



OICCI **Economic** **Update**

JULY 2026

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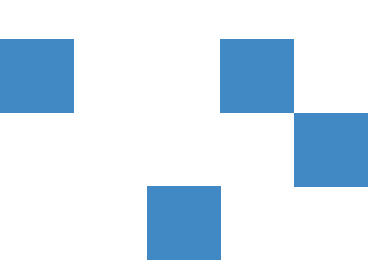
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Summary of Economic Update

Macroeconomic Overview

Pakistan enters FY27 with stronger stability but weak growth momentum. SBP reserves reached \$18.4bn, FY26 posted a third consecutive primary surplus, and the current account ended with only a \$139mn deficit. However, exports remain weak, imports are rising, remittances are concentrated in GCC economies, and REER at 106.4 signals pressure on competitiveness.

Global Economy and Pakistan Outlook

Regional tensions remain a key risk for oil prices, remittances and external stability. Oil is expected to stay volatile around \$80–90/bbl over the next 6–12 months, keeping FY27 inflation in the 7–9% range and possibly delaying rate cuts until 2HFY27.

Growth

FY26 was a recovery year, not a breakout year. GDP growth improved to 3.70% from 3.18%, led by services growth of 4.09%, agriculture at 2.89%, and industry at 3.51%. Investment remains the key weakness: investment-to-GDP is only 14.38%, national savings 14.13%, and FDI fell 34% to \$1.64bn.

Large-Scale Manufacturing

LSM grew 5.77% in Jul-May FY26, but recovery is concentrated. Automobiles rose nearly 59% YoY, sugar around 32%, while garments and petroleum also supported

growth. Textiles, pharmaceuticals and chemicals remain weak, and the sector is still regaining lost ground rather than entering a new industrial boom.

Inflation

Inflation eased to 11.1% in June from 11.7% in May, with FY26 average inflation at 7.0%, within SBP's 5–7% band. June saw a 0.3% MoM decline, mainly due to lower fuel and electricity prices. Core inflation also softened to 8.7%, while the policy rate remained at 11.5%.

External Account

The current account stayed broadly contained, with only a \$139mn deficit in FY26, but June showed renewed pressure with a \$649mn deficit after a \$500mn May surplus. Services exports and remittances helped cushion the gap, with remittances growing 8.6% to \$41.6bn, but the goods-and-services deficit still reached \$35.5bn.

Trade

Trade remains weak and import-heavy. Goods exports fell 6% to \$30.1bn, textiles were stagnant at \$17.9bn, and food exports dropped to \$5.0bn. Imports reached \$69.7bn, with transport imports up 66% to \$4.1bn, CKD car imports up 92% to \$2.1bn, and petroleum imports rising to \$16.8bn.

Remittances

Remittances reached a record \$41.6bn, up 8.6%, led by Saudi Arabia at \$9.78bn and the UAE at \$8.81bn. However, Gulf concentration remains a risk, and FY27 will test whether these inflows can remain formal, reliable and better linked to productive investment.

FDI

FDI remained weak. Net FDI fell 34% to \$1.64bn, gross inflows declined 16.4% to \$3.57bn, and outflows rose 7.8% to \$1.93bn. Around 88% of net FDI came from China, Hong Kong and the UAE, while power and financial services dominated sectoral inflows.

Fiscal Position

Fiscal discipline is improving, but the FY27 budget is ambitious. FY26 posted a 2.5% of GDP primary surplus, while the fiscal deficit was revised down to 3.0% of GDP. FY27 targets a 2.0% primary surplus and 3.6% fiscal deficit, but FBR revenue must grow 17.6% against nominal GDP growth of 13.2%.

FBR and Debt

FBR collection reached around Rs13.0tr, up 11% YoY, after the target was cut from Rs14.13tr to Rs12.98tr. The FY27 target of Rs15.26tr requires strong growth on a lower base. Central government debt rose 7.8% YoY to Rs81.9tr, while domestic debt increased around 5% in five months, keeping crowding-out pressure on private investment.

Early Debt Retirement

Early debt retirement reached Rs4.72tr, including Rs2.9tr in FY26, helping extend average maturity to 3.8 years from 2.7 years in FY24. However, this is mainly a cash-flow reprieve, not deleveraging, as the government continues to borrow while retiring old debt.

IMF Programme

The IMF programme remains the key stability anchor. Pakistan cleared the third review, receiving around \$1.1bn, while meeting 7/7 performance criteria and 6/8 indicative targets. The fourth review will test revenue performance, reserves, energy pricing and reform implementation. Another IMF programme may still be likely unless exports, FDI, reserves and structural reforms improve meaningfully.

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01 MACROECONOMIC OVERVIEW FY26

Holding the Line: Fiscal and External Stability

Tight fiscal and monetary policy keep the ship steady, and external buffers look comfortable for now.

3rd

Consecutive year of primary fiscal surplus in FY26

2–3%

Real interest rate under SBP's tight monetary stance

\$18.4B

SBP reserves
As of June 2026

106.4

REER index — highest since 2018, signalling overvaluation

● External Account: Balanced but Fragile

- ◆ FY26 current account posted only a marginal deficit of \$139M, versus a \$1.8B surplus in FY25, thanks to strong home remittances
- ◆ Exports are stagnating while imports continue to rise, keeping pressure on the trade balance
- ◆ Remittances have grown at a 17.2% CAGR over the past two years — but over 50% of inflows come from GCC economies, which points to higher concentration risk amid fears of a slowdown of flows from the region due to the ongoing conflict.
- ◆ Auto imports hit an all-time high in FY26; higher taxes on automobiles aim to cool demand and protect reserves

● Currency & Inflation: Stable, Not Cheap

- ◆ With reserves comfortable, SBP keeps topping up buffers via interbank dollar purchases — the currency should stay broadly stable through most of FY27
- ◆ REER at 106.4 suggests the rupee is overvalued, but there is no policy appetite to depreciate it
- ◆ Inflation touched double digits in 4QFY26 but is expected to ease back into single digits across FY27
- ◆ Assuming oil averages \$80/bbl, CPI likely settles around 7-8% in FY27, with limited upside risk

02 GLOBAL ECONOMY & ECONOMIC OUTLOOK PAKISTAN

Geopolitical Risk Clouds the Path to Growth

Strait of Hormuz tensions threaten the one ingredient still missing from the picture: growth

PRE-WAR BASELINE

Oil ~\$60-70/bbl; energy routes normal

MOU SIGNED

Hormuz not fully open; ~20% of global energy supply at risk

NEXT 6-12 MONTHS

Status quo continues; oil range \$80-90/bbl

1-3 YEARS OUT

Routes normalise as damaged infrastructure is rebuilt

- ◆ Regional tensions remain a key risk to oil prices, remittances and external stability.
- ◆ A full-scale conflict appears unlikely, but regional risks may persist. Oil prices are therefore expected to remain volatile, likely staying in the \$80-90 per barrel range over the next 6-12 months, rather than returning quickly to pre-war levels.
- ◆ While global stress may ease gradually, Pakistan's limited fiscal and external buffers mean that higher oil prices, weaker growth momentum, and possible pressure on remittances could keep macroeconomic risks elevated.

PAKISTAN IMPACT

FY27 INFLATION FORECAST

7-9%

Down from 11% in 4QFY26, still above the pre-war path

POLICY RATE

+1pp (May-26)

Regional risk may delay cuts until 2HFY27

CURRENCY

5-10% ADJUSTMENT DUE

But may be resisted by the government

Global Economic Outlook: Growth may recover gradually as conflict risks ease, but elevated oil prices could keep inflation and financial conditions tight, especially for oil-importing economies. Rebuilding damaged energy infrastructure may take time, keeping supply conditions and prices under pressure.

