Economy of Pakistan: March 2026

(Based on the State Bank of Pakistan's Monthly Statistical Bulletin, April 2026 release)

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Overview

Pakistan's economy moved in two different directions in March 2026. On one hand, the external position strengthened significantly: the current account recorded a $1.07 billion surplus, which the finance ministry's economic adviser described as the second-highest monthly surplus on record, trailing only March 2025 (Khurram Schehzad, cited in Dawn, 2026); foreign exchange reserves surged, and the fiscal deficit narrowed dramatically (State Bank of Pakistan [SBP], 2026). On the other hand, domestic challenges intensified: headline inflation more than doubled year-on-year, export earnings contracted sharply, tax revenues missed IMF targets, and industrial growth proved volatile. External indicators suggest increasing macroeconomic stability, while the economy continues to face persistent internal fiscal and trade pressures.

Monetary & Inflation: Rising Price Pressures

Indicator	Mar-25	Mar-26	Change
CPI Inflation (National)	0.7%	7.3%	+6.6 ppts
CPI Inflation (Urban)	1.2%	7.4%	+6.2 ppts
CPI Inflation (Rural)	0.0%	7.2%	+7.2 ppts

Urban Core Inflation (NFNE)	8.2%	7.4%	-0.8 ppts
Rural Core Inflation (NFNE)	10.2%	8.4%	-1.8 ppts

NFNE = Non-Food and Non-Energy.

The cost of living rose sharply in March 2026. National CPI inflation jumped to 7.3%, up from just 0.7% a year earlier. Urban and rural inflation increased by 6.2 and 7.2 percentage points, respectively, with rural households experiencing the steepest rise. This was driven mainly by surging wheat and wheat flour prices, higher motor fuel costs, and increased electricity charges. However, core inflation (excluding food and energy) moderated for both urban and rural areas, easing to 7.4% (from 8.2%) and 8.4% (from 10.2%), respectively. This suggests that while headline inflation is rising due to food and energy shocks, underlying demand-driven pressures have eased slightly.

External Sector: Resilient Surplus Despite Trade Woes

Indicator	Mar-25	Mar-26	Change
Current Account Balance	+$1,276M	+$1,070M	-$206M
Goods Exports (BOP)	$2,759M	$2,526M	-8.4%
Goods Imports (BOP)	$4,938M	$4,902M	-0.7%
Goods Trade Deficit (BOP)	-$2,179M	-$2,376M	+9.0%
Workers' Remittances	$4,054M	$3,831M	-5.5%
SBP Foreign Exchange Reserves	$11,517M	~$16,400M	+42.4%

According to Profit, a business magazine published by Pakistan Today, Pakistan's current account posted a surplus of $1.07 billion in March 2026, slightly below the $1.27 billion recorded in March 2025 (Profit by Pakistan Today, 2026). This partly reflected lower workers' remittances, which fell to $3.8 billion from a record $4.05 billion a year earlier. Offsetting these positives, merchandise exports contracted by 8.4% year-on-year, while the goods trade deficit widened by 9.0% to $2.38 billion. The widening trade deficit reflects persistently weak export competitiveness.

1. Exports by Selected Groups (Million US$, Customs Basis)

The following breakdowns use customs-recorded trade data, which differs somewhat from the balance-of-payments figures above because BOP adjusts customs records for valuation, timing, and coverage. The two series therefore diverge slightly in level but tell the same directional story.

Commodity Group	Mar-25	Mar-26	Change
A. Food Group	576.2	406.0	-29.5%
B. Textile Group	1,430.0	1,329.0	-7.1%
C. Petroleum Group & Coal	67.9	24.8	-63.5%
D. Other Manufactures	348.5	320.6	-8.0%
E. All Other Items	222.3	195.1	-12.2%
Total Exports	2,644.9	2,275.4	-14.0%

Textiles remain Pakistan's dominant export category, falling from $1.43 billion in March 2025 to

$1.33 billion in March 2026 (-7.1%). Food exports dropped sharply by 29.5%, and petroleum and coal exports fell by 63.5%. This coincided with the disruption to regional energy trade following the outbreak of the war against Iran in late February 2026, which closed the Strait of Hormuz to most commercial traffic and disrupted Pakistan's energy supply chains (Al Jazeera, 2026; Arab News, 2026).

