ARIF HABIB LIMITED

Pakistan’s Economic Outlook

A Cautious Reacceleration

An upgraded and reforming Pakistan enters FY27 on firmer ground, just as stronger demand, higher oil prices and rising imports put its newfound stability to the test.

Sana Tawfik

sana.tawfik@arifhabibltd.com

REP – 300

29-Aug-2026

EUROMONEY

Best Broker: ’25
Best Bank for Research:’25
Best Investment Bank for M&A: ’25
Best for Research: ‘24
Best for Diversity & Inclusion: ‘24
Best Investment Bank: ’23

CFA Society Pakistan

Best Corporate Finance House: ‘25, ’23-‘13
Best Brokerage House: ’23 – ’21
Best Brokerage House (Runner-up): ’25–‘24
Best Economic Research House: ’23–‘21
Best Economic Research House (Runner-up): ’25–‘24

FinanceAsia

Best Broker:’26
Best Equity Capital Market House:’26
Best Investment Bank:’26

Asian Awards Triple A

Best Gender Equality Bond: ‘24
Best Equity Advisor: ‘21

ASIAMONEY

Best Securities House: ‘23
Best Investment Bank: ‘23

INTERNATIONAL FINANCE

Best Brokerage House: 2023

PSX Pakistan Stock Exchange Limited

Top 25 Companies (‘17-’19)

Central Depository Company

Excellence Award Leading Brokerage House for RDA ’21

PAKISTAN ECONOMY

A cautious reacceleration

Numbers that define FY27

Pakistan enters the new fiscal year with its macroeconomic house looking broadly in order: twin deficits have narrowed, the rupee has remained stable, inflationary pressures are contained, reserves have been rebuilt, and major rating agencies have turned more constructive. The question now is whether that hard-won stability can hold as domestic demand strengthens, the energy import bill rises, and a Middle East conflict continues to complicate the external backdrop.

Momentum meets reality

Pakistan's economic story is starting to look… interesting. **Four storylines define the year ahead.**

First, growth is finding more than one engine. Agriculture is rebounding from a flood-affected FY26, large-scale manufacturing is operating at a four-year high, while services are gaining further support from a resurgent IT export sector. Together, these trends point to a broader-based expansion, with activity gaining traction across the economy rather than being concentrated in a single pocket.

Second, the numbers on the balance sheet are becoming increasingly encouraging. Pakistan's current account closed FY26 with only a modest 0.07% of GDP deficit, while the rupee maintained a broadly stable trajectory. SBP reserves reached USD 17bn as of Aug'26, strengthening the country's external buffer just as domestic activity begins to generate greater demand for imports. On the fiscal side, the deficit has been cut by more than half since FY25, public debt-to-GDP has fallen to a multi-year low of 68.3%, and the Ministry of Finance retired a record PKR 2.9trn of debt ahead of maturity in FY26. The direction of travel is hard to ignore.

Third, Pakistan is getting a warmer reception from global markets. Moody's, S&P and Fitch now all carry stable-or-improving views on the country, while Pakistan's return to international bond markets in FY26 marks another step toward rebuilding its presence in global capital markets. The shift matters not only for financing, but also for how investors perceive the durability of the country's economic adjustment.

Then comes the more complicated part: inflation. We expect CPI inflation to average 8.22% in FY27, up from 7.05% in FY26, as food and transportation costs come under renewed pressure. International oil prices are an important swing factor, with crude assumed near USD 80/bbl amid elevated Middle East-related pricing. The result is likely to be a temporary interruption in the disinflation story, before inflation eases more sharply to 5.54% in FY28, in our view.

And there is a familiar economic trade-off quietly emerging beneath the headline numbers. When growth accelerates, imports follow. With stronger domestic demand and oil prices around USD 80/bbl, we expect the current account deficit to widen to around 0.8% of GDP in FY27. That is still a manageable level, but it underscores the delicate balance between faster growth and external stability.

This makes FY27 a particularly interesting year for Pakistan. The economy has more room to grow—but the quality and durability of that growth will matter just as much as the headline number. With the Sep'26 IMF review approaching, policy credibility, fiscal discipline and reform momentum will remain closely watched.

