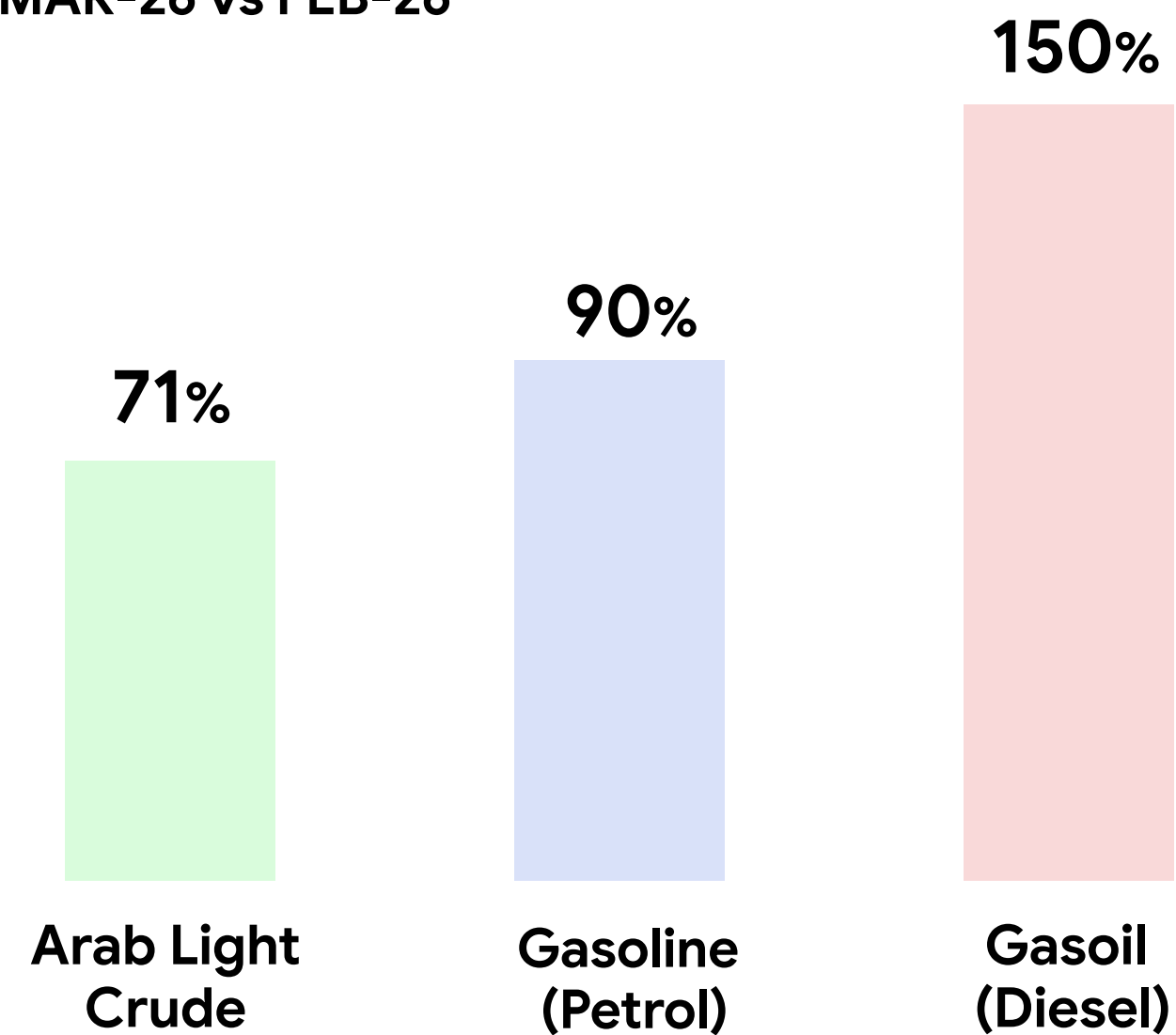


Headlines anchor on \$150 oil, but the analyst's view is that scenario is unlikely. The base case is uncomfortable — not catastrophic.

Inflation, Fuel & Growth: The Pass-Through Has Begun

Subsidies cushioned the early shock, but Rs130 bn later, prices still had to be raised. The CPI hit is now mechanical.

PRICE SHOCK — % Change,
MAR-26 vs FEB-26



46% / 88%

Petrol & diesel surged from the war's start to early April; partial reversal in two April revisions.



+260 bps

Direct CPI add from fuel pass-through alone. Indirect hit on transport, food, broader goods to follow.



10 - 13%

Projected headline inflation through April–June 2026 if prices stay at current levels.



Rs130 bn

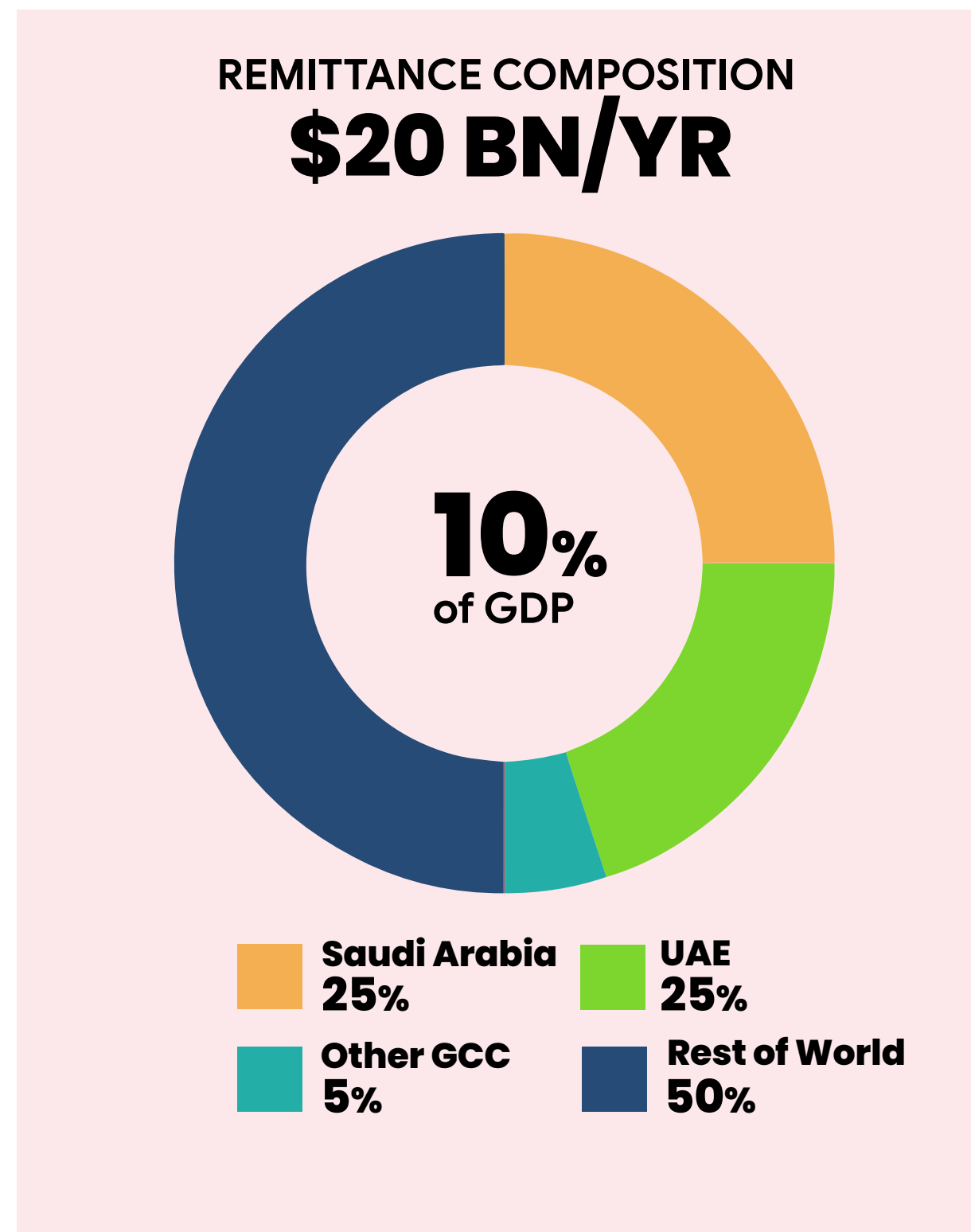
Subsidies disbursed before prices were raised. Daily burden peaked at Rs7 bn.

Seeing the pressures, SBP has proactively increased the policy rate by 100 bps to 11.5%

Will inflation expectations become entrenched in FY27? Will the policy rate have to rise again? Higher fuel prices may dampen demand and ease the BoP—a small silver lining if it sticks.