2. Imports by Selected Groups (Million US$, Customs Basis)

Commodity Group	Mar-25	Mar-26	Change
A. Food Group	730.6	669.8	-8.3%
B. Machinery Group	706.3	770.9	+9.1%
C. Transport Group	196.2	243.5	+24.1%
D. Petroleum Group	1,221.7	983.0	-19.5%
E. Textile Group	549.7	441.3	-19.7%
F. Agriculture & Other Chemicals Group	694.3	782.8	+12.7%
G. Metal Group	478.9	414.4	-13.5%
H. Miscellaneous	81.5	87.1	+6.9%
Total Imports	4,659.2	4,392.8	-5.7%

Total customs imports fell from $4.65 billion in March 2025 to $4.39 billion in March 2026, a 5.7% decline. Petroleum imports fell sharply (-19.5%), reflecting disruption to regional oil and gas flows following the outbreak of the war against Iran in late February 2026 (Al Jazeera, 2026), while Machinery and

Transport imports rose (+9.1% and +24.1% respectively), suggesting increased demand for capital goods. Exports fell even more sharply than imports, however, down 14.0% on a customs basis, so the trade deficit actually widened, from $2.01 billion in March 2025 to $2.12 billion in March 2026. This small but real widening, despite lower imports, underscores the persistent weakness in Pakistan's export performance rather than any genuine improvement in the trade balance.

Pakistan's exports depend heavily on imported textile, petroleum, and machinery inputs, so efforts to raise exports tend to raise imports as well. Because of this correlation, currency devaluation, intended to reduce the dollar price of exportable goods, instead raises the cost of imported raw materials used in their production, partially offsetting the intended competitiveness gain.

3. Petroleum Imports: Geopolitical Shocks

The most striking change was in the petroleum group. Imports of petroleum and related products fell by nearly 20%, from $1.22 billion in March 2025 to $0.98 billion in March 2026. Official explanations often cite lower international oil prices, but the timing points to a specific non-price factor: Iran's effective closure of the Strait of Hormuz, a chokepoint for roughly 20% of the world's oil and gas supply and for the large majority of Pakistan's crude and LNG imports, following the outbreak of the war against Iran in late February 2026 (Al Jazeera, 2026; Arab News, 2026). Cargo data cited in this reporting shows Pakistan's LNG shipments falling from around 12 per month in January 2026 to just two in March, with spot cargo prices rising roughly 19% in a month. The drop in petroleum imports therefore looks less like a sign of successful demand management and more like a reflection of external supply disruption.

4. The Import-Export Linkage: Why Exports Cannot Rise Alone

Pakistan's export basket, dominated by textiles (about 60% of total exports), is heavily dependent on imported inputs. Textiles require raw cotton, synthetic fibres, dyes, and machinery, much of which is sourced from abroad. Similarly, refined petroleum products (a small export category) rely on imported crude oil. Machinery and transport equipment imports, which rose by 9.1% and 24.1% respectively in March 2026, are often used as capital goods in export-oriented industries. Any attempt to increase export production therefore tends to raise the import bill for raw materials and intermediate goods, which makes narrowing the trade deficit through export growth alone extremely difficult: higher exports tend to bring higher imports in tandem.

5. The Devaluation Dilemma: A Policy That Backfires

Standard trade theory suggests that a weaker currency makes exports cheaper and imports more expensive, thereby improving the trade balance. Pakistan's experience, however, shows the opposite. Since 2018, the rupee has depreciated from around 140 to nearly 280 per US dollar, yet exports have stagnated in the $25-32 billion range. The reason lies in the import-intensity of production: devaluation raises the domestic cost of every imported input (cotton, chemicals, machinery, fuel) and this cost increase is passed on to export prices, nullifying the intended price advantage. Moreover, many Pakistani exports are low-value-added commodities with inelastic foreign demand, so the price reduction does not generate enough extra volume to compensate for the lower unit value. This is, in effect, a failure of the Marshall-Lerner condition, which holds that devaluation improves the trade balance only if the combined price elasticities of export and import demand exceed one; Pakistan's import-dependent, low-elasticity export structure falls short of this threshold. In Pakistan's recent experience, devaluation has become a largely self-defeating tool: it raises production costs without giving a lasting boost to export competitiveness. Breaking this cycle requires shifting toward higher domestic value addition and developing local substitutes for key imported inputs.