3.8%
FY27E GDP GROWTH

8.22%
FY27E AVG. INFLATION

11%
FY27E POLICY RATE (PERIOD END)

279.2
FY27E AVG. PKR/USD

-0.8%
FY27E C/A DEFICIT, %GDP

-3.9%
FY27E FISCAL DEFICIT, %GDP

2.0%
FY27E Primary surplus as % of GDP

USD 20.5bn
FY27E SBP RESERVES

What could move the needle

SWING FACTOR	WHY IT MATTERS
Oil price path	Every leg above/below our USD 80/bbl base case reprices the import bill, the CAD and the inflation trajectory together.
Hormuz & Gulf conflict	Directly touches remittance corridors, freight costs and Pakistan's ~90% Gulf-sourced oil supply.
Sept'26 IMF review	Fourth EFF / third RSF review tests QPC compliance and unlocks the next tranche.
FBR collection	FY26 target was missed by PKR 1.1trn (from initial target of PKR 14.1 trn); a repeat would squeeze the FY27 fiscal math.
Exchange-rate flexibility	A structural benchmark under IMF, deeper FX markets change the CAD-financing calculus.

PAKISTAN ECONOMY

ARIF HABIB LIMITED

Growth and Output

Back on its feet: growth broadens beyond the base effect

We expect GDP growth to edge up to 3.84% in FY27e, from 3.70% in FY26, reflecting a gradual broadening of activity across agriculture, industry and services. Growth should gather further pace in FY28f, reaching 4.3%, as easing inflation and lower interest rates provide greater support to domestic demand.

Agriculture — recovery from the floods

Agriculture, the backbone of the economy, is expected to grow 3.3% in FY27e, rebounding from just 2.9% in FY26 as residual flood impacts fade. The near-term picture remains mixed, with wheat the key concern: the government's 2025-26 Rabi target of 29.68mn tonnes compares with the initial 27.48mn-tonne estimate, implying a potential 2.2mn-tonne shortfall, while lagging procurement in key producing regions has tightened supplies and pushed up wholesale and retail prices. Beyond cotton and rice declined by 4.0% and 3.1%, respectively, in FY26, while maize and sugarcane production increased by 2.0% and 0.6%. We expect crop output to grow 2.6% in FY27e, with livestock remaining resilient at 3.8%, while forestry and fishing are projected to expand by 2.0% and 1.5%, respectively.

Industry — manufacturing does the heavy lifting

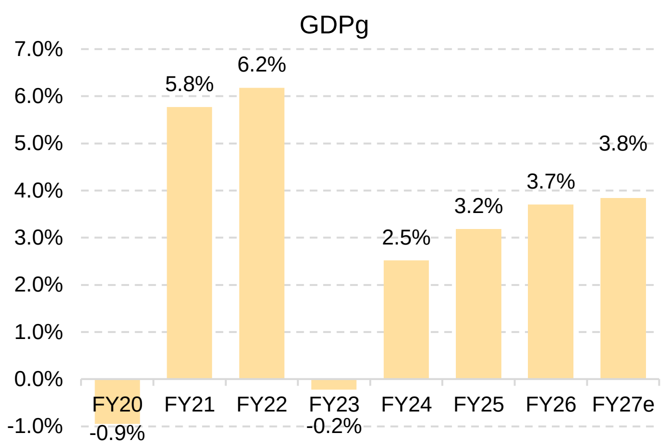
Industry is set to lead the growth cycle, with output projected to expand 5.0% in FY27f, supported by a continued recovery in large-scale manufacturing (LSM), which we expect to grow by 5.7%, versus 6.1% in FY26, as domestic activity strengthens. FY26 already provided a strong signal: LSM expanded 6.1%, its best performance in four years. We expect this momentum to extend into FY27 as monetary conditions ease and borrowing costs become more supportive of investment and construction activity. Rate cuts, alongside any reduction in overall cost of doing business, could provide an additional boost to LSM, construction and broader industrial activity.