Half the Inflows, Most of the Risk — All from One Region

Remittances and bilateral financing both run through the GCC. A Gulf slowdown is a Pakistan slowdown.



WHY IT MATTERS: A sustained Gulf slowdown would compress remittances, financing, and oil supply at the same time. Pakistan's external position has no shock absorber.

Austerity Measures, Real Economic Costs

Initial energy conservation measures yielded statistically insignificant savings, with the primary impact observed in increased operational and social costs.

The strategy prioritized immediate socioeconomic stabilization but did little to reduce systemic macroeconomic risks or strengthen long-term economic sustainability.

School closures

Education paused;
human-development cost
ignored.

Highway speed limits

Time costs and productivity
losses not weighed against
fuel savings.

Early shop closures

Hit small businesses; no
measurable national fuel
saving.

Official-vehicle cuts

Symbolic savings, not
material ones

CONSUMPTION ROSE ANYWAY!

+8% / +13%

Petrol & diesel use,
MoM (Mar-26 vs Feb-26)

+16% / +21%

Petrol & diesel use,
YoY (Mar-26)

Rs130 bn

Subsidy bill while
consumption climbed

BOTTOM LINE: Regional peace is not only a security imperative for Pakistan; it is an economic necessity. The country lacks the buffers to withstand a prolonged commodity price shock, with low energy efficiency and no meaningful strategic energy reserves. Stability, therefore, requires more than temporary firefighting — it demands stronger reserves, better energy efficiency, and deeper structural reform.

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The Curve Has Turned — Inflation Is Climbing Again

CPI is reversing course — energy and transport are leading the rise

Disinflation is fading: Inflation has started to rise again after a sharp fall from earlier peaks. CPI averaged 3.5% in 2025, but rose to 6.7% in Jan–Mar 2026, taking 9MFY26 average inflation to 5.7%.

Monthly pressure is returning: March CPI reached 7.3% year-on-year, the highest since August 2024, and inflation is likely to move back into double digits in the final quarter.

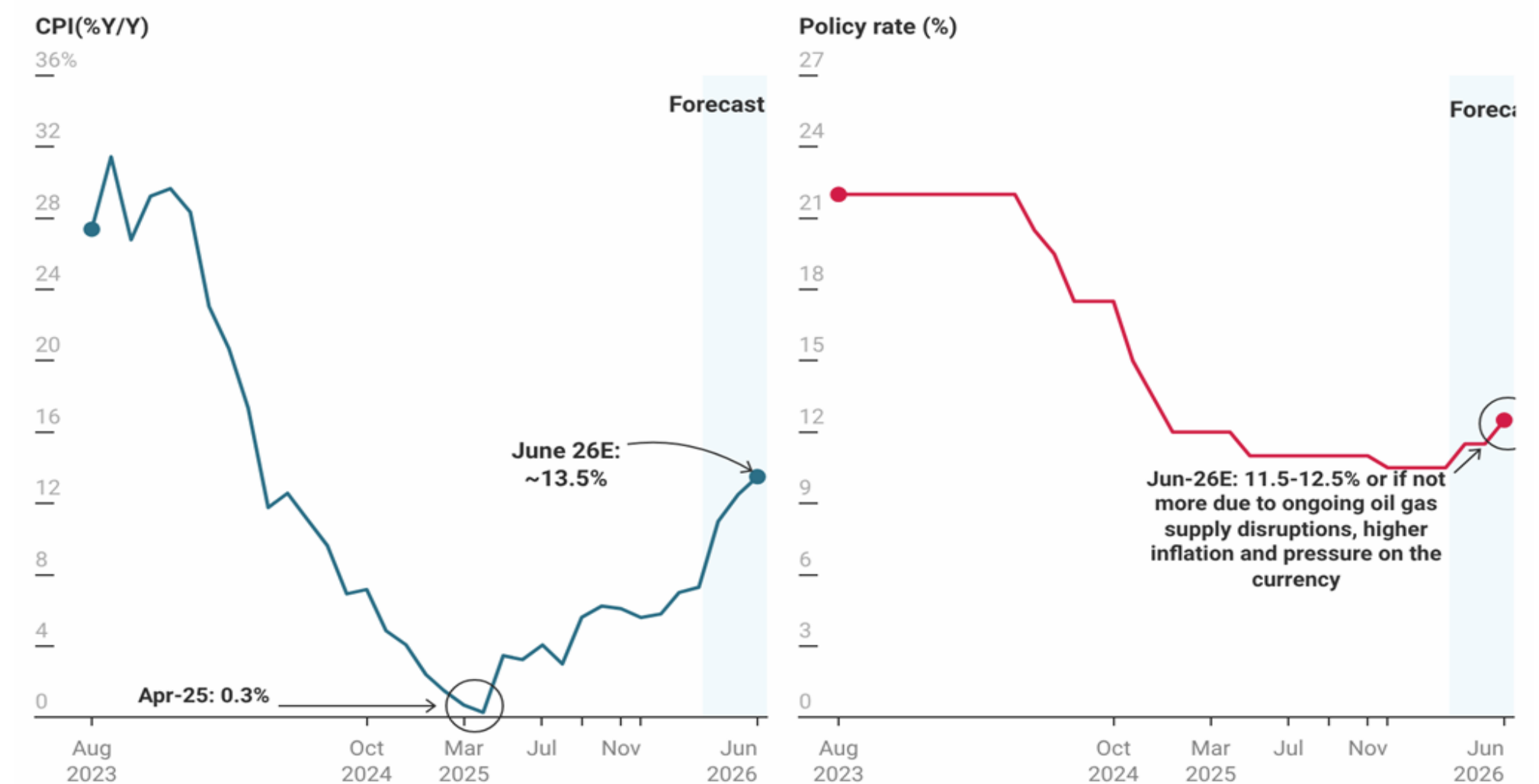
Price pressures are broadening: Urban and rural inflation both rose more than 1% month-on-month for the first time since October 2025, mainly due to energy costs, even as food prices declined.

Energy and transport are leading the rise: Transport accounted for nearly two-thirds of the monthly increase, while electricity added about one-fifth. Core inflation remains sticky at 7.2% urban and 8.3% rural.

9MFY26 average is now 5.7% (vs. 5.3% a year ago). The disinflation phase is over—pressure is broadening from energy into core, with CY26 averaging above 10% looking more likely than not.

Inflation—Policy Rate up by 100bps as Oil Price Risks High

CPI averaged 5.7% in 9MFY26.



Created with Datawrapper

OUTLOOK: The inflation outlook has worsened, with higher oil prices and second-round effects likely to push CPI into double digits — around 10–11% in April and possibly 11–13% in May–June — taking CY26 average inflation above 10%. The policy stance is therefore cautiously hawkish: SBP is likely to hold at 11.50% for now, with another hike possible if oil, inflation expectations, currency pressure or external risks worsen.

Holding the Line — But the Cushion Is Getting Thinner

The current account looks calm—\$8m deficit vs a \$1.7B surplus a year ago — but the balance is propped up by Saudi deposits, not underlying strength. Rollover dependence is rising.

Summary Balance of Payments as per BPM6 - March 2026										(Million US\$)	
Items	Jul-Jun	Jul-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Feb	Mar	Mar	Jul-Mar		
	FY24	FY25 ^R	FY26	FY26 ^R	FY26 ^P	FY26 ^R	FY25 ^R	FY26 ^P	FY25 ^R	FY26 ^P	
Current Account Balance	2072	1838	737	624	1369	231	1275	1070	1674	8	
Balance on Trade in Goods	22175	26803	7642	8224	7662	2685	2179	2376	18677	23528	
Exports of Goods FOB	30982	32343	7847	7667	7751	2480	2759	2526	24702	23265	
Imports of Goods FOB	53157	59146	15489	15891	15413	5165	4938	4902	43379	46793	
Balance on Trade in Services	3112	2836	962	768	416	124	120	23	2303	2146	
Exports of Services	7689	8450	2212	2554	2582	800	777	903	6277	7348	
Imports of Services	10801	11286	3174	3322	2998	924	897	926	8580	9494	
Balance on Primary Income	8986	8838	2234	2409	1714	409	678	607	6721	6357	
Balance on Secondary Income	32201	40315	10101	10777	11161	3449	4252	4076	29375	32039	
Workers' Remittances	30251	38300	9536	10200	10583	3288	4054	3831	28031	30319	
SBP Reserves Net	9390	14506	14175	16053	16382	16299	10639	16382	10639	16382	
Export Growth (Goods)	11.14	4.39	5.75	13.90	7.47	4.94	9.31	8.45	7.69	5.82	
Imports Growth (Goods)	0.88	11.27	8.70	16.33	0.37	2.26	7.98	0.73	11.45	7.87	

Source : SBP

Note : *over corresponding period

\$8m deficit
9MFY26 CA
vs **\$1.7B**
surplus YoY

\$4.3 bn
April External
Repayments
Eurobond + UAE
loan tranches

\$8B
Saudi deposits
\$3B fresh +
\$5B rolled over

WHERE THE PRESSURE IS BUILDING



UAE fully repaid

~\$3.45B repaid by April 23, 2026 — including the final \$1B tranche to ADFD.