03 GROWTH

A Recovery Year, Not Yet a Breakout Year

Provisional GDP growth reached 3.70% in FY26, up from 3.18% — a broad-based but uneven recovery

3.70%

FY26 GDP growth,
vs 3.18% in FY25

2.89%

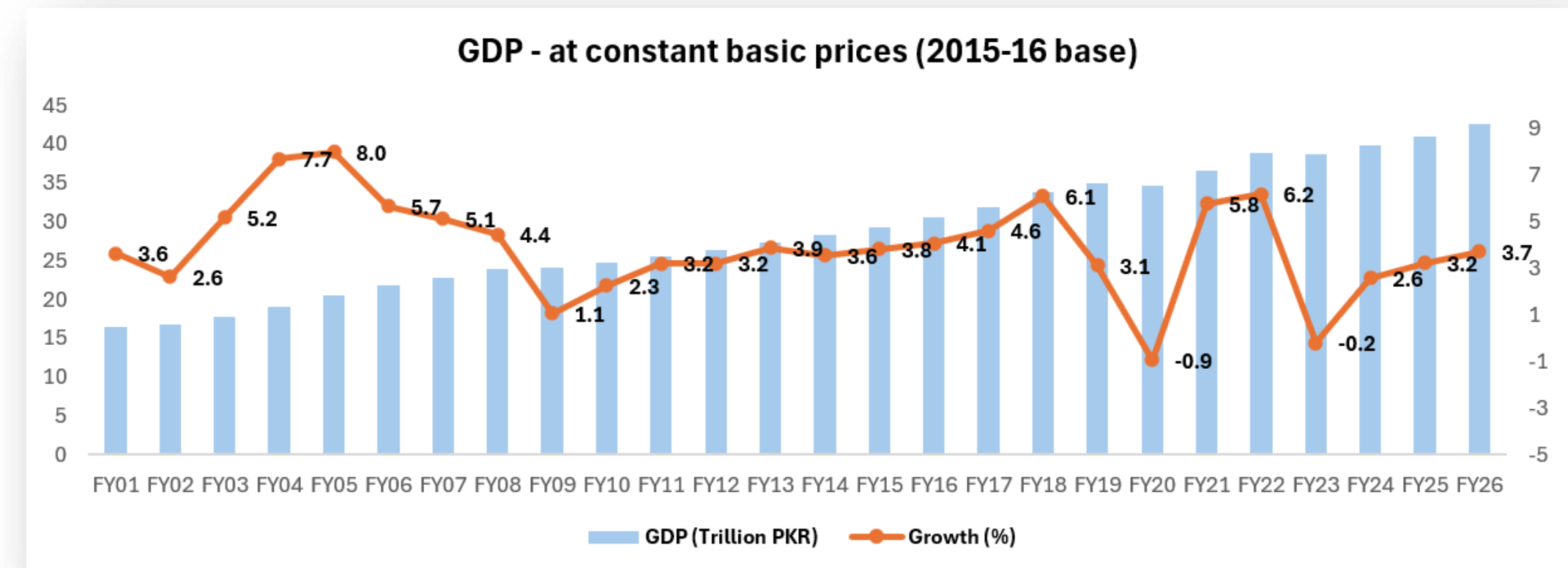
Agriculture
Growth FY 26,
vs 1.53% in FY25

3.51%

Industry —
manufacturing
+6.6%

4.09%

Services — 58.42%
of GDP;
IT & comms +7.52%

**Agriculture**

- Grew 2.9%, up from 1.5% in FY25.
- Crop sub-sector recovered to 1.4% after contracting; wheat, rice and sugarcane improved, but cotton and maize dragged the group to just 0.6%.
- Livestock remained the main support, growing 3.7%.

Industry

- Grew 3.5%, led by manufacturing's 6.6% expansion — 16 of 22 LSM sub-sectors expanded, including food, textiles, apparel, and autos.
- Mining returned to growth (+0.4%), its first positive reading after four years of contraction.
- Lower rates and power tariffs should help in FY27, but this is a gradual climb back to the FY22 peak, not a new industrial boom.

Services & Investment

- Services grew 4.1%, remaining the main pillar at 58.4% of GDP, with IT and communications up 7.5%.
- Investment-to-GDP held at just 14.4%, with national savings at 14.1% of GDP.
- Private investment grew 12.8% — encouraging at the margin, but still too small a base, as FDI fell 34% YoY to \$1.64bn.

Bottomline: Growth has improved on the stabilisation phase, but its quality remains mixed — services leading, manufacturing rebounding, agriculture stable but modest, and investment still too weak to absorb job-market pressure or lift long-term sentiment.

FY26 GDP growth, sectoral growth, and fiscal and primary balance figures are provisional and subject to revision upon the release of updated data.

04 LARGE SCALE MANUFACTURING

LSM Growth Steadies: A Broad, if Uneven, Recovery

11-month LSM growth held at 5.77%, but the growth composition is narrowing around a few outsized contributors

5.77%

YoY LSM growth for Jul-May FY26 (QIM 121.65 vs 115.02)

-0.98%

May LSM growth YoY decline, despite +1.21% MoM

+59%

Automobiles' cumulative YoY growth — still the largest contributor

+32%

Sugar cumulative growth YoY, with record production

Where the Growth Is Coming From

- Automobiles remain the largest contributor, up nearly 59% YoY, although momentum has moderated.
- Food is the second major support, mainly due to sugar growth of around 32%, while edible oil, ghee and tea stayed broadly flat.
- Readymade garments remain among the top contributors, but growth has eased to around 7% cumulatively.
- Petroleum has also started supporting recovery, helped by stronger domestic demand and better local crude availability.

The Base Effect, the Laggards, and What's Next

- Sustaining the same LSM growth pace in FY27 may become harder due to a higher base.
- Pharmaceuticals, chemicals and textiles remain relatively weak, though declines are not severe.
- Lower interest rates and reduced industrial electricity tariffs should support recovery, but the sector is still mainly regaining lost ground rather than entering a new industrial boom.

LSM Recovery Holds, but Momentum Softens

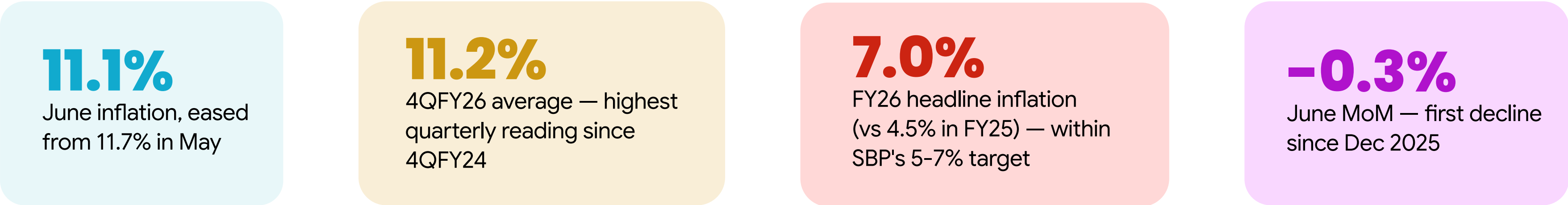


Created with Datawrapper

05 INFLATION

June Cooling: Inflation Pulls Back From the Highs

Headline inflation eased for the first time since December 2025, led by fuel and electricity



What Drove the Decline

- Falling transport fuel and electricity prices led the June MoM decline, together offsetting a seasonal rise in food prices
- Housing and utilities fell 0.4% MoM and transport fell 0.6% MoM — enough on their own to offset a rise in perishable food prices
- Seasonal adjustments in vegetables, chicken and eggs kept food prices elevated even as fuel-linked categories fell
- Petrol prices fell sharply in June, the single biggest driver of the month's decline

What Happens Next

- Inflation pressure appears to be easing, with FY26 average inflation at 7.0%, within SBP's 5–7% target band and well below the 11.2% peak in 4QFY26.
- Petrol prices may rise again, but headline inflation is unlikely to return to double digits unless oil stays above \$100/barrel.
- Electricity prices may ease further in July, while daily petroleum pricing could improve pass-through but may also create more frequent fuel-price volatility.