Services — IT and trade carry the load

Services, which account for roughly 58% of GDP, are expected to grow a steady 3.7% in FY27f, with information & communication remaining the standout performer at a projected 7% growth. The sector continues to benefit from Pakistan's expanding digital economy, with technology exports reaching a record USD 4.6bn in FY26, up 21% YoY, and expected to set another high of USD 4.8–4.9bn in FY27 as demand for IT and digital services remains strong. Meanwhile, wholesale and retail trade is projected to grow 4.1%, supported by a gradual recovery in imports and stronger domestic activity.

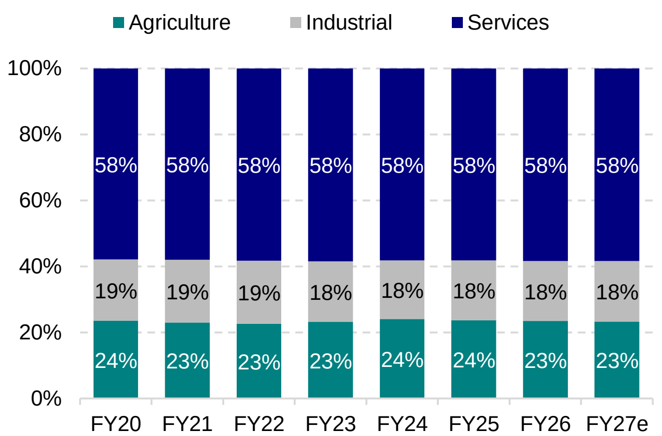
"The economy has moved from managing a recovery to now growth, a far more comfortable, if still delicate, place to be."

Exhibit: Trend and Forecast of GDP Growth



Source (s): PBS, AHL Research

Exhibit: Sectoral Breakdown of GDP



Source (s): PBS, AHL Research

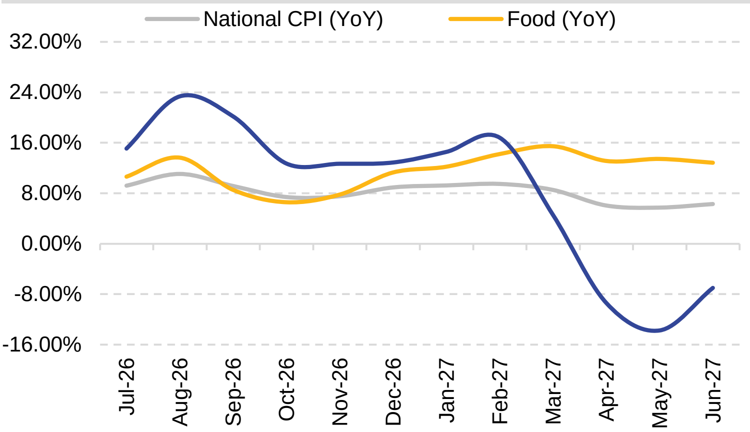
PAKISTAN ECONOMY

Prices and Inflation

A story of diverging signals

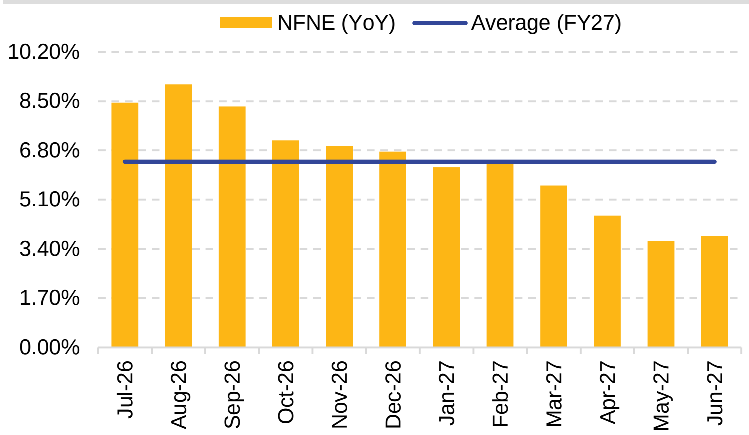
Headline CPI has slipped back into double digits (temporarily), yet the underlying price-setting environment is becoming steadily more contained. That tension, a higher headline number against a quieter core trend, is what will define the inflation conversation through FY27.

