Modeling Lab

Innovation &
Technology Centre

LAHORE SCHOOL OF ECONOMICS

State of the Pakistan Economy, Growth, Inflation and Welfare in Pakistan

Financial Year 2025-2026 (Q4)

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State of the Pakistan Economy:
Estimates of annual GDP growth, inflation and welfare, for FY 2025-26 (Quarter 4)

Executive Summary

GDP Growth

The Financial Year 2025-2026 has been dominated by the global energy shock for Pakistan, which imports 0.5 million barrels of oil per day. The past three months have seen oil some $25-30 per barrel above its long-term trend. So, the country's GDP growth, macroeconomic fundamentals, and budget are bound to be energy-shocked.

The Modeling Lab at the Lahore School estimates GDP growth for FY 2025-2026 to come to 3.1% (Table 1).

Table 1: Estimates of Annual GDP Growth for FY 2025-2026

	FY 2024-2025 (est) ($ bn)	FY 2025-2026 (est) ($ bn) (Pre-Conflict)	FY 2025-2026 (est) ($ bn) (Post-Conflict)
GDP Supply plus Demand Shock Y (S+D)	411.00	423.41	422.01
C		303.95	302.80
I		63.83	63.83
G		56.38	56.38
NXn		-0.75	-1
GDP Growth Rate (%)	2.44%	**3.14%**	**2.80%**

**Modeling Lab, Lahore School of Economics, June 2026 (est.)*

Our estimate approximates the World Bank's comparator for GDP growth, 3.0% (Table 2).

Table 2: Comparator Growth Rate Projections FY 2025-2026	
Government of Pakistan (SBP/PBS)	3.70%
International Monetary Fund (IMF)	3.60%
World Bank (WB)	3.00%
Asian Development Bank (ADB)	3.50%

***NB: All comparator growth rates are pre-conflict**

*Source: *GOP: Pakistan Economic Survey (June 2026), IMF WEO (Apr 2026 (P)), World Bank Pak Development Update (Oct 2025), Asian Development Outlook (ADO)(Apr 2026)*

It lowballs GDP growth relative to the GOP's 3.7%. The IMF's GDP growth rate of 3.6% and the ADB's of 3.5% are also higher, but were made much earlier in the energy shock.

Our estimate of GDP growth for FY 2025-26 is 3.1%, a baseline estimate. Pakistan's oil imports amount to approximately $13 billion per year. An elevated oil price for just one quarter will add another $1 billion to this oil import bill. When growth estimates are revised with all data for the last two months in, the energy shock could lower GDP growth by another 0.3 percentage points, to 2.8% (Table 1). This may be a force majeure GDP growth rate, but it warrants telling.

The Current Account

The force majeure can be seen in the Current Account. Far from concerns about the import intensity of high GDP growth, the Current Account is now biting into even the current low GDP growth. Table 3 shows that exports barely average $3.5 billion per month.

Table 4: Demand Shock to the Current Account Balance FY 2024-2025

Million US$	FY 24-25 (R)	Jul 25-26	Aug 25-26	Sep 25-26	Oct 25-26	Nov 25-26	Dec 25-26	Jan 25-26	Feb 24-26	Mar 25-26	Apr 25-26	May 25-26 (P)	Jun 25-26 (P)	FY 25- 26 (P)
Exports-Goods	**32,340**	2,750	2,488	2,609	2,632	2,277	2,758	2,745	2,480	2,527	2,619			
Exports-Services	**8,408**	728	677	807	811	797	946	879	800	911	904			
Primary Income Credit	**999**	95	94	127	91	86	97	91	80	95	87			
Total Exports	**41,747**	**3,573**	**3,259**	**3,543**	**3,534**	**3,160**	**3,801**	**3,715**	**3,360**	**3,533**	**3,610**			
Imports-Goods	**59,111**	5,429	5,020	5,040	5,396	4,730	5,765	5,346	5,165	4,892	5,989			
Imports-Services	**11,053**	1,032	1,126	1,016	1,037	959	1,326	1,148	924	852	871			
Primary Income Debit	**10,099**	971	787	792	999	825	859	789	489	702	744			
Total Imports	**80,263**	**7,432**	**6,933**	**6,848**	**7,432**	**6,514**	**7,950**	**7,283**	**6,578**	**6,446**	**7,604**			
Exports-Imports	**-38,516**	-3859	-3674	-3305	-3898	-3354	-4149	-3568	-3218	-2913	-3994			
Remittances	**40,448**	3,330	3,350	3,421	3,551	3,349	3,877	3,636	3,449	4,047	3,718			
Current Account Balance	**1932**	**-529**	**-324**	**116**	**-347**	**-5**	**-272**	**68**	**231**	**1134**	**-276**	**-276**	**-276**	**-756**
Foreign Exchange Reserves	**12,727.8**	**14,303.0**	**14,319.0**	**14,400.4**	**14,502.9**	**14,574.8**	**15,915.1**	**16,157.2**	**16,300.0**	**16,381.7**	**15,850.7**	**17,147.0**	**17,147.0**	**17,147.0**

SBP June, 2026

While imports approximate $7.0 billion per month, the Current Account goes into a deficit. This is regardless of remittances, which are an exogenous variable and not determined by the Pakistan economy.