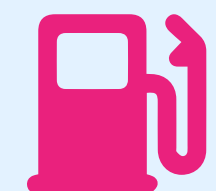
\$750m Eurobond raised

6.975% coupon, maturing April 2029. Pakistan is back in the international debt market.



Reserves at \$16.4bn

Early April. June target of ~\$18B harder after repayments + higher energy bill.



\$600m+/month oil hit

Net BoP burden from higher oil imports starting April. The already-fragile position pressured further.

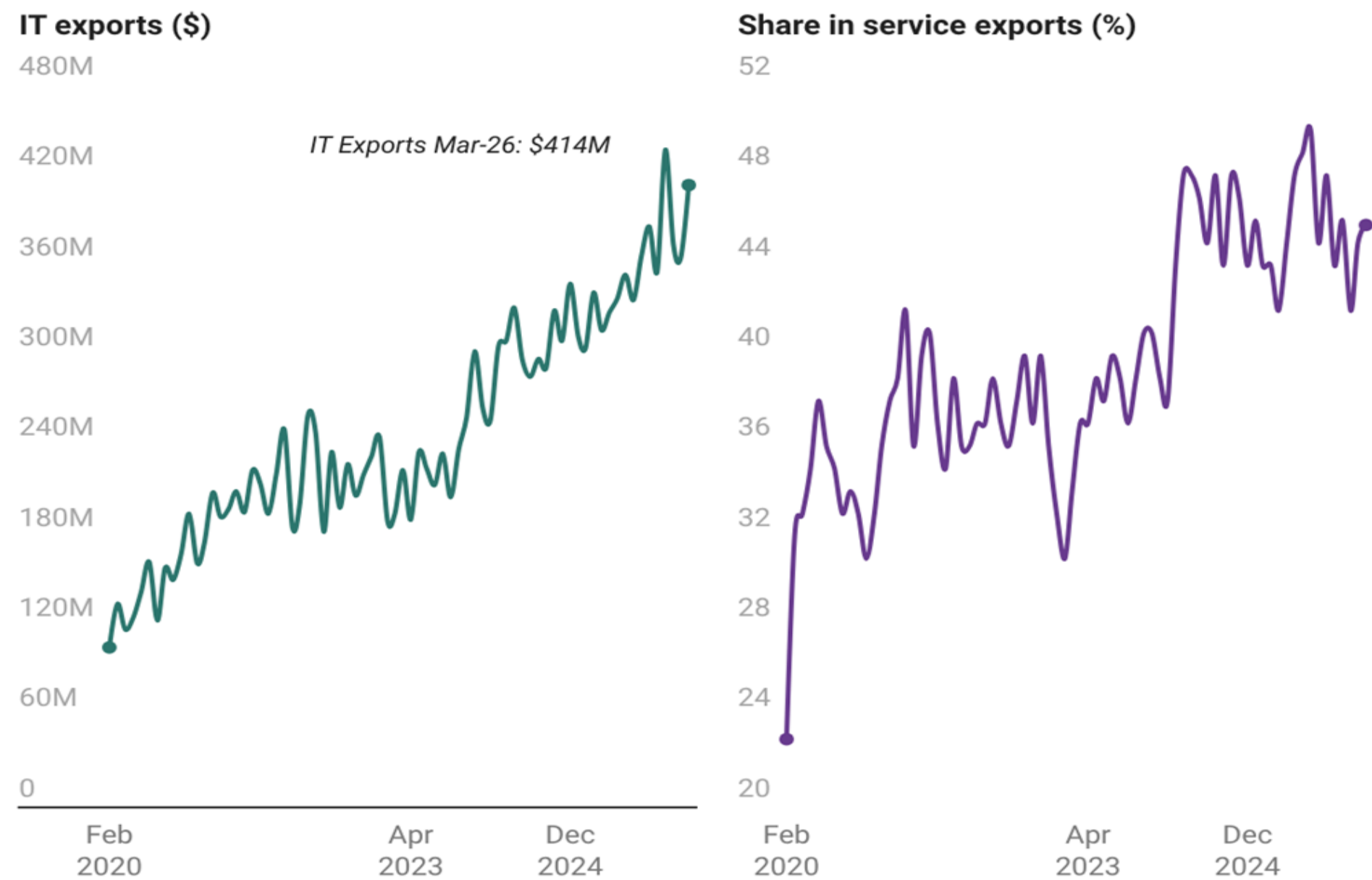
CONCENTRATION RISK: Saudi inflows have offset UAE outflows — but Pakistan's reliance on a single bilateral creditor is now higher than ever. Reserve comfort is thinning

Imports Up, Exports Down — Trade Gap Widening Fast

Goods exports fell 6% while imports rose 8% in 9MFY26. Services and IT are the only bright spots.

ICT Exports Continue the Momentum

IT exports continue to grow YoY and MoM



Source: SBP • Created with Datawrapper



\$23.3B
exports (-6%)



\$46.8B
imports (+8%)



\$25.7B
Goods & Services
Deficit (+22%)

THE KEY RISK

Oil + linked imports

Higher crude, no RLNG imports, rising freight — petroleum bill spikes from April. Plastics & fertilizers rising too; transport imports +94%.

THE BRIGHT SPOT

Services +17% · IT +20% · OBS +28%

Some resilience for the external account amid weak goods trade.

BOTTOM LINE: Pakistan is not in an external crisis — but reserve comfort is thinning. Saudi support and remittances hold the line; oil, repayments, and rollover dependence remain the main risks.

Remittances Hold, But Risks Build

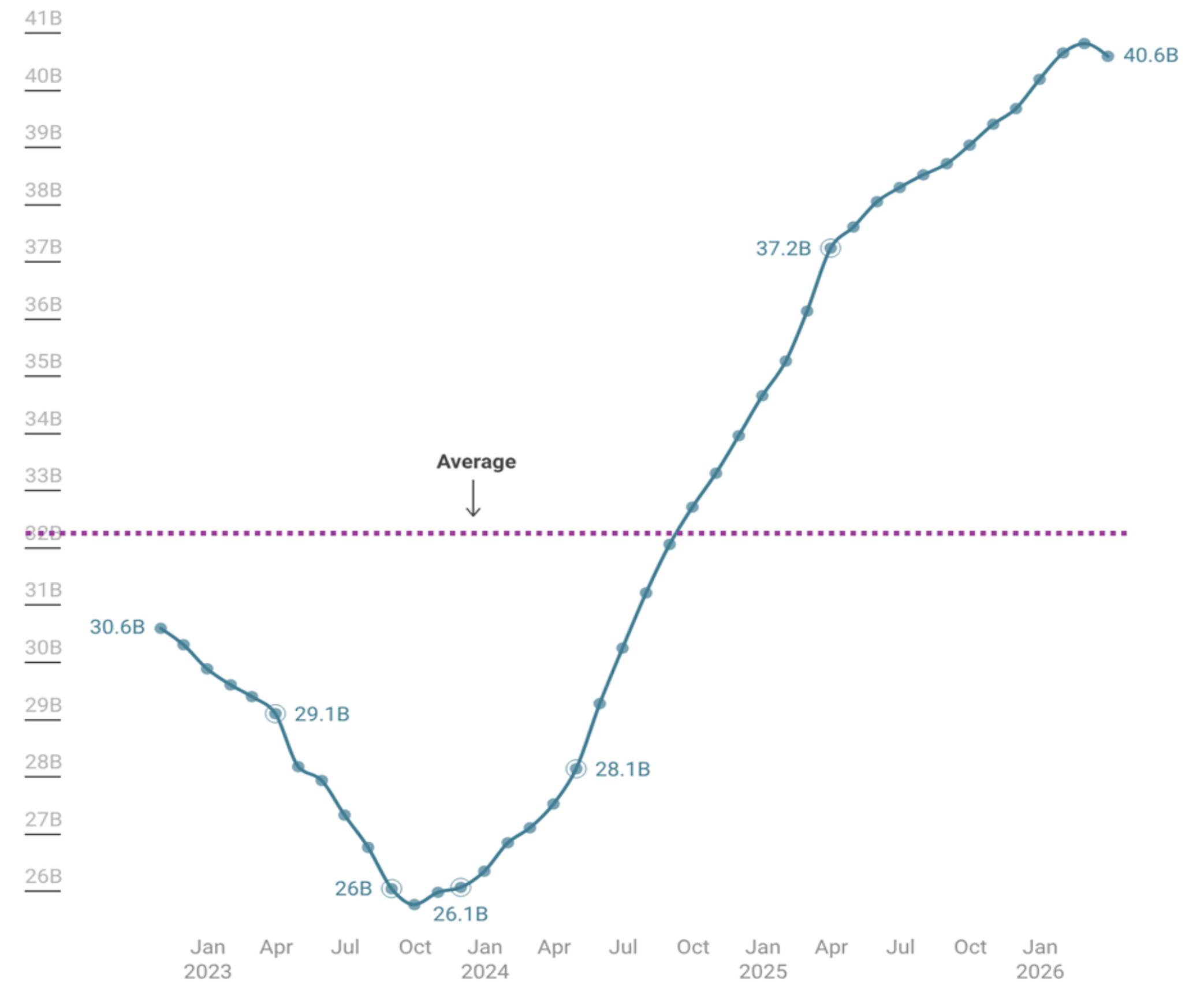
Remittances are holding up, but the cushion is not risk-free: Inflows rose to \$3.8 billion in Mar-26, up 16.5% month-on-month, although still 5.5% lower year-on-year. The jump was largely seasonal, driven by Ramzan and Eid-related transfers. Cumulative remittances reached \$30.3 billion in 9MFY26, versus \$28.0 billion a year ago, up 8.2%, and continued to support the external account.