Product	Premier Euro 5	Hi-Cetane Diesel Euro 5
4 th July 2026 (Rs/litre)	297.53	309.5
24 th July 2026 (Rs/litre)	335.06	390.62
% Change	12.6%	26.2%

Source: PSO

Core Inflation(Non-Food & Non-Energy) and Policy: The Worst Looks Behind Us

Falling core prices and a steady policy rate point to single-digit inflation through FY27

8.7%

Urban core inflation in June, down from 9% in May

-1.2%

WPI MoM decline — steepest since April 2025

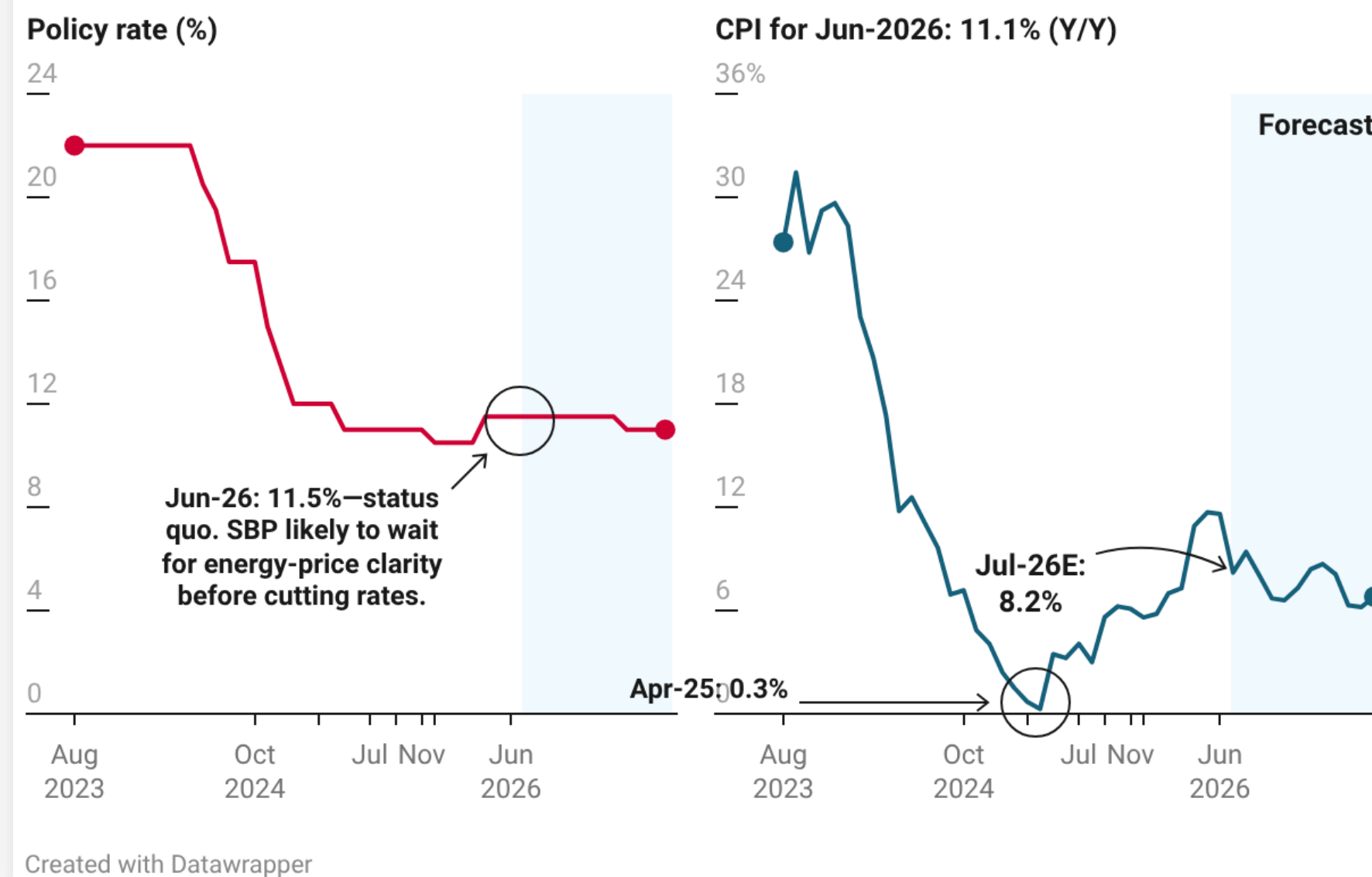
11.5%

Policy rate — hiked 100bps in May 2026, held since

2-3%

Real interest rate SBP is targeting, forward-looking

Inflation Retreats, Rate Cuts Wait



Core Prices Confirm that it is Cost-Push

- Core inflation reversed its three-month climb — both urban (8.7%, down from 9%) and rural core turned negative on a monthly basis in June
- The wholesale price index fell 1.2% MoM, its steepest decline since April 2025
- Together, these confirm last quarter's spike was driven by cost pressures — fuel and electricity — rather than demand
- The second-round pass-through from the earlier fuel-price shock is losing momentum

Policy Stance: Steady, With Room to Cut

- SBP raised the policy rate 100bps to 11.5% in May and rightly held it in June and July — likely to do the same in July
- The stance is cautiously optimistic, maintaining a 2-3% real interest rate on a forward-looking basis
- SBP is likely to wait and assess how the war affects energy prices before considering rate cuts in the second half of FY27
- Barring a fresh shock, inflation should stay in single digits throughout FY27

06 EXTERNAL ACCOUNT

Current Account Holds the Line, but Cracks Are Showing

Remittances and services exports are cushioning a widening trade gap, but FY27 risks are mounting

-\$139mn

FY26 current account deficit
(vs \$1.8bn surplus in FY25)