The energy shock has hit imports in April, driving them to $7.6 billion, bringing the Current Account into deficit again. This trend is expected to continue through the end of the fiscal year.

The energy shock highlights that the immediate threat to the economy is energy imports. The problem of pricing efficiency has been well recognised in the country debate and highlighted at the annual conferences of the Lahore School. What is being driven home now is the problem of the quantum of energy imports and the need for policy to prioritise substitution. The economy cannot grow without affordable energy.

Sectoral growth

Sectoral growth has picked up. Agricultural growth is approximating 3% after two years of sub-par growth (Table 4).

Table 4: Sectoral Growth Rates

	FY 2023-2024	FY 2024-2025	FY 2025-2026
Agriculture	1.50%	0.60%	2.90% *
Industry	0.07%	-1.90%	4.50% **
LSM	0.07%	-1.90%	6.48% **
Services	0.33%	1.43%	3.70% ***

Source*: *Min Fin (Jan 2026), **PBS (FY 24-25 (P)) ***PBS (FY 24-25)*

This turnaround in agriculture has been through GOP rectifying a policy own goal. GOP had abandoned a 40-year-old policy of a support price floor for agriculture for the past two years. This actually led to a drop in the aggregate value of agricultural crops, underlying the drop in agricultural growth over these two years. A resumption of the wheat support price in 2026 augurs well for agriculture.

A more ambiguous trend has been the pickup in Large-Scale Manufacturing. Large-scale manufacturing had flatlined in FY 2023-2024, then contracted in FY 2024-2025. This secular decline appears to have been succeeded in Quarters 2 and 3 of this FY 2025-2026, with a sudden positive and high growth in Large Scale Manufacturing, finally reaching 6%. The pick up is attributed to the automotive sector. But one swallow does not a summer make.

Growth in services, too, has picked up. After near-flatlining in FY2023-2024 and low growth of 1.4% in FY 2024-2025, services growth is now taken as 3.7%.

Inflation

The global energy shock has hit GDP growth through a surge in the import bill, which in turn has hit inflation. Table 5 shows that we estimate inflation to have picked up from 8% last FY 2024-2025 to 9% this FY 2025-2026.

Table 5: Price Shock - Model Estimated for FY 2025-26

Time Period	Persistently Large Output Gap (% of GDP)	Budget Deficit (obs) (% of GDP)	Impact of Depreciation on Inflation (est) (%)	Impact of ΔCommodity Prices on Inflation (est) (%)	Model Estimated Inflation (%)	GOP Inflation (%)	IMF Inflation (%)
FY 2020-2021	-1.80	5.20	-0.78	9.07	13.49	8.20	8.90
FY 2021-2022	0.00	7.00	3.59	7.70	15.88	11.00	12.15
FY 2022-2023	0.00	5.00	26.26	2.04	33.30	38.0	29.18
FY 2023-2024	0.00	7.5	6.04	5.39	18.9	23.41	23.40
FY 2024-2025	-1.60	6.0	0.00	3.97	8.37	5.50-7.50	5.10
FY 2025-2026	**-0.80**	**6.0**	**-0.71**	**4.60**	**9.10**	**5.70***	**7.20****

*Ministry of Finance Jul-Mar 2026 ***IMF WEO (Apr 2026 (P))*

As a comparator, the IMF estimates inflation for 2026 to be 7.2%. Albeit that estimate was made in April 2026, early in the global energy shock. GOP has a much lower estimate of inflation for FY 2025-2026 at just under 6%.

The basis for our high inflation estimate for FY 2025-2026 is clearly shown in Table 5. The impact of commodity prices at 4.6 percentage points contributes approximately half of the estimated inflation rate of 9%.

Our energy equations unpick the impact of these commodity prices. The year-on-year hit to consumers from June 2025 to June 2026, due to increases in the seven major energy sources, is shown in Table 6.