But concentration is the weak link: Pakistan remains heavily reliant on a few remittance corridors, especially the Gulf. Roughly half of total inflows come from GCC economies, with Saudi Arabia and the UAE accounting for the largest share. That leaves Pakistan exposed to any slowdown in Gulf economies or disruption in regional activity.

The near term may hold, but the medium-term risk is real: The ceasefire has improved the chances of meeting the full-year remittance target. Still, if higher oil prices keep pushing up the import bill while Gulf economies begin to soften, Pakistan's external account could come under pressure from both sides — rising outflows and weaker remittance inflows.

Remittances Stable for now

Pakistan received \$3.831 billion in remittances in Mar-26 up 16.5% MoM but 5.5% down YoY



Data shows 12M rolling in \$

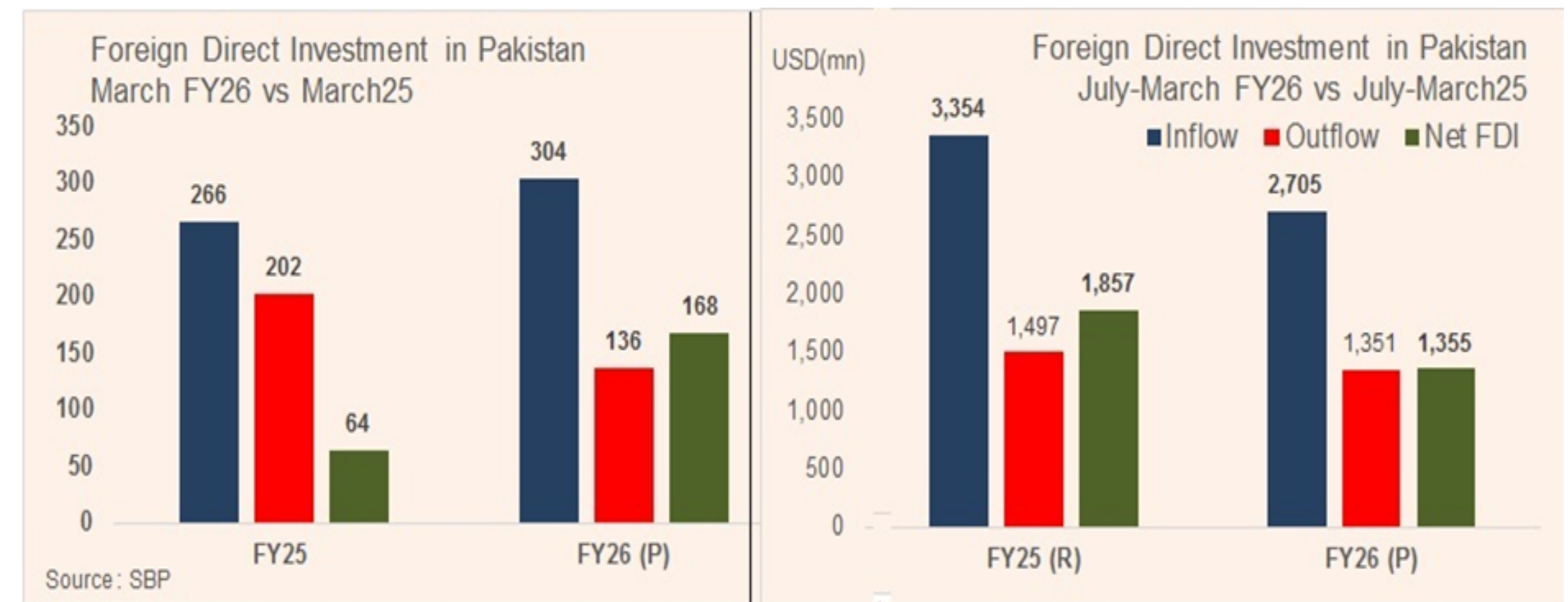
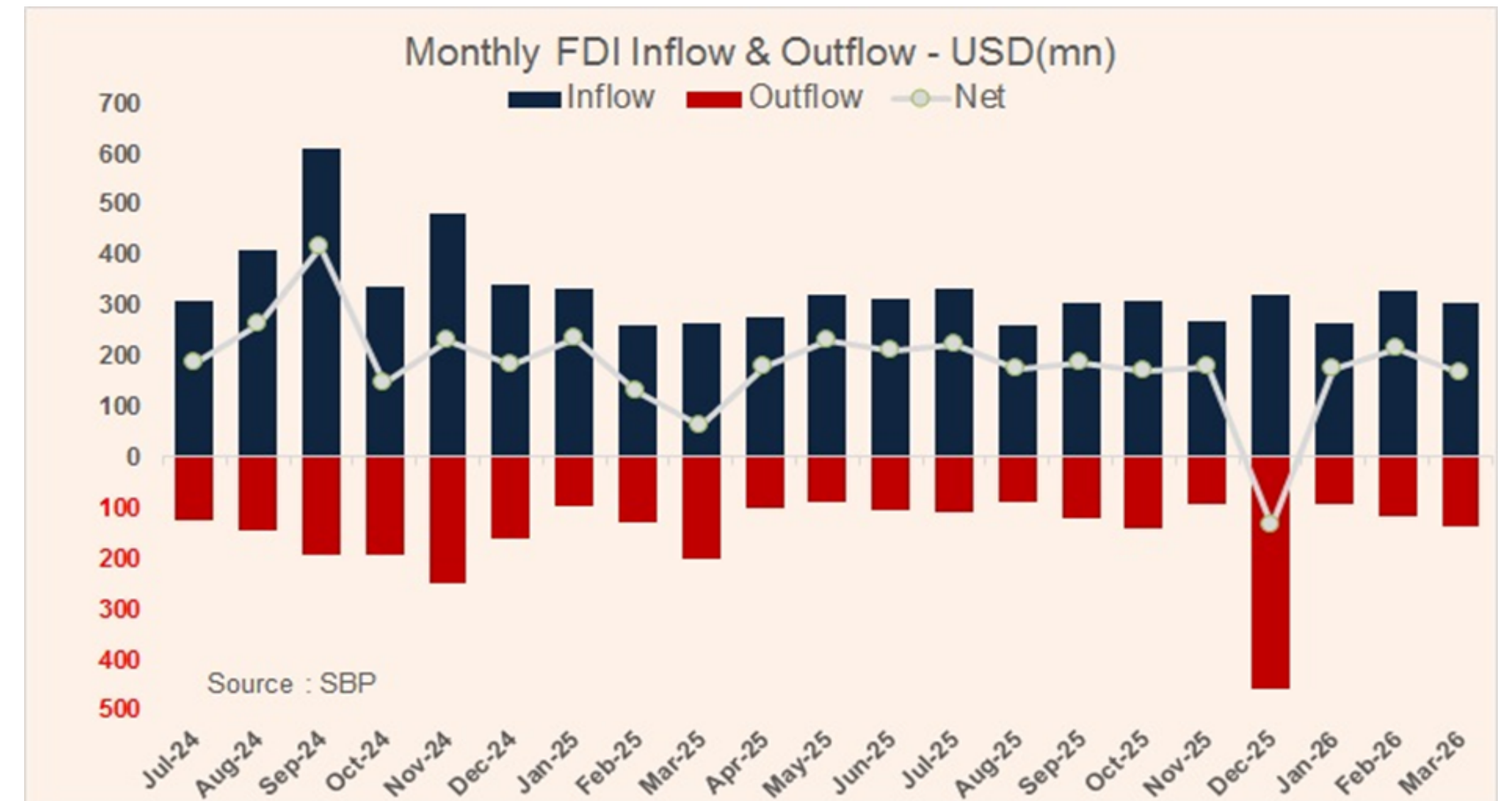
Source: SBP • Created with Datawrapper

FDI Remains Weak and Concentrated

FDI looked better in Mar-26, but the year is still weak: Net inflows came in at \$168 million, up 163% year-on-year, though lower than \$214 million in Feb-26. Cumulative 9MFY26 FDI was \$1.35 billion, down 27% year-on-year. So March was a better month, not a turnaround.