Exhibit: Month Wise Forecast of Inflation (FY27)



Source (s): PBS, AHL Research

Exhibit: Month Wise Forecast of NFNE (FY27)



Source (s): PBS, AHL Research

Headline Inflation: Elevated Before Easing

Pakistan's inflation outlook is increasingly defined by a divergence between headline and underlying price pressures. We expect national CPI to average 8.22% in FY27, up from 7.05% in FY26, as higher energy costs and persistent food pressures keep headline inflation elevated through 1HFY27. On a YoY basis, CPI is projected to rise from 9.20% in Jul'26 to around 9.48% in Feb'27, before easing to 6.08% by Apr'27 and reaching a trough of 5.01% in Aug'27 as supply pressures fade and base effects turn favourable. Oil remains the biggest swing factor, with our USD 80/bbl FY27 assumption implying a gradual normalization from conflict-driven levels. A faster de-escalation in the US-Iran conflict could accelerate disinflation, while prolonged disruption around the Strait of Hormuz could keep fuel, freight and food distribution costs elevated. For now, however, the broadly stable rupee and stronger external buffers should help limit the pass-through from global energy prices.

Core Inflation: The More Encouraging Signal

Core inflation is telling a more constructive story beneath the elevated headline print. We expect average NFNE inflation to moderate at 6.4% in FY27, with core inflation falling below 5% from Apr'27 onward, even as headline inflation remains elevated.

The lagged impact of the SBP's earlier tightening cycle should continue to weigh on domestic demand and pricing power, particularly across services and discretionary consumption, while fiscal consolidation and a broadly stable exchange rate should limit second-round effects. Food inflation should also moderate as wheat availability improves through imports and the arrival of the fresh domestic crop in 2HFY27.

> **Our core view is one of temporary repricing followed by normalization. The speed of that normalization depends heavily on the geopolitical backdrop.**

8.2% FY27e, Headline CPI	**5.6%** FY28f, Headline CPI	**6.41** CORE NFNE, FY27e

Oil is the single biggest swing factor here: a faster price retreat would accelerate disinflation, while a prolonged Gulf conflict could delay it via higher fuel and freight costs.