Table 6: Derivation of Increase in Commodity Prices (unweighted percentage change)
June 2025 to June 2026

	ΔSupplier Price	ΔTaxation	ΔConsumer Price
Petrol	**42.61%**	**95.00%**	**54.32%**
Kerosene	**82.88%**	**201.63%**	**85.86%**
HSD	**109.80%**	**-54.14%**	**53.43%**
Electricity	**-3.47%**	**5.63%**	**24.94%**
Coal	**8.33%**	**0.00%**	**8.33%**
Natural Gas	**104%**	**158.75%**	**126.67%**
Furnace Oil	**32.59%**	**0.00%**	**32.59%**

Note: The price increase for each category is given for the period between t0 and t1, with t0 = June 2025 and t1 = June 2026

The consumer price of petrol increased by 54%, kerosene by 85%, HSD by 53%, electricity by 25%, coal by 8%, and natural gas by 126%.

The weights of this energy mix, shown in Table 7, allow us to estimate a weighted-average price increase for the consumer over FY 2025-2026 of 8.9%, as shown in Table 8.

Table 7: Pakistan's Energy Mix (weights)

Petrol	8.37%
Kerosene	1%
HSD	11%
Electricity	17%
Coal	19%
Natural Gas	33%
Furnace Oil	10.85%
Total Energy Consumption	100.00%

Source: Pakistan Energy Yearbook (HDIP), Government of Pakistan (2021)

Table 8: Energy Equations FY 2025-2026
(Weighted %age change in Consumer Price)

Energy Source: Supplier price + Taxation – Subsidies = Consumer price

	ΔSupplier Price	ΔTaxation	ΔConsumer Price
Petrol	2.77%	1.78%	4.55%
Kerosene	0.79%	0.08%	0.86%
HSD	7.93%	-2.05%	5.88%
Electricity	-0.21%	0.72%	4.24%
Coal	1.58%	0.00%	1.58%
Natural Gas	20.31%	21.49%	41.80%
Furnace Oil	3.54%	0.00%	3.54%
Weighted Average	5.25%	3.15%	8.93%

Share of Tax Change in Increase in Total Consumer Prices (%)	58.80 %
Share of Supplier Price Change in Increase in Total Consumer Prices (%)	35.24 %

This weighted-average increase in energy prices to the consumer, of 8.9%, passes through an energy input coefficient, contributing 4.6% to inflation.

But the consumer appears to have been hit by a double whammy on energy prices. The 8.9% hit to consumers from energy prices is contributed to by just over a third of this increase through a supplier price increase. And just under two-thirds by an increase in GOP's taxation. Making GOP's own contribution to the inflation rate about one-third.

In terms of the longer-run price trend, GOP is to be credited with bringing down double-digit inflation, rampant from around the turn of the decade till FY 2023-2024, as Table 5 shows. GOP has done this by curbing the erstwhile major contributor to this inflationary episode, of depreciation. Major depreciation since FY 2018-2019 appears to have been halted by GOP over the last two years, as Table 5 shows. Given current energy supplier price pressures, this is a considerable feat: first, understanding the devastating macroeconomic impact of depreciation on economic growth and welfare, and then managing the exchange rate.

Poverty

The impact of depreciation on GDP trend growth, through declines in savings and investment, was examined at the annual conference of the Lahore School (Ikram 2026, Chaudry 2026). Here, we will show the impact of the direct link between depreciation and inflation on welfare.

The Modeling Lab at the Lahore School has estimated caloric poverty in Table 9, between the last two HIES surveys for FY 2018-2019, and FY 2024-2025.

Table 9: Caloric Poverty Estimates FY 24-25

Financial Year (FY)	Poverty Line Adjusted to PPP of $ value	Caloric Poverty Headcount (%)
FY 2014-2015	$2.10	**4.04%**
FY 2018-2019	$2.15	**4.47%**
FY 2018-2019	**$3.00**	**16.50%**
FY 2024-2025	**$3.00**	**21.12%**

Data Sources: Household Integrated Economic Surveys (HIES) (2024-2025), (2018-2019), (2014-2015), World Bank (WB) *(25th Sep 2025)*

The table shows that the World Bank's designated norm for extreme caloric poverty, measured in PPP Rupee equivalents, was $3 per adult equivalent, which came to 16.5% for FY 2018-2019. Before this, extreme poverty, under the older norms, had been flat at 4.5% since FY 2014-2015, and before that, falling significantly from FY 2000-2001.

By FY 2024-2025, extreme caloric poverty had reversed its earlier trend, increasing from 16.5% to 21.1%. This reversal of a nearly two-decade decline in extreme poverty, which saw it jump by five percentage points in five years, has to be explained by low GDP growth and high inflation. Ikram (2026) shows a significant drop in trend GDP growth from 4% to 3.2% in 2018.

Inflation also picked up from FY 2018-2019, spurred by two major depreciations: 25% in FY 2018-2019 and 40% in FY 2022-2023.

So GOP is to be credited for first understanding the huge consequences for macro fundamentals of depreciation on inflation, and by implication on poverty, and then managing them.

That said, GOP now needs to pick up its GDP growth game.