-\$649mn

June deficit, swinging from
a \$500mn May surplus

\$35.5bn

Combined goods & services
trade deficit, up 20% YoY

\$18.4bn

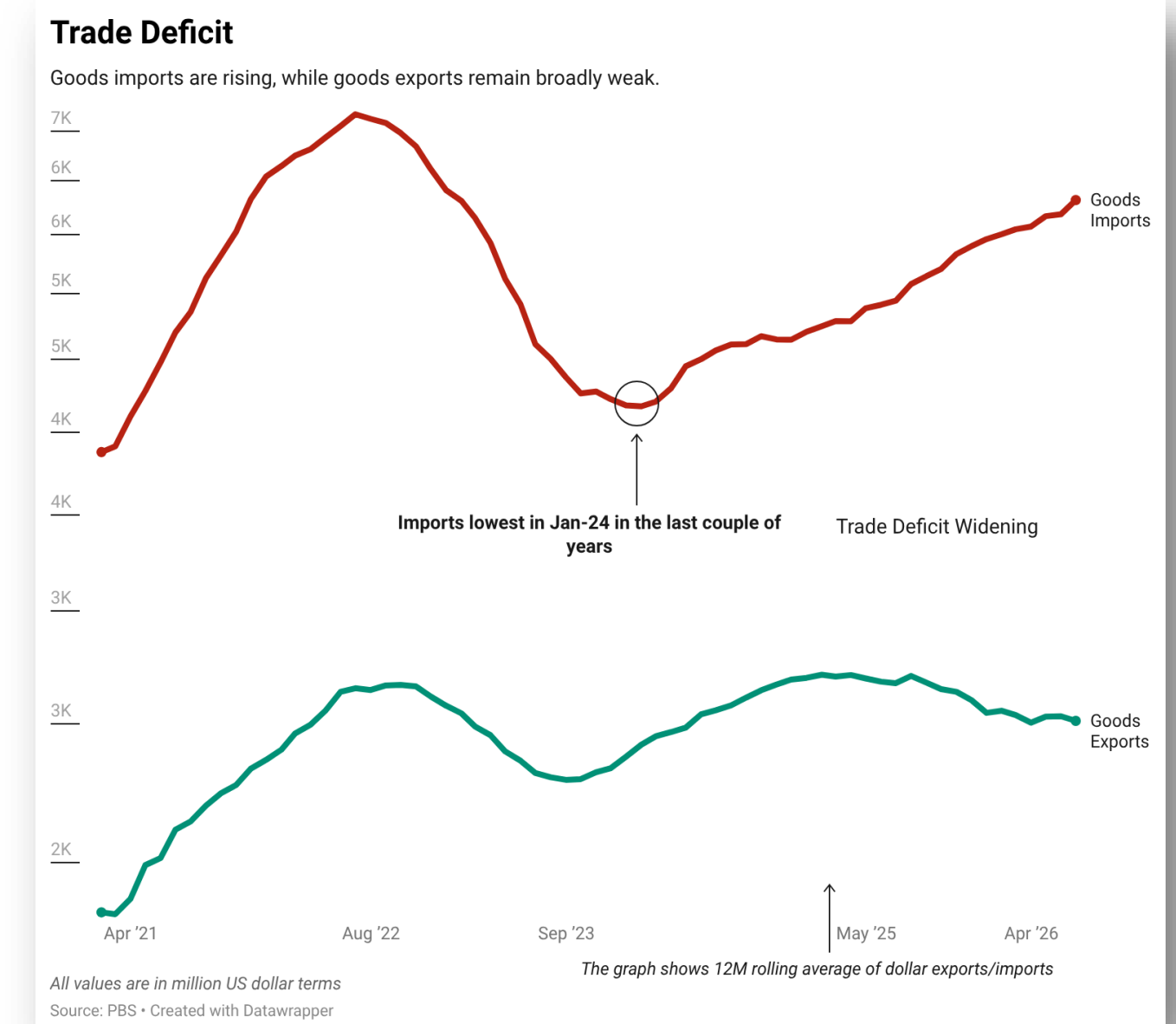
Gross reserves crossed
in June-26

What's Cushioning the Gap

- The current account remained broadly contained in FY26, posting only a \$139mn deficit, but June showed renewed pressure with a \$649mn deficit after a \$500mn surplus in May. The monthly swing was mainly driven by a \$777mn fall in remittances and a \$507mn rise in imports.
- Services exports helped limit the combined goods-and-services deficit to \$35.5bn, while remittances still grew 8.6% to \$41.6bn.
- External financing, including Euro/Panda bond proceeds, the IMF tranche and Saudi support, also helped lift gross reserves to around \$18.4bn by June-end.

Where FY27 Risk Builds

- External risks remain important. A higher oil import bill could pressure the current account if regional tensions keep prices elevated, while GCC economies remain critical as they contribute around 55% of remittances.
- Exports have also weakened as a share of GDP, falling from 8.5% in FY22 to 6.7% in FY26, with food exports down 29% to \$5.0bn. If oil prices stay high or remittances soften, import management pressures may re-emerge.



A Weak, Unbalanced Trade Story

Merchandise exports are shrinking while food, auto and fuel imports hit records

\$30.1bn

Goods exports, down 6% YoY

\$17.9bn

Textile exports — stagnant,
no real growth

\$69.7bn

Total imports — highest
annual level barring FY22

\$5.6bn

4QFY26 petroleum imports,
up 72% QoQ

Exports: Services-Led, Structurally Weak

Goods exports fell 6% to \$30.1bn, dragged by a 30% drop in food exports to \$5.0bn

- amid border closures and weak agricultural policy

Textiles — the largest export category — stagnated at \$17.9bn, while other manufacturing exports fell 4%

- The goods trade deficit widened 25% to \$33.6bn; ICT and other business services exports were the bright spot, up 22% to \$6.8bn, narrowing the combined goods-and-services deficit growth to 20% (\$35.5bn)

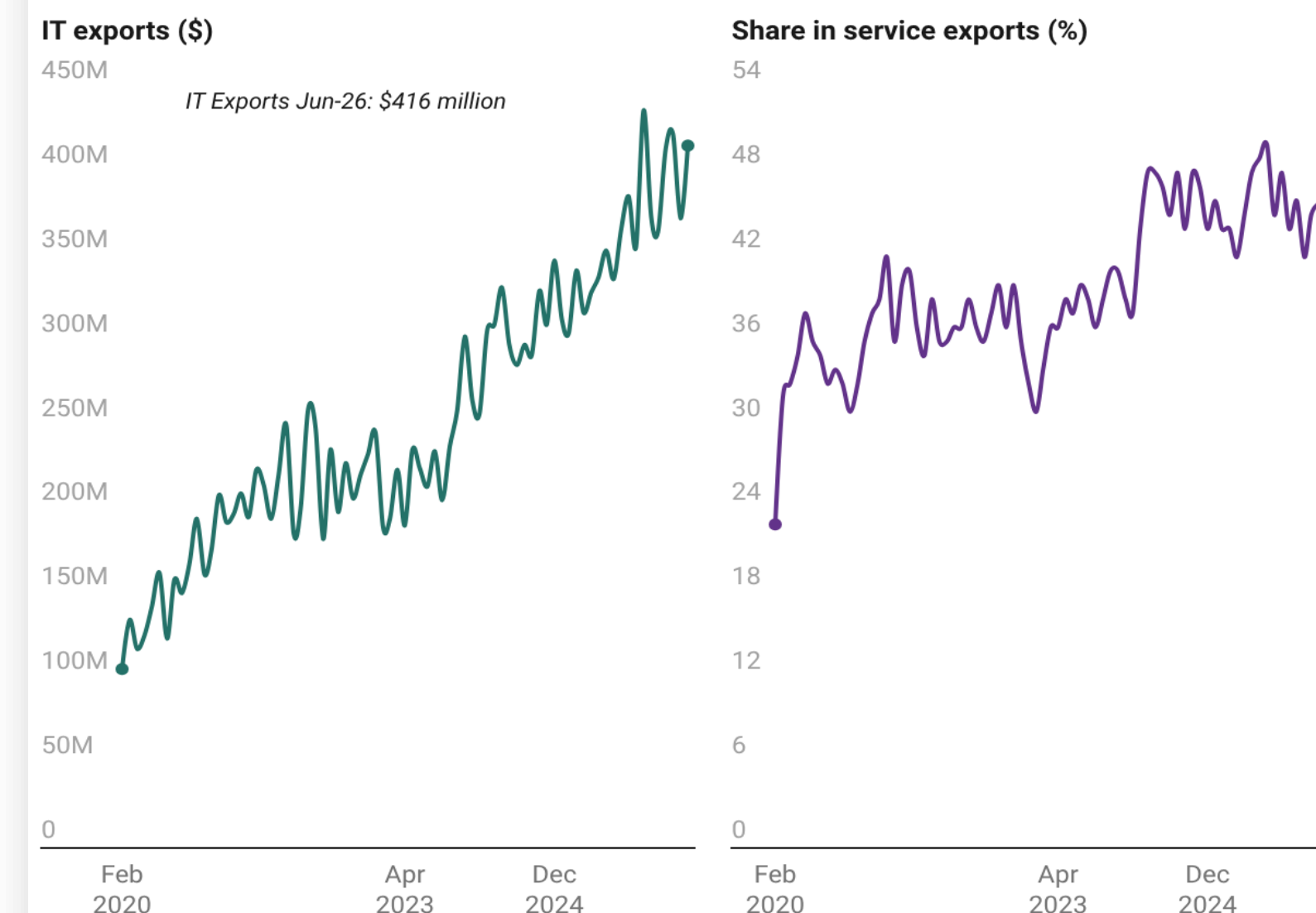
Higher taxation, withdrawn incentives and an overvalued rupee (REER at 106.4) continue to undermine export competitiveness

