



### **SBP releases Half- Year Report FY26 on The State of Pakistan's Economy**

Pakistan's macroeconomic stability strengthened further in H1-FY26, despite headwinds from global trade-related uncertainty and domestic floods, according to the State of Pakistan's Economy, Half Year Report FY26, released today by the State Bank of Pakistan (SBP). The Report also notes that the Middle East War poses significant risks to macroeconomic outlook amid heightened uncertainty, where supply chain disruptions are likely to impact inflation trajectory, external trade and remittance flows, and the economic activity in Pakistan.

The Report highlights that economic indicators improved significantly in H1-FY26. Average National CPI inflation eased further, while SBP's FX purchases and net financial inflows shored up external buffers. These outcomes were supported by prudent monetary and fiscal policies, ongoing structural reforms, favorable commodity prices and IMF program. Specifically, SBP continued a cautious monetary policy stance, maintaining an adequately positive real interest rate on a forward-looking basis, while fiscal balance posted a surplus in H1-FY26. The macroeconomic stability, in turn, facilitated growth momentum.

The real GDP in H1-FY26 grew at twice the pace of the same period last year, mainly driven by pickup in industrial activity, followed by services and agriculture sectors. The momentum in economic activity translated into a volume-driven increase in imports in H1-FY26. At the same time, a significant drop in rice exports led to a decline in export earnings. Nonetheless, steadily rising workers' remittances continued to finance a major part of the deficits in trade, services, and primary income balance, helping to keep the current account deficit at moderate levels.

The Report further notes that continued prudent policy mix, an improved external account position and stability in exchange rate, softened international commodity prices along with downward adjustments in administered electricity tariffs led to a moderation in inflation during H1-FY26. The NCPI inflation averaged 5.2 percent in H1-FY26, about 2 percentage points lower compared to the same period last year. The report also highlights that the substantial reduction in interest payments and fiscal consolidation measures turned the fiscal balance into a surplus in H1-FY26, for the first time since FY02, while the primary surplus remained at last year's level.

The Report highlights that while Pakistan's overall economic conditions improved, the country's transition to a sustainable high-growth path with sustained macroeconomic stability requires deep-rooted economic reforms. These specifically need to address the long-standing issues, including low savings and investment, weak competitiveness, falling exports, subdued foreign direct investment, and the persistently low tax to GDP ratio.

The Report also includes a special chapter titled 'Climate Change and its impact on Pakistan's Economy'. The chapter highlights that while Pakistan's contribution to global greenhouse gas emissions is very low, it is the 15th most affected country by climatic events. Pakistan is also among the countries that face high levels of vulnerability to climate change and low levels of preparedness to deal with the ensuing challenges. This low readiness enhances the risks to country's economy. Furthermore, Pakistan's emissions intensity of GDP is relatively high, reflecting structural inefficiencies and a carbon-intensive growth trajectory. This requires substantial investments in climate mitigation and adaptation, which currently remain largely unmet due to low international climate inflows, and challenges to domestic public and private sector financing.



## External Communications Department

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Discussing the outlook for FY26, the report notes that the latest data on high-frequency indicators, including Purchasing Managers' Index (PMI), LSM and construction, suggests that economic activity maintained the momentum through February 2026, before the war began to weigh on output in the remaining month of FY26. Therefore, SBP projects real GDP growth close to the lower bound of the earlier projected range of 3.75 to 4.75 percent for FY26. Despite momentum in economic activity and higher commodity prices, the current account deficit is now expected to be close to the lower bound of the earlier projected range of 0 to 1 percent of GDP. However, a surge in international oil prices and its impact on other commodity prices are expected to keep the NCPI inflation above the upper bound of the medium-term target range of 5 to 7 percent for most of FY27. The Report also discusses the multifaceted macroeconomic risks to medium-term outlook in case of an extended war in the Middle East.

The complete Report is available at: <https://www.sbp.org.pk/reports/half/arFY26/Half-index-eng-26.htm>

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