The weakness remains structural: Pakistan’s FDI base is narrow, with China contributing more than half of total inflows, while investment stays concentrated in power and financial services rather than diversified, export-oriented sectors.

The outlook remains weak: With external buffers still reliant on remittances, deposits, and rollovers, and investor concerns around currency risk, policy instability, and the business climate unresolved, FY26 FDI is still likely to remain below last year’s level.



FX Risks Are Back — and the Cushion Is Thin

Oil LC payments are hitting the interbank market. SBP reserves recovered on fresh Saudi deposits — but rollover risk and a rising REER are putting the rupee back on watch.

Reserves remain vulnerable: Pakistan's reserves remain vulnerable despite a recovery in SBP holdings, following fresh \$3 billion Saudi deposits that offset repayments to the UAE and Eurobond holders.

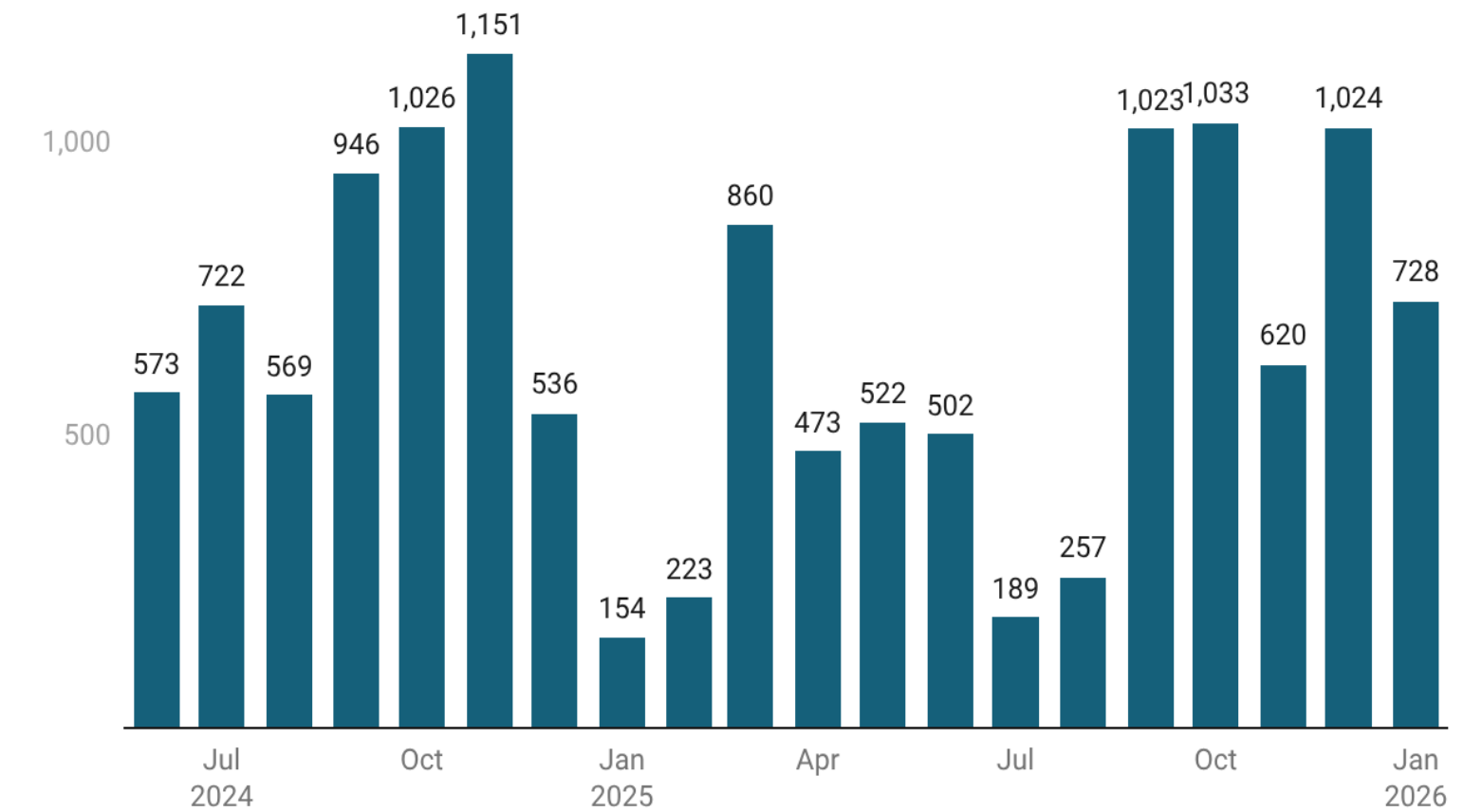
SBP buying has supported reserves: The SBP purchased \$4.14 billion in Jul–Dec, helping debt servicing and reserve buildup.

Rupee risks are rising: Higher imports, possible remittance softness, rollover uncertainty, and a rising REER could put pressure on the PKR in 4QFY26.

Reserve targets look tougher: Risks are increasing around SBP's June and December reserve projections, especially if external rollovers or fresh financing fall short.

WATCH IN 4QFY26: Whether oil LC pressure stays manageable, whether UAE repayments are matched by fresh inflows, and whether the SBP can hold its June reserves trajectory.

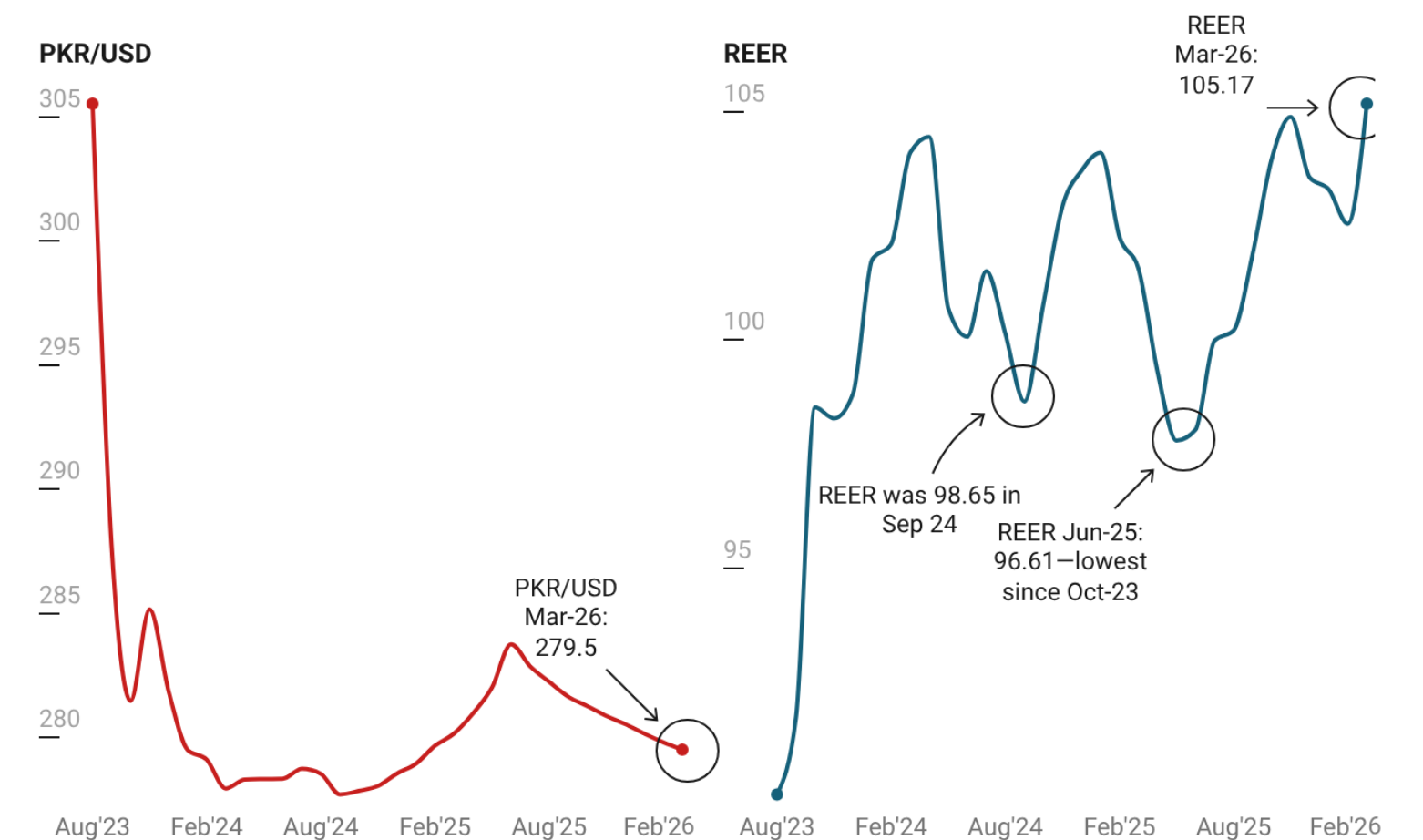
SBP's FX Interventions in Interbank FX Market



Source: SBP • Created with Datawrapper

FX Risks Are Back

Rollover risks and rising REER are putting pressure on the rupee.