Imports: Records in Food, Autos and Fuel

- Total imports reached \$69.7bn, the highest annual level apart from FY22; non-petroleum imports were \$52.9bn, still 7% below the FY22 peak
- Food imports hit an all-time high, driving a record \$3.5bn food trade deficit in FY26
- Transport imports surged 66% to \$4.1bn, powered by a 92% jump in CKD car imports to \$2.1bn; petroleum imports rose 5% to \$16.8bn for the year but accelerated sharply in 4QFY26 — up 72% QoQ and 40% YoY to \$5.6bn
- High imports have not translated into growth above 4%; persistently high oil prices could widen the FY27 import bill and prompt renewed curbs on non-essential imports

ICT Exports Continue the Momentum

IT exports continue to grow in Jun '26 up 23% YoY and 12% MoM. FY26 exports reached US\$4.6bn, reflecting a 21% YoY growth



Source: SBP • Created with Datawrapper

Remittances: A Record Cushion, With a Catch

Overseas Pakistanis delivered a record \$41.6bn in FY26 — but structural risks lurk beneath the number

\$41.6bn

FY26 remittances, up 8.6% from \$38.3bn — a record

\$9.78bn

Saudi Arabia — the largest single source

\$8.81bn

UAE — the year's standout, up ~\$978mn YoY

\$44bn+

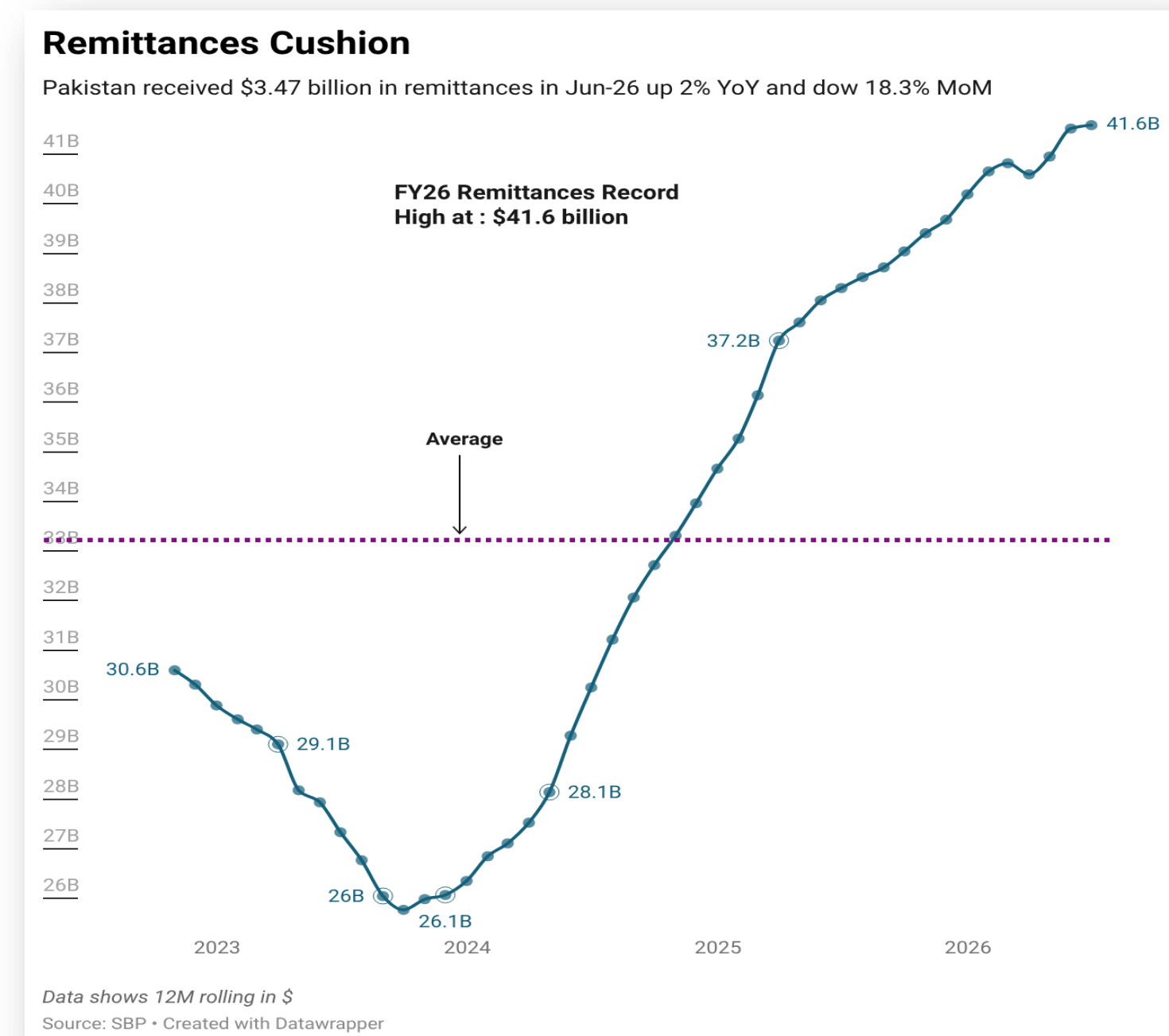
Remittances forecast for FY27

A Record, But Read the Fine Print

- Remittances moderated to \$3.475bn in June after May's Eid-related peak of \$4.25bn, which appears to be a normalization rather than a warning sign.
- FY26 remittances remained strong and exceeded the goods-and-services trade deficit, providing a key external cushion.
- However, the Gulf remains the main source, with Saudi Arabia, the UAE and other GCC countries contributing over half of inflows, making concentration risk important.

What Could Go Wrong From Here

- From July 1, remittances will remain free for senders and recipients, but banks will absorb the cost as government subsidies end.
- The key test is whether formal channels remain fast and competitive, as higher friction could push flows back toward hundi/hawala.
- Remittances remain Pakistan's strongest external cushion, but they cannot replace weak exports, low investment and poor domestic savings.
- FY27 will test whether record inflows can stay formal, reliable and better linked to productive investment.