PAKISTAN ECONOMY

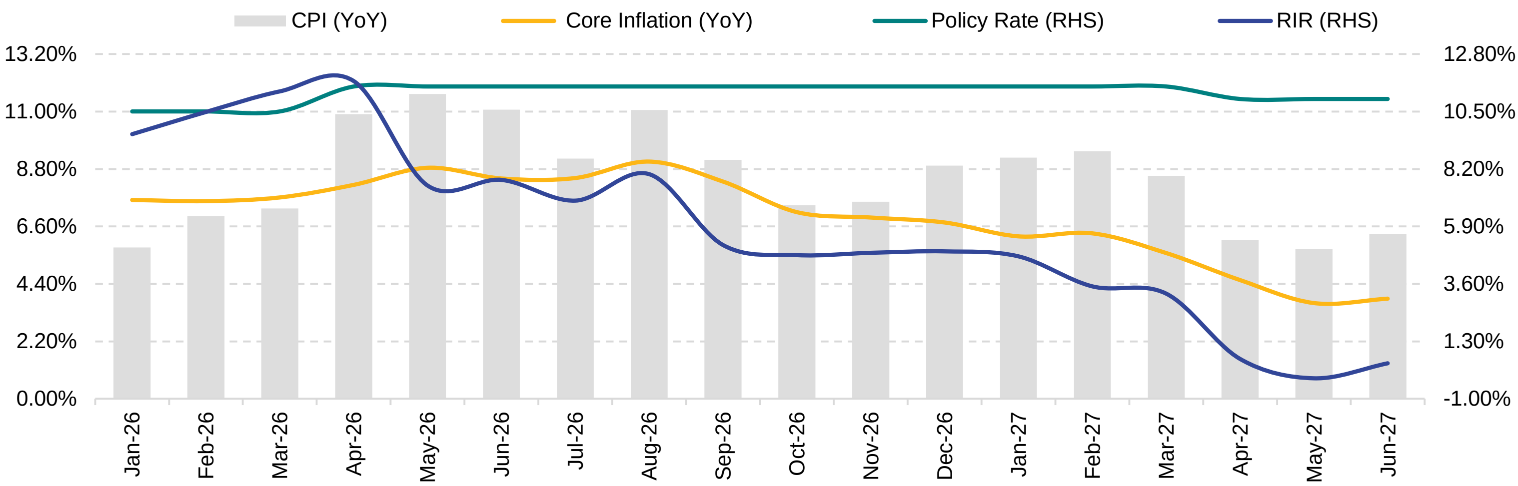
ARIF HABIB LIMITED

Monetary Policy

The pause before the next cut

The SBP has kept its policy rate at 11.5% since May'26, maintaining a cautious stance amid Middle East-driven inflation risks. If geopolitical tensions ease and commodity prices stabilize, we expect room for a modest 50bps cut toward the end of FY27, followed by potentially deeper easing in FY28 as inflation settles within SBP's 5-7% target and domestic conditions improve.

Exhibit: Trend and Forecast of CPI, NFNE, Policy Rate and RIR



Source (s): PBS, AHL Research

Monetary policy can gradually shift from restraint to support

The policy rate ended FY26 at 11.5%, following a substantial easing cycle from the previous peak of 22%. Going into FY27, however, the room for further easing is likely to remain constrained initially as headline inflation moves higher on the back of energy and food pressures. The key distinction is that we view this increase as largely cost-push, while underlying inflationary pressures are expected to remain relatively contained. This should allow monetary policy to become progressively more supportive as the inflation trajectory turns.

Our projected policy rate path of 11% in FY27 and 8% in FY28 is highly conditional on inflation returning comfortably within the SBP's 5–7% target range. In our base case, inflation is expected to move toward around 6% during FY28, supported by an assumed average international oil price of USD 70/bbl, favorable base effects, easing food-price pressures and limited exchange-rate pass-through. Under this scenario, the decline in inflation would provide the SBP with sufficient room to continue normalizing the policy rate without compromising its price-stability mandate. We therefore see the policy rate reaching around 8% by FY28 ***only if these disinflationary assumptions broadly materialize***.

The near-term path is likely to be considerably more cautious. We expect inflation to average 8.22% in FY27, with headline CPI remaining elevated during the first part of the year before easing as the energy shock fades and favourable base effects begin to work through. The SBP is therefore likely to remain sensitive to the persistence of headline inflation, particularly given the potential for higher oil prices to feed into transportation and other costs. Any sustained deviation of inflation from the target range would naturally reduce the space for monetary easing and could result in a higher-for-longer rate path than our base case. Our FY28 rate outlook is consequently not a straight-line easing assumption. It rests on several conditions moving in the right direction simultaneously: international oil prices normalizing toward USD 70/bbl, food inflation easing as supply conditions improve, the PKR remaining broadly stable, inflation expectations staying anchored and core inflation continuing its downward trajectory. A weaker currency or renewed commodity shock could quickly alter this equation by increasing imported inflation and narrowing the SBP's room to cut rates.

PAKISTAN ECONOMY

ARIF HABIB LIMITED

External Account

Growth Is Back—and So Are Imports

Pakistan's external account closed FY26 broadly in balance, with the current account moving from a surplus a year earlier to a modest USD 304mn deficit, equivalent to just 0.07% of GDP, as firmer domestic activity lifted import demand while higher energy costs added to the import bill. Looking ahead, we expect the current account deficit to widen to around 0.8% of GDP in FY27e, as stronger domestic demand drives a faster increase in imports than the gradual recovery in exports.