Source: SBP • Created with Datawrapper

The Fiscal Picture Is Tightening — Fast

Fiscal pressures are rising: After a strong 1HFY26 surplus (3.2% of GDP), the full-year target now looks difficult amid second-half strain. Revenue shortfalls are widening: FBR missed targets again, with a Rs610 billion shortfall in 9MFY26, led by weak sales tax amid disrupted imports and higher refunds. Expenditure pressures are increasing: Rising subsidies—especially petroleum—are adding stress, with PDC hitting Rs139 billion in March. External shocks are feeding through: Middle East tensions, RLNG disruptions, and supply chain impacts are weakening activity and revenues.

FBR COLLECTION BY HEAD (9MFY26)



Income tax:
Rs4.64tr

double-digit growth, below target



Sales tax:
Rs3.10tr

main weakness—far short of target



Federal excise duty:
Rs608bn

double-digit growth, below target

WHAT'S TIGHTENING THE PICTURE



March: –Rs185B

FBR collected Rs1.18T in March, missing target. War-led import disruption hit sales tax at import stage.



Refunds rising fast

Rs61B disbursed in March (up from Rs34B in Feb). Total FY26 refunds: Rs447B.



PDC at Rs139B

March petroleum differential claim. Daily subsidy peaked at Rs7B — IMF likely to push for PDC removal.



Rs322B IMF benchmark

Recovery from court cases. ~Rs300B already collected — mostly via retrospective super tax.

THE INCONSISTENCY: The government wants to ease the formal sector—phase out the super tax, relieve salaried groups — but keeps relying on the same narrow base. Agriculture, real estate, and retail remain mostly outside the effective tax net.

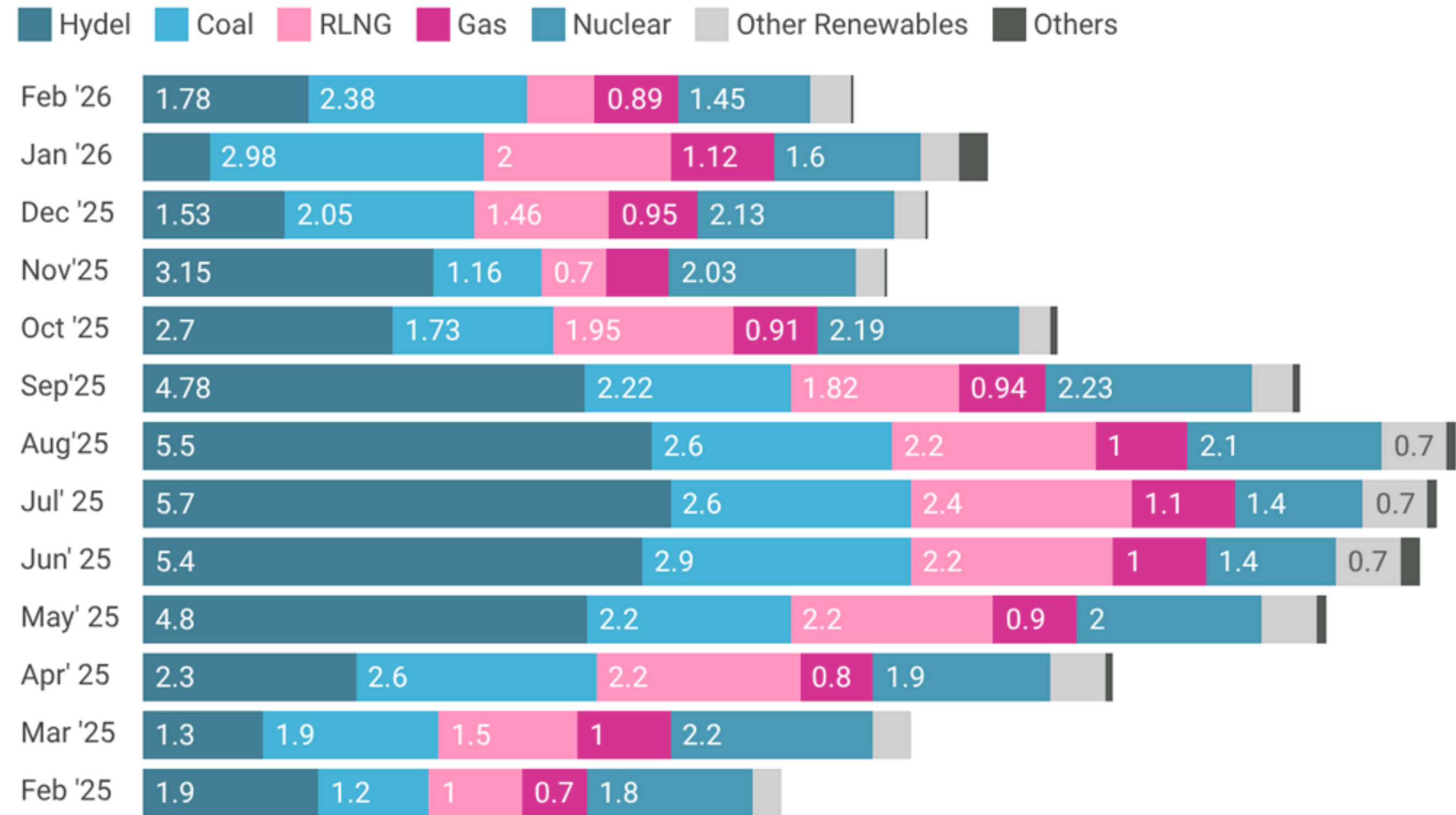
Higher Generation Masks Cost and Supply Pressures

Power generation remained strong in Mar-26, rising 6.3% year-on-year to 8,939 GWh, taking 9MFY26 generation up 3.3% to 93,131 GWh. The recovery is being driven mainly by industrial demand returning to the grid, supported by lower tariffs, incremental consumption incentives, and improving activity.

The mix also improved, with higher hydel and coal generation offsetting the sharp decline in RLNG and lower nuclear output. This kept the Fuel Cost Adjustment (FCA) impact limited at Rs0.27/kWh despite higher oil prices and gas supply disruptions.

Outlook: The recovery remains cautiously positive, supported by industrial demand and better grid economics, but persistent RLNG disruptions could raise FCAs, add tariff pressure, or increase load-shedding risk.

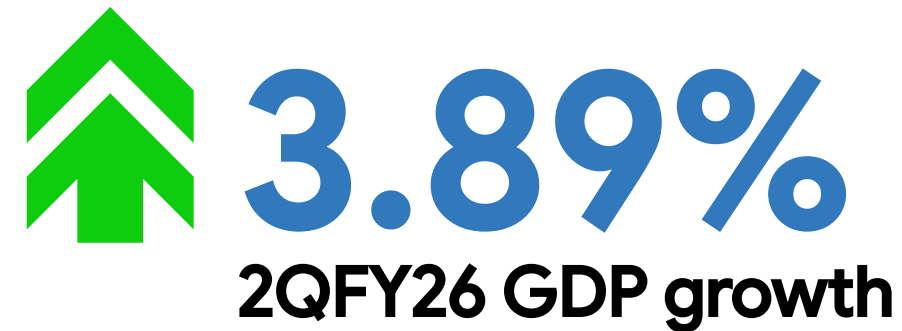
Electricity generation by sources



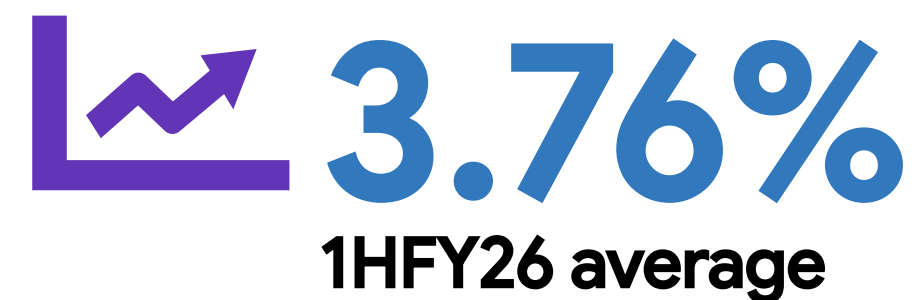
Source: SBP Easy Data • Created with Datawrapper