07 FDI

FDI Recovery Remains Elusive

Net investment fell again in FY26, weighed down by concentrated sources and rising outflows

\$1.64bn

Net FDI in FY26,
down 34% from \$2.48bn

-16.4%

Decline in gross inflows
to \$3.57bn

+7.8%

Rise in outflows
to \$1.93bn

~88%

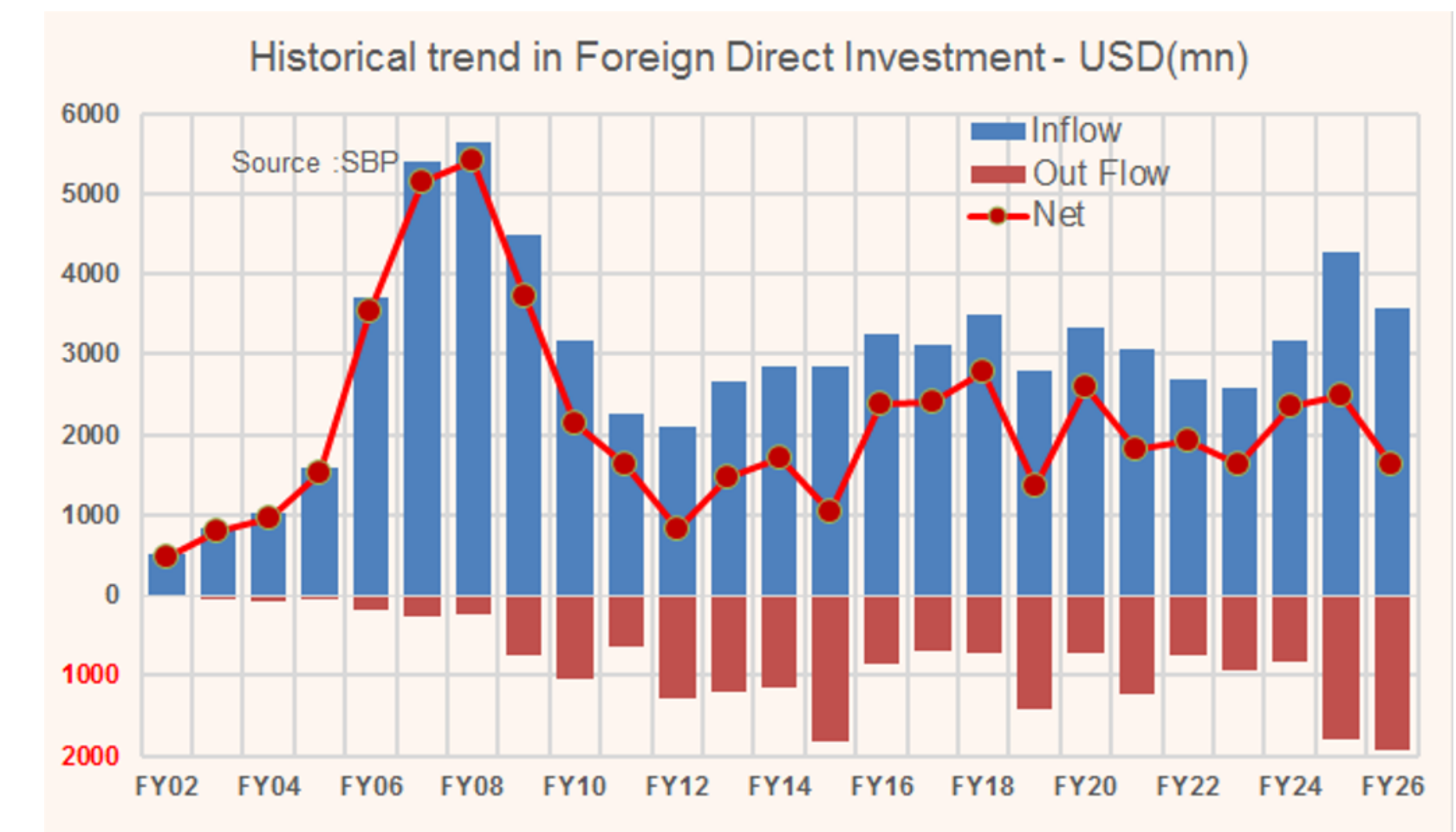
Share of net FDI from just
China, Hong Kong and the UAE

A Weak Year, Start to Finish

- Gross inflows fell 16.4% to \$3.57bn while outflows rose 7.8% to \$1.93bn in FY26— Pakistan attracted less and lost more
- June alone brought net FDI of just \$13.5mn, as \$294.4mn of inflows were nearly wiped out by \$280.9mn of outflows
- China stayed the largest source but slowed to \$862mn from \$1.20bn in FY26; Hong Kong fell to \$339.4mn from \$470mn; the UAE eased to \$235.9mn from \$294.3mn
- The US and Norway were net drags for the year — outflows of \$156mn and \$364.7mn respectively; in June alone the US outflowed \$164.5mn, more than offsetting combined China/Hong Kong/UAE inflows

Why the Recovery Isn't Coming

- Annual net FDI of about \$1.6bn for is far below the \$5bn+ levels seen around FY07-FY08, and isn't enough to meaningfully expand capacity, exports or jobs
- Power drew the largest sectoral share (\$958.3mn) but still fell from \$1.178bn in FY25; financial services rose to \$805.5mn; communications suffered a \$456mn net outflow
- Macro stability has eased crisis fears, but it isn't attracting capital on its own — investors also need policy consistency, predictable taxation, reliable energy, smooth profit repatriation and contract enforcement
- Gains from Switzerland, the UK, Kuwait and Japan were too small to offset the concentration risk and larger withdrawals elsewhere



08 CURRENCY & FX

FX Risks Are Subsiding, but Not Gone

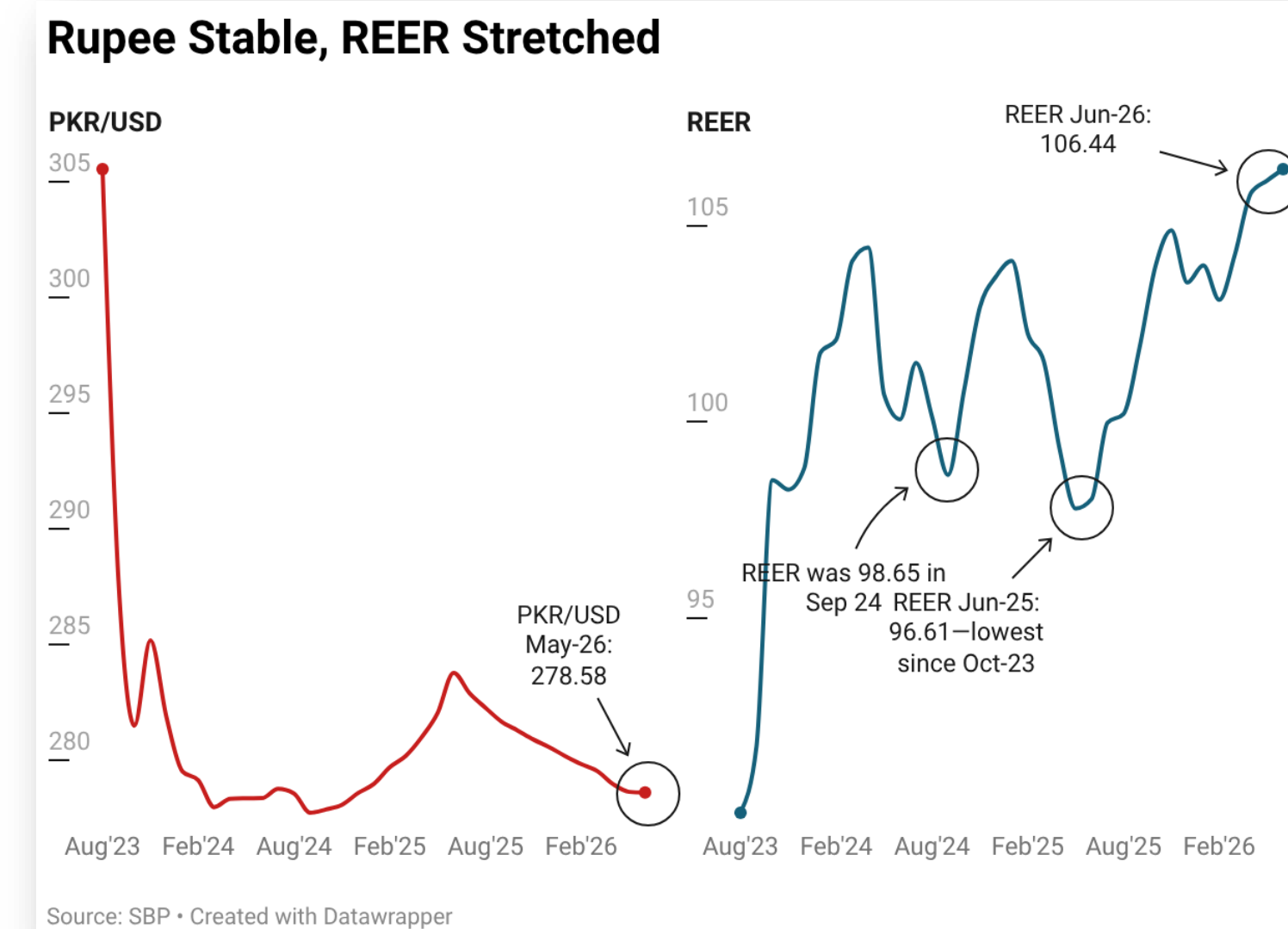
Reserves are on target and the near-term outlook is calmer, but medium-term pressure on the rupee is building