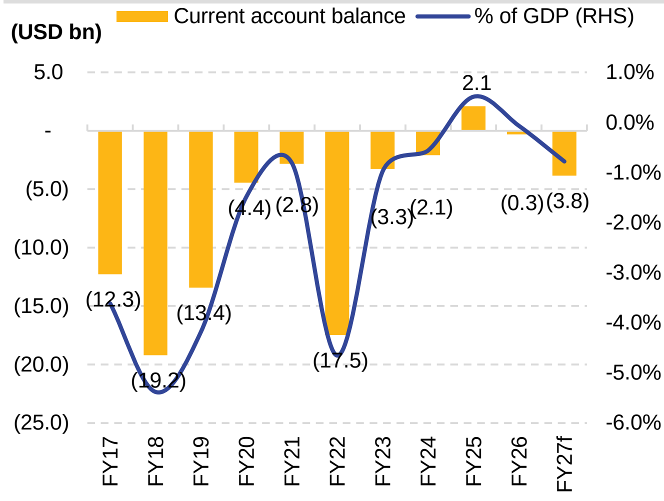
Trade Gap Widens as Growth Picks Up

Pakistan's external story is shifting from near-balance toward a more import-led phase of growth. The current account closed FY26 with a modest USD 304mn deficit, or 0.07% of GDP, versus a USD 2.1bn surplus a year earlier, as firmer domestic demand lifted imports while renewed Middle East tensions pushed up the energy bill. Still, resilient remittances and a modest export recovery provided an important cushion, keeping the external position broadly manageable.

Looking ahead, we expect the current account deficit to widen to around 0.8% of GDP in FY27e, as stronger domestic activity drives imports ahead of exports. Assuming oil prices move toward ~USD 80/bbl, we forecast goods imports to rise 7% YoY, versus a more modest 1.7% increase in goods exports. Remittances remain the external sector's strongest anchor, with inflows reaching USD 41.6bn in FY26, up 8.6% YoY from USD 38.3bn in FY25, supported by strong overseas manpower flows, a narrowing formal-informal exchange-rate gap and government initiatives encouraging digital and formal channels. We expect remittances to rise further to USD 43.8bn in FY27e, providing a meaningful cushion against the widening trade deficit. Meanwhile, total exports stood at around USD 40.8bn in FY26, led by textiles at USD 17.6bn, food at USD 4.7bn and other manufactured goods at USD 4.1bn.

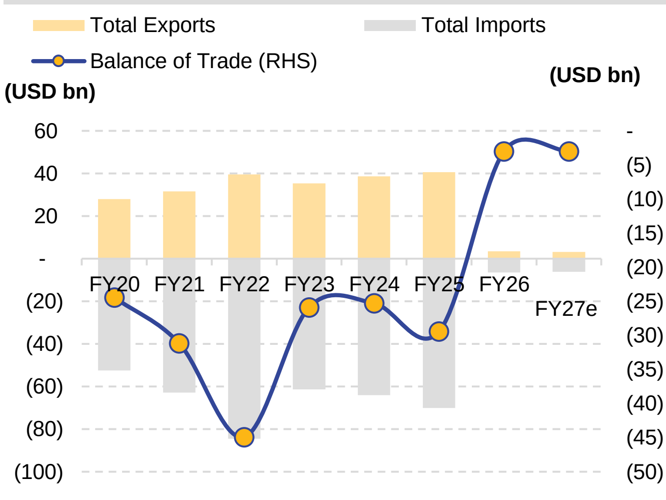
We forecast exports to increase modestly to USD 31.3bn (+1.7% YoY) in FY27e, with food exports driving growth while textiles remain broadly stable. Technology exports offer a brighter spot: they reached a record USD 4.6bn in FY26, up 21% YoY, and we expect another high of around USD 4.8–4.9bn in FY27e as Pakistan's digital export base continues to expand. The broader picture remains one of rising import demand cushioned by resilient remittances, while traditional exports are yet to match the pace of the domestic expansion.