Strong Headline, Narrow Engine

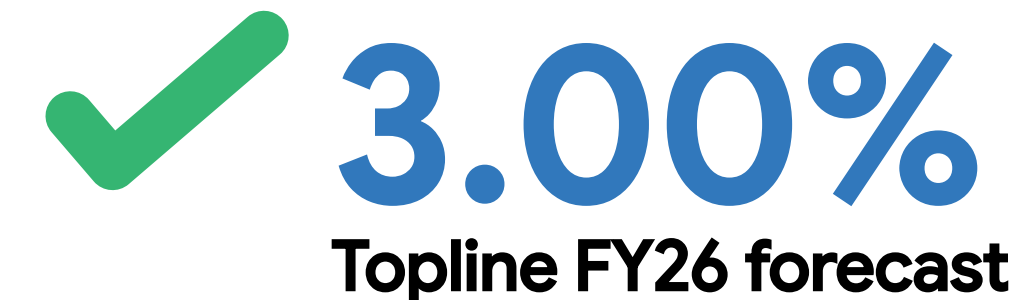
Highest second-quarter growth in four years — but the lift is concentrated in industry, not broad-based across the economy.



Highest 2Q growth in four years



1QFY26 revised down to 3.63%



Despite soft agriculture trend

Industry THE ENGINE

+7.4%

2QFY26 YoY — vs +0.8% a year ago

1HFY26 avg: 8.1%
(vs 0.5% in 1HFY25)

Automobiles	+53%
Transport equipment	+41%
Petroleum products	+25%
Electricity, gas & water	+15%
Construction	+11%

Services STEADY SUPPORT

+3.69%

2QFY26 YoY — steady contribution

1HFY26 avg: 3.1%
(vs 2.6% in 1HFY25)

Public admin & social security	+8.69%
Human health & social work	+5.66%
Other services	mixed

Agriculture THE LAGGARD

+1.76%

2QFY26 YoY — positive but soft

1HFY26 avg: 2.2%
(vs 1.4% in 1HFY25)

Livestock	+5.59%
Forestry	+3.76%
Fishing	+0.77%
Important crops	-1.87%
Cotton	-0.90%

WHAT TO WATCH: Headline is encouraging — but momentum is narrow and industry-led. FY24 and FY25 were also revised down marginally. Broader, balanced growth still hasn't arrived.

LSM: Broad-Based Recovery, Moderating Pace

LSM is shifting from a narrow rebound to a broad-based, more stable recovery, with multiple sectors now driving growth. The pace has moderated due to base effects, pointing to steady mid-single-digit expansion rather than a sharp surge.

LSM sustained its recovery in Feb-26, with output rising 6.45% year-on-year, while the index remained among the highest historically for the month. The momentum, however, is now more measured, indicating a shift from sharp rebound to steady expansion.

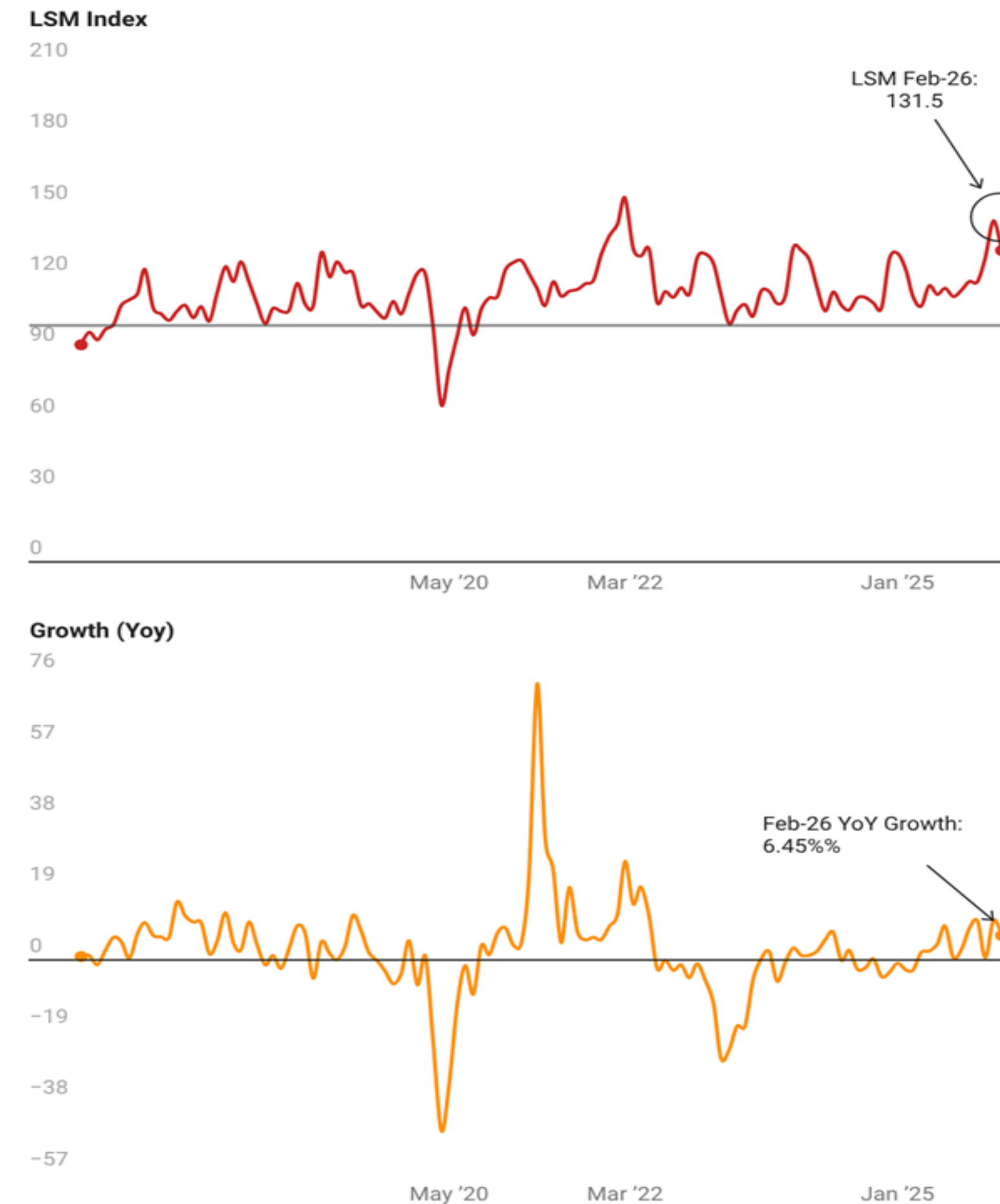
Cumulative growth reached 5.89% in 8MFY26 (with early indications pointing to similar momentum into March), placing the index as the second highest on record after FY22. Importantly, the recovery is now broad-based, with 15 of 22 sub-sectors in positive territory, led by food (especially sugar), automobiles, and a growing contribution from petroleum, beverages, and cement.

Bottom line: The recovery is becoming more durable as growth drivers diversify and cost conditions improve with lower power tariffs and earlier rate cuts. However, momentum is likely to remain moderate, with high base effects, normalization in key sectors, and external risks capping upside.

LSM is on a stable recovery path, but a return to FY22 peak levels remains unlikely in the near term.

LSM Growth Cools

LSM grew by 6.45% in Feb-26, with the recovery becoming broader, stronger, and less reliant on a few sectors' performance.