The Near-Term Picture Is Calmer

- SBP met its \$18bn June-end reserves target and is aiming to build reserves further to \$20.2bn by Dec-26 and above \$21bn by Jun-27.
- Continued market purchases, including \$667mn in March and \$6.5bn over 9MFY26, have supported debt repayment and reserve rebuilding.
- The interbank market remains broadly stable, with no immediate sign of rupee pressure. However, import discipline remains important, especially if oil prices rise again.

But Medium-Term Pressure Is Building

- REER has risen to 106.4, above its 10-year average of 102.6, suggesting some rupee overvaluation, though negative MoM inflation may ease it slightly in June.
- With exports still weak and import pressures present, some adjustment risk remains, even if it is not immediate.
- Elevated oil prices remain the main uncertainty for reserves and the rupee outlook.



S&P upgraded Pakistan's sovereign rating to 'B' from 'B-' on July 22, 2026, with a stable outlook — reflecting improving macroeconomic stability, institutional continuity and reform progress. Pakistan last held a 'B' stable rating between October 2016 and February 2019, following completion of an IMF programme.

09 FISCAL

A Third Consecutive Year of Primary Surplus — Can Growth Follow?

Fiscal discipline is real, but rising debt and an ambitious FY27 budget put growth at risk

2.5% of GDP

3rd consecutive year of primary surplus in FY26 with another budgeted for FY27

3.0% of GDP

Fiscal deficit FY26 revised down from earlier Budgeted 3.9% in FY26

Rs81.9tn

Central govt debt +7.8% YoY as of May 2026

3.6% of GDP

Fiscal deficit FY27 target

The Lesson From FY99-FY04

- Six straight years of primary surplus cut the debt-to-GDP ratio from 68.8% to 48%. Growth then averaged 6.3% in FY03-FY07, with investment running at 17-19% of GDP
- The current surplus streak hasn't yet delivered similar gains — debt keeps rising because the primary balance excludes interest payments
- Lower financing costs and better debt management are still needed to free up room for development spending and private-sector credit

An Ambitious, Risk-Laden FY27 Budget

- The government targets a primary surplus of 2% of GDP and an overall fiscal deficit of 3.6% of GDP in FY27. Achieving these targets will require sustained progress in revenue mobilization and expenditure discipline amid an uncertain domestic and global environment
- Spending is budgeted to rise 20% and FBR revenue by 17.6%, against nominal GDP growth of just 13.2%. Hard to see how direct taxes grow ~18% or customs duties 20% after income-tax and tariff cuts
- Meaningful tax broadening is still missing; the retail tax scheme looks closer to an amnesty than genuine documentation. FBR is likely to lean again on existing taxpayers via advance taxes and enforcement — a risk to investor confidence

Where the budget could face pressure:

The FY27 budget depends on higher petroleum levy collection and additional provincial support. However, if FBR revenue falls short, especially against the Rs13.3 trillion threshold and the Rs15.26 trillion target, the federal government may face greater fiscal pressure. A missed December revenue milestone could also require an IMF waiver or contingency measures. Net effect: Fiscal targets may still be protected, but development spending, PSDP allocations, and investment-led growth could come under pressure.

FY26 GDP growth, sectoral growth, and fiscal and primary balance figures are provisional and subject to revision upon the release of updated data.

FBR: Targets and Achievements

Tax collection beat the target only after a trillion-rupee cut to the original FY26 goal

Rs13.0tr

FY26 collection — up 11% YoY, but only after the target was cut from Rs14.13tr to Rs12.98tr

Rs15.26tr

Ambitious FY27 target — needs ~17.6% growth on this lowered base

Rs1.56tr

Petroleum levy in FY26 against a projected target of Rs1.468tr

Rs1.77tr

FBR June-26 collection against a revised target of Rs1.75tr, +18% YoY

Tax-Head Performance vs Target

- Silncome tax: Rs6.579tr, Rs51bn above target and up 14% YoY from Rs5.792tr — the only growth head
- Sales tax: Rs4.254tr, Rs1bn short of target but up 9% YoY
- Customs duty: Rs1.331tr, Rs18bn short of target, up 4% YoY
- Federal excise duty: Rs840bn, Rs11bn short of target, up 10% YoY

Why the 'Beat' Isn't All It Seems

- Even after the Rs1.13tr cut, provisional collection barely cleared the Rs12.957tr minimum benchmark the IMF had set as a fallback
- Refunds and rebates rose 21.3% to Rs598bn from Rs493bn a year earlier, further denting net collections
- The petroleum levy's Rs1.56tr beat rests on historically high per-litre, not broader tax-base growth
- Floods, the Middle East conflict and weaker economic activity constrained growth all year, and FY27's Rs15.26tr target now needs ~17.6% growth on this lowered base

Debt Keeps Growing

The debt to GDP dip is surplus-driven, not structural – domestic debt is climbing and squeezing private credit

Rs81.9tr

Central government debt as of May 2026 (prov) — up 7.8% YoY

68.5%

FY26 debt-to-GDP ratio so far, down from 75% in FY23 – flattered by this years primary surplus