Real Economy: Uneven Industrial Growth

Indicator	Mar-25	Mar-26	Change
LSM YoY Growth	13.6%	11.1%	-2.5 ppts
LSM QIM (Index)	112.42	124.89	+11.1%
Auto Production (8MFY26)	-	+61.7%	-
Sugar Output (8MFY26)	-	+13.6%	-

Large-scale manufacturing (LSM) grew by 11.1% in March 2026, down from 13.6% in March 2025, though the Quantum Index of Manufacturing (QIM) rose to 124.89 from 112.42. Monthly output contracted 5.2% from February, signalling volatility. Key drivers of manufacturing growth included the automobile sector (up over 61% during July-February) and sugar, which rose 13.6% cumulatively over July-February and spiked 29% in February alone, alongside petroleum products; cement also saw an 8.3% annual increase in February. Sectors under pressure included iron and steel (down 9.9% in February), fertilisers, pharmaceuticals, and chemicals. The textile sector remained subdued, with only marginal gains in cotton yarn and garments, indicating ongoing weakness in export-oriented manufacturing. Quarterly GDP data for Q2 FY26 showed the economy growing by 3.89%, an improvement from 3.09% in FY25, with services expanding 3.69%, manufacturing up 6.1%, and agriculture up 2%.

Fiscal Sector: Narrower Deficit but Tax Revenue Shortfall

Indicator	Jul-Jan FY25	Jul-Jan FY26	Change
Fiscal Deficit	Rs 2,071B	Rs 65B	-96.9%
Primary Surplus (% of GDP)	3.1%	3.2%	+0.1 ppts
FBR Tax Collection (Jul-Mar)	Rs 8,453B	Rs 9,306B	+10.1%
Development Expenditure	-	+13.0%	-

Fiscal consolidation made remarkable progress: the fiscal deficit shrank from Rs 2,071 billion during July-January FY25 to just Rs 65 billion in the same period of FY26, a reduction of nearly 97%. This was achieved through a 9.3% rise in federal revenues and a 10.7% reduction in total federal expenditure, primarily due to a 24.6% decline in mark-up payments on debt. This fiscal discipline yielded a primary surplus of 3.2% of GDP, above the IMF's target and up slightly from 3.1% a year earlier. Development spending also increased by 13.0%, indicating growth-oriented investment. Tax collection challenges intensified, however: despite a 10.1% rise in FBR revenues to Rs 9,306 billion during July-March FY26, this fell Rs 610 billion short of the IMF's target, with the shortfall widening by Rs 182 billion in March alone. FBR officials attributed part of this widening specifically to a stall in import-related tax collection, which had been growing at around 18%

through February but showed zero growth in March, a decline of roughly Rs 64 billion linked to reduced imports amid the geopolitical tensions following the war against Iran (The News, 2026).

Monetary Aggregates & Money Creation

Indicator	Mar-25	Mar-26	Change
Broad Money (M2)	Rs 38,076B	Rs 43,247B	+13.6%
Reserve Money (M0)	Rs 12,670B	Rs 14,215B	+12.2%
Currency in Circulation	Rs 10,261B	Rs 11,928B	+16.2%
M2 minus Currency in Circulation	Rs 27,815B	Rs 31,319B	+12.6%
Bank-Created Money as % of M2	73.0%	72.4%	-0.6 ppts

Broad money supply (M2) expanded by 13.6% to Rs 43.25 trillion, while the monetary base (M0) grew by 12.2%. Physical currency in circulation grew faster than broad money (16.2%), suggesting an increased preference for cash. The banking system created Rs 31.32 trillion in "inside money" (M2 minus currency in circulation), representing 72.4% of the total money supply, slightly down from 73.0% a year earlier. This confirms that commercial bank lending remains the dominant source of money creation in Pakistan.

Final Assessment

Pakistan's economy in March 2026 is more stable externally than it was a year earlier, thanks to a large current account surplus, soaring reserves, and a narrowing fiscal deficit. Yet this stability has not alleviated the deep-rooted problems of low export competitiveness, high import dependence, and volatile industrial growth. The government has succeeded in stabilising the external account, but turning that stability into sustained, inclusive growth will require confronting the structural trap that has long constrained Pakistan's economic potential. Until Pakistan reduces its dependence on imported inputs for export production, the economy will remain vulnerable to external shocks, and devaluation will continue to promise more than it delivers.

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