Created with Datawrapper

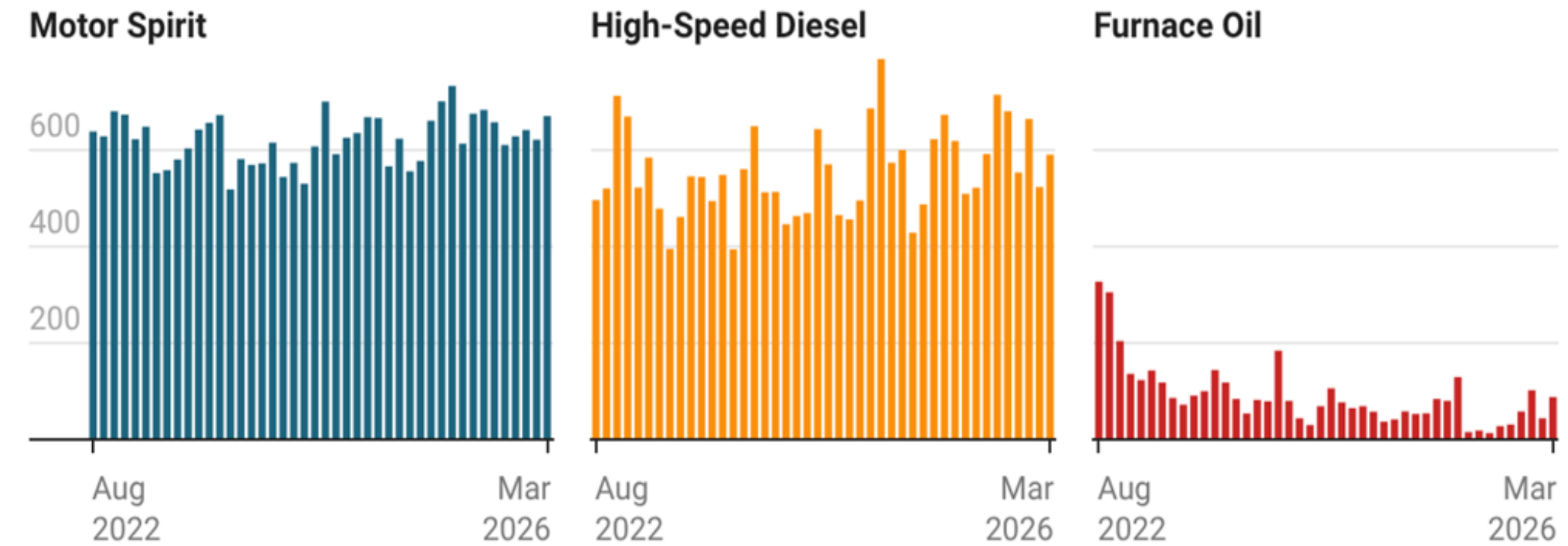
OMCs & Cement: Demand Recovery, Cost Pressure

OMC sales spiked in Mar-26, rising 19% year-on-year to 1.44 million tons, but the surge was driven more by panic buying, hoarding, and supply fears than genuine demand growth. White oil demand remained steady, while furnace oil jumped due to RLNG shortages and power-sector stress.

Outlook: Volumes may stay firm in the short term due to subsidies and seasonal demand, but high prices and eventual subsidy withdrawal could weaken consumption and add pressure on imports and the fiscal position.

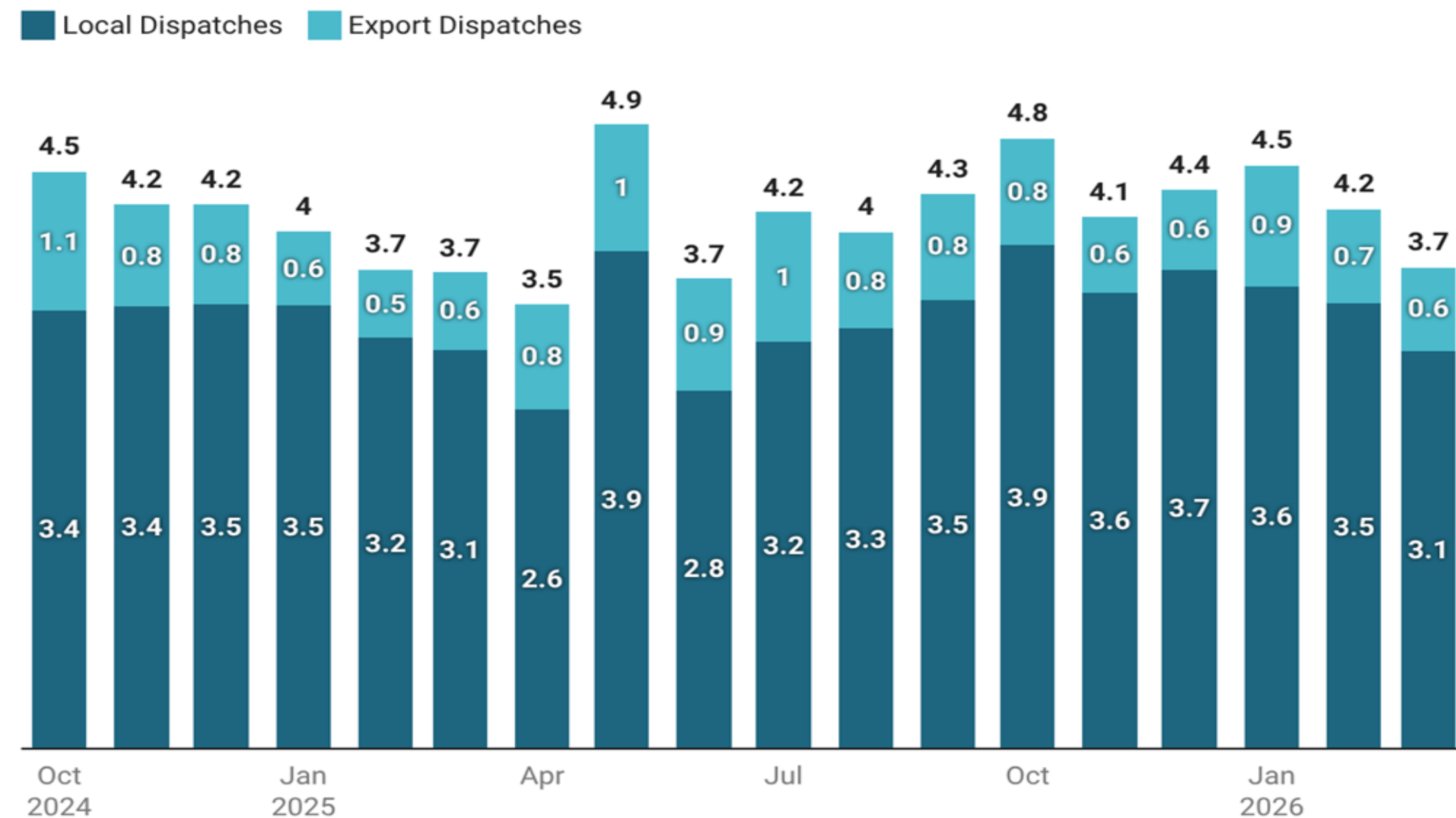
Cement offtake recovered in 9MFY26, rising 10% year-on-year, led mainly by an 11% increase in local demand. The domestic-led recovery is positive for margins, but capacity utilization remains below 60% due to industry overcapacity.

Outlook: Rising coal and fuel costs, weak purchasing power, export frictions, and macro uncertainty could pressure margins and slow the recovery in the coming months.



Source: OCAC

Monthly Cement Dispatches - tons (mn)



Source: Zakheera.com

Auto Sector Rebounds Strongly, But Momentum May Ease

The auto sector continued its recovery in Mar-26, with car sales rising 40% year-on-year to 15.5k units and 9MFY26 sales up 43% to 144k units. Growth was supported by improving demand, relative macro stability, and a pickup in auto financing, while the recovery remained broad-based across passenger cars, two-wheelers, and tractors. However, the 9% month-on-month decline shows that momentum is not linear, with Ramadan seasonality and higher fuel prices weighing on volumes.

Outlook: The sector remains on a recovery path, but growth may moderate in the coming months. Auto financing and macro stability should continue to support demand, but high fuel prices, affordability constraints, and uneven performance across smaller cars and three-wheelers could limit the pace of recovery.

Automobiles Sales Data

Units	Mar-26	Feb-26	MoM	Mar-25	YoY	9MFY26	9MFY25	YoY
Passenger Cars	11,702	13,355	-12%	8,130	44%	109,392	75,265	45%
1300cc and Above	6,447	6,833	-6%	4,485	44%	58,447	35,194	66%
1000cc	294	460	-36%	194	52%	3,770	3,689	2%
Below 1000cc	4,961	6,062	-18%	3,451	44%	47,175	36,382	30%
LCVs, Vans & Jeeps	3,776	3,733	1%	2,968	27%	34,374	25,471	35%
Electric Vehicles	53	33	61%	-	n.a	263	132	99%
Cars, LCVs, Vans, Jeeps & EV's	15,531	17,121	-9%	11,098	40%	144,029	100,736	43%
Trucks	488	582	-16%	353	38%	5,143	2,823	82%
Busses	78	82	-5%	107	-27%	720	542	33%
Tractors	3,008	1,717	75%	1,538	96%	20,159	23,230	-13%
Two Wheelers	163,156	155,573	5%	124,424	31%	1,401,144	1,059,898	32%
Three Wheelers	3,477	3,939	-12%	3,200	9%	29,977	29,841	0%
Total	185,738	179,014	4%	140,720	32%	1,601,745	1,217,070	32%