ECD/M&PRD/PR/01/2026-86 November 16, 2026

SBP Releases Annual Report on The State of Pakistan's Economy

State Bank of Pakistan (SBP) released the Annual Report on *the State of Pakistan's Economy* for the fiscal year 2025-26 today. According to the Report, Pakistan's economy demonstrated resilience against domestic and global economic shocks, in an increasingly uncertain geopolitical environment, recording improvements across key macroeconomic indicators in FY26. A prudent monetary policy stance, together with continued fiscal consolidation and economic reforms under the IMF program helped the country successfully safeguard its hard-earned macroeconomic stability. This was achieved despite severe headwinds from shifting US trade tariff policies, monsoon flooding at the start of the year, and the outbreak of the Middle East (ME) conflict in late February 2026.

The Report notes that the real GDP growth increased, with a major impetus coming from a rebound in large-scale manufacturing output which has strong linkages with agriculture and services sectors. The recovery in economic activity translated into a volume-led expansion in imports. However, unfavourable global economic trends constrained exports. Nonetheless, strong growth in workers' remittances contained current account deficit to 0.1 percent of GDP in FY26. Furthermore, significant FX purchases by SBP and a reduction in forward liabilities drove a notable improvement in SBP's FX buffers during FY26. Moreover, sustained official inflows, successful Eurobond and Panda bond issuances, and steady inflows into Roshan Digital Accounts also supported FX reserves, the report added.

The government's continued fiscal consolidation efforts and a substantial drop in interest payments contributed to considerable improvement in fiscal outcomes in FY26. The Report further highlights that the prudent monetary and fiscal policies helped contain average national CPI inflation keeping it close to the upper bound of the medium-term target range of 5.0 – 7.0 percent during FY26. This was despite the impact of the energy price shock resulting from the ME conflict that pushed the year-on-year inflation to double digits from April 2026 onward.

The Report notes that while Pakistan's macroeconomic conditions have improved, deep-rooted structural reforms are needed to put the country on a sustainable high growth path to absorb the expanding working-age population. In this context, the Report includes a special chapter on 'Structural Challenges to Job Creation in Pakistan'. The chapter highlights weak and volatile GDP growth, and slow pace of structural transformation amid signs of premature deindustrialisation as key impediments to job creation. The impact of these factors is compounded by labour market challenges, including low female labour force participation, high youth unemployment and sizeable informal employment. Moreover, the emerging trends – such as Industry 4.0, the green transition, and geoeconomic fragmentation—present further challenges to job creation.

The Report also highlights the importance of addressing structural weaknesses to generate high economic growth on a sustainable basis. Various analytical boxes included in the Report suggest solutions to these structural challenges. These include the need to encourage private sector investment by addressing infrastructure gaps, supporting technology and skills development, rationalizing taxes and simplifying tax administration, reducing economic policy uncertainty by adopting rules-based frameworks for fiscal and regulatory decisions and ensuring long-term macroeconomic stability. Moreover, the rising frequency of climate shocks and extreme weather events warrant adoption of early preparedness measures to mitigate their impact on agriculture output. The Report also suggests that integrating next generation of solar energy strategies into Pakistan's agricultural landscape can balance renewable energy generation with food security and environmental sustainability. These policy efforts are likely to unlock public, private, and foreign

investment, needed to foster long-term economic stability, support job creation, and reduce country's vulnerability to global supply chain disruptions.
While discussing Pakistan's macroeconomic outlook the Report highlights that the country entered FY27 on relatively stronger macroeconomic footing. The sustained improvement in key economic indicators has also prompted upgrade in Pakistan's sovereign credit ratings. Moreover, the gradual recovery in domestic demand is expected to continue and recent fiscal measures are expected to further support the economic momentum. While worsening El Niño conditions threaten the agricultural outlook, latest information indicates increase in output of key kharif crops including sugarcane, rice and maize, compared to last year. The improvement in commodity producing sectors is expected to drive expansion in services sector. Hence, SBP projects real GDP growth to remain in the range of 3.5 – 4.5 percent in FY27.

Economic expansion, tariff rationalisation, and higher global commodity prices are expected to drive import growth while exports are expected to recover moderately, supported by policy incentives and a slight rise in global demand. However, continued momentum in workers' remittances is likely to keep current account deficit in the range of 0 – 1.0 percent of GDP in FY27. Additionally, the mobilisation of US$ 3 billion through Eurobond issuance in September 2026, FX purchases and projected official inflows are expected to support further FX reserve build-up toward four-month import cover. Furthermore, the impact of the global energy price shock is anticipated to exert upward pressure on inflation, which is expected gradually ease towards the medium-term target range of 5.0 - 7.0 percent during FY27.

The complete Report is available at: https://www.sbp.org.pk/our-operations/publications/state-of-pakistans-economy/508/annual-report-2025-2026-state-of-the-economy

*****