The Debt Stock

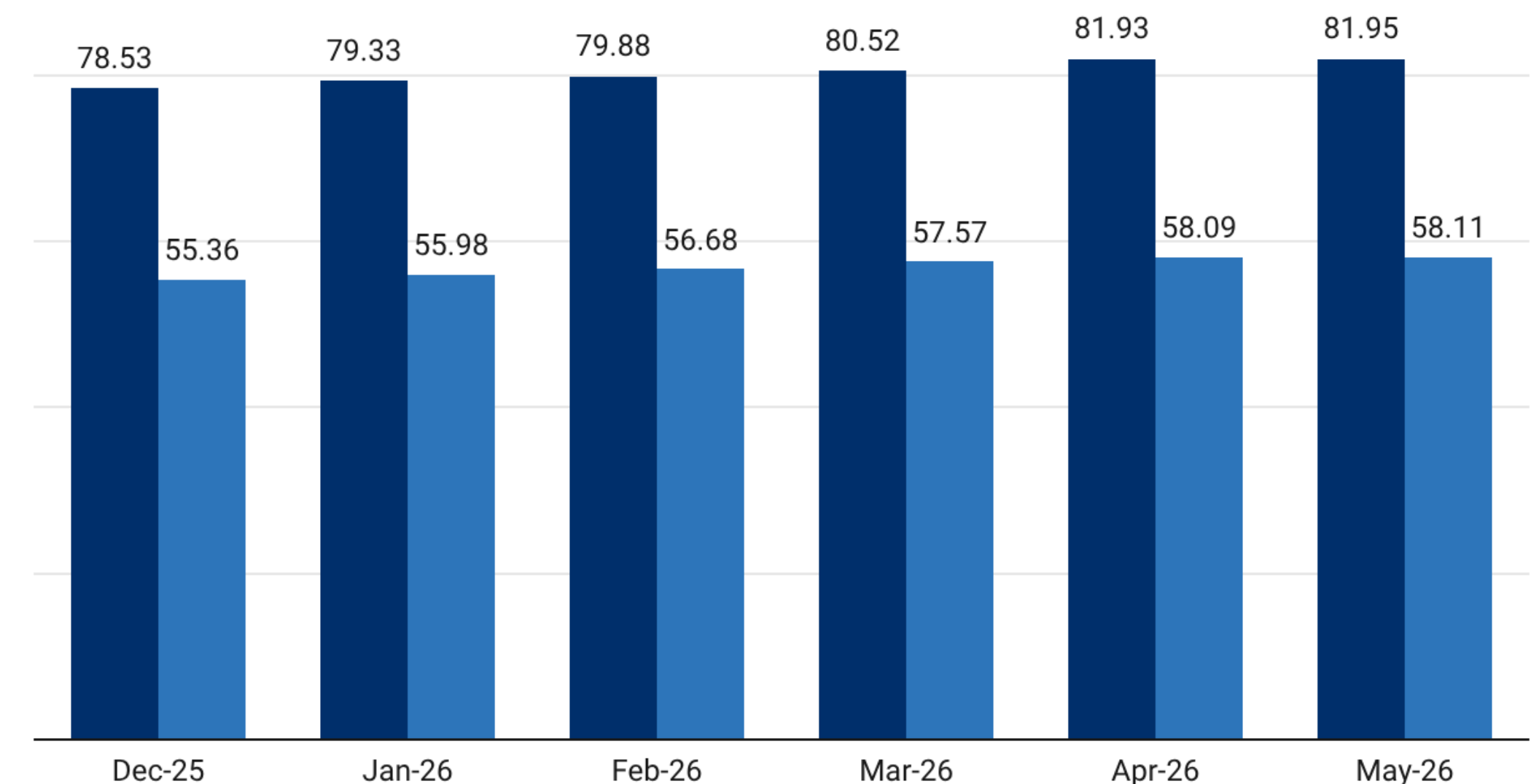
- Central government debt rose 7.8% YoY to Rs81.9tr as of May 2026, from Rs76.0tr a year earlier. Domestic debt has also increased by around 5% over the last five months.
- The improvement in the debt-to-GDP ratio appears mainly supported by the FY26 primary surplus, rather than a structural reduction in borrowing.

Crowding Out Private Sector

- Government borrowing is still putting pressure on private-sector credit, even as direct SBP financing has declined.
- Higher open market operations show that banks remain heavily involved in funding government debt indirectly.
- In effect, borrowing has shifted from direct central bank support to bank-based financing, which can still limit space for private investment.

Central Government Debt

■ Central Govt Total Debt - Rs(tr) ■ Domestic Debt - Rs(tr)



Debt data as reported in print media; final figures are yet to be officially announced.

Early Debt Retirement: A Cash Driven Reprieve – Not a Fix

Pakistan's largest-ever liability management drive is reshaping its debt profile

Rs4.72tr

Total early debt retirement to date— the largest such move in history – via buybacks

Rs2.9tr

Debt repaid ahead of maturity in FY26 alone, up 62% from Rs1.8tr in FY25

3.8 yrs

Average debt maturity in FY26, up from 2.7 years in FY24 – but longer tenors cost

51% / 49%

FFY26 early retirement split: central bank debt vs market debt

A Cash Windfall, Not a Cure

- Retiring has been funded largely by external inflows – bond issuances, IMF tranches, and reserve buildup. – not a durable cut in borrowing needs
- The govt keeps taking on fresh debt even as it retires old debt early - this is cash-flow timing, not deleveraging
- The pace of early retirement depends entirely on cash availability holding up, and could slow sharply if inflows soften

Longer Maturities, Higher Costs

- Average maturities have lengthened from 2.7 years to 3.8 year, cutting roll over risks – but longer tenor debt typically carries higher interest rates, raising the average cost of borrowing
- Sustaining the gains depends on continued primary fiscal discipline and macroeconomic stability – neither guaranteed
- Using cash for early repayment also shrinks the government's liquidity buffer and can crowd out development spending

Buyback Operations Timeline

Oct 2024 → Nov 2024 → Mar 2025 → Jun 2025 → Aug 2025 → Nov 2025 → Dec 2025 → Jan 2026 → Apr 2026 → May 2026 (latest - Rs279bn)

Debt data as reported in print media; final figures are yet to be officially announced.

10 INTERNATIONAL MONETARY FUND

IMF Programme: Third Review Cleared, Fourth Review Ahead

The primary surplus overshoot its goal and reserves beat target, but revenue remains the persistent weak link

3.2%

1H FY26 primary surplus at the time of third review vs a 2.5% IMF target

7/7 & 6/8

Performance criteria met; indicative targets met

~\$1.1bn

Board disbursement released after the May 2026 review

~Dec 2026

Fourth review — FY27 primary surplus target is 2% of GDP

Third Review: Broadly on Track

- The IMF programme anchors macro stability, fiscal consolidation, reserves and structural reform; recovery strengthened in 1H FY26 and reserves beat target
- The Middle East conflict is a new regional risk — higher energy prices and inflation, weaker external demand, tighter global financing
- 5 of 6 structural benchmarks were met (only Sovereign Wealth Fund Act amendments await Cabinet approval) and both prior actions are now cleared, which were: protecting the FY26 surplus and passing fuel prices through in full
- The persistent weak link: FBR tax revenue and retailer tax collection both missed target, leaving 6 of 8 indicative targets met

Fourth Review: What's Required

- No new prior actions this time — the test is compliance with end-June targets (reserves, the primary balance, guarantees, BISP spending, new tax returns) plus continuous criteria: no new SBP financing to government and no external payment arrears.
- The structural agenda is long: an FY27 budget with a 2% of GDP primary surplus, FBR audit reforms, SOE and Companies Act alignment, sugar-market and SEZ liberalisation, and the overdue Sovereign Wealth Fund Act amendments
- Tax collection remains the biggest risk — a December miss could require an IMF waiver or contingency measures, including a mini-budget
- Beyond specific targets, Pakistan must keep rebuilding reserves, hold monetary policy tight, align energy tariffs with costs, and secure continued external financing and bilateral rollovers

Will Pakistan Need Another IMF Programme

Likely yes, unless progress accelerates on exports, investment, reserves and reform. A successor programme could provide financing, support reserves and maintain reform discipline — ideally a smaller, reform-focused one. Pakistan avoids another IMF programme only by building reserves, securing market financing, expanding exports and FDI, resolving energy losses, broadening the tax base and removing investment barriers.