Exhibit: Trend of Current Account Balance and CAB as % of GDP



Source (s): SBP, AHL Research

Exhibit: Trade numbers historical and projected



Source (s): SBP, AHL Research

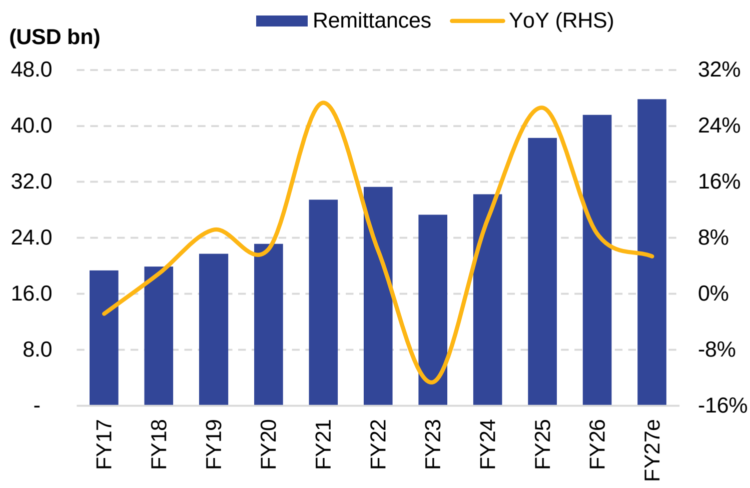
PAKISTAN ECONOMY

Remittances

The Diaspora Dividend

If one line item explains why Pakistan's external account hasn't cracked despite a wider trade gap, it's this one. Workers' remittances hit an all-time high of USD 41.6bn in FY26, up 8.6% on FY25's USD 39.3bn — Pakistan's highest-ever annual inflow, and the single most important source of external-sector support.

Exhibit: Month Wise Forecast of Inflation (FY27)



Source (s): SBP, AHL Research

What's driving the record run

- **Formalisation:** a narrowing gap between formal and informal (hawala/hundi) exchange rates has redirected flows toward official banking channels.
- **Manpower exports:** years of strong overseas labor deployment continue to compound into a larger diaspora earnings base.
- **Digital onboarding:** targeted government and SBP incentives, including improved digital channels, have made formal transfers easier and cheaper.

We expect remittances to rise to around USD 43.8bn in FY27e, broadly in line with the SBP's USD 44bn target. The outlook remains constructive, although the pace of growth will depend on the resilience of Gulf labor markets amid any further regional escalation and the durability of recent gains in formal remittance channels following policy incentives.

$829.7m
SAUDI ARABIA, JUN'26 (LARGEST SOURCE)

$792.2m
UAE, JUN'26

$514.9m
UNITED KINGDOM, JUN'26

$296.4m
UNITED STATES, JUN'26

Bigger than the deficit: at USD 41.6bn, FY26 remittances were nearly 4x the size of the full-year trade-in-goods deficit itself — the clearest illustration of why the diaspora, not exports, remains Pakistan's primary external-sector shock absorber.

A three-year run: the growth trajectory as "phenomenal" — remittances rose 10.7% in FY24 and a further 26.6% in FY25, before the FY26 pace moderated to 8.6% off an already much larger base.

Currency and Reserves

The Rupee's Quiet Stability, and What Could End It

The rupee had a remarkably uneventful FY26 — which, for Pakistan, is itself the headline. It averaged PKR 280.4/USD for the year, a marginal 0.38% appreciation on FY25's PKR 279.37, as remittance strength and reserve accumulation did the work that used to require emergency financing.

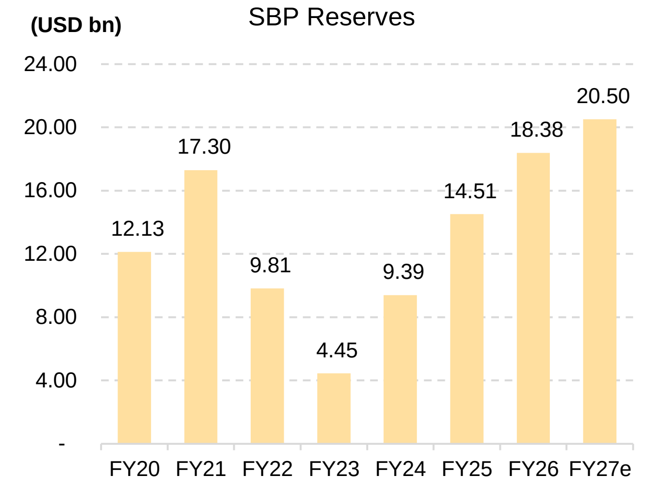
What kept the PKR steady?

The Pakistani rupee maintained a largely stable trajectory against the US dollar throughout FY26. The currency averaged around PKR 280.4 against the greenback during the year, compared with PKR 279.37 in FY25, translating into a marginal 0.38% appreciation. A combination of stronger external inflows and prudent macroeconomic management provided the foundation for this stability. Robust workers' remittances helped support the supply of foreign currency, while a disciplined monetary policy stance contributed to containing pressure on the exchange rate. At the same time, the accumulation of foreign exchange reserves strengthened the country's external buffers and improved market confidence. The resumption of the IMF programme further reinforced these gains by providing a credible policy anchor and helping stabilise expectations in the foreign exchange market.

Does FY27 look any different?

As economic activity gains momentum, stronger import demand is likely to place renewed pressure on the current account and, in turn, the rupee. We expect the currency to average around PKR 278.8/USD in FY27e, reflecting a gradual and orderly adjustment rather than a sharp correction, broadly consistent with the IMF's emphasis on greater exchange-rate flexibility and deeper FX markets under the programme. The key risks remain a larger-than-expected current account deficit, weaker-than-anticipated external inflows and elevated debt-servicing requirements, any of which could intensify pressure on the currency. Under our base case, we expect the rupee to end FY27e at PKR 280.9/USD, implying a slight 1.0% depreciation against the US dollar.

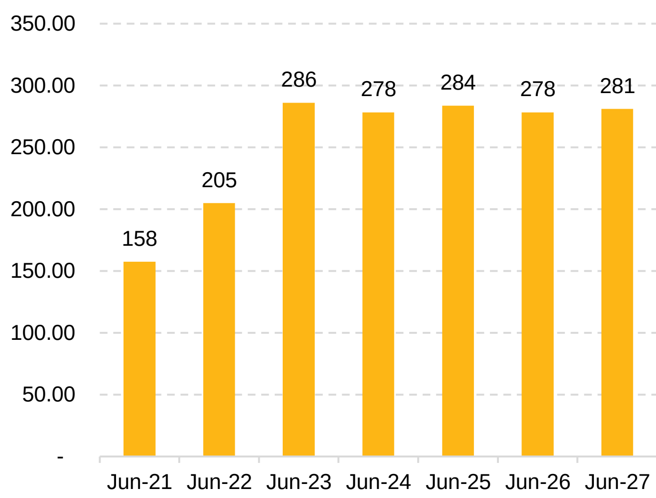
Exhibit: Trend and Forecast of SBP Reserves (Period End)



Source (s): SBP, AHL Research

Reserves would be even higher were it not for forward-liability settlements: the SBP retired roughly USD 4.8bn of forward FX obligations over the past three years, bringing the outstanding stock down to just USD 902mn by early July 2026, from USD 5.8bn three years earlier — a deliberate trade-off between headline reserves and a cleaner balance sheet.

Exhibit: Trend PKR/USD (Period End)



Source (s): SBP, AHL Research

PAKISTAN ECONOMY

Fiscal Policy

Fiscal Recalibration: Tighter Belt, Firmer Footing

Pakistan enters FY27 with a materially stronger fiscal base, but the pace of consolidation is likely to moderate. We expect the fiscal deficit to widen to 3.9% of GDP in FY27f, from 2.6% in FY26, as expenditure normalizes and mark-up costs rise, while the primary surplus remains positive at 2.0% of GDP.

Fiscal: Consolidation Enters Its Next Phase

FY26's fiscal adjustment was stronger than expected, with the budget deficit narrowing to PKR 3.3trn, or 2.6% of GDP, while the primary surplus reached PKR 3.6trn, or 2.9% of GDP. We expect some reversal in FY27f as expenditure normalizes and mark-up payments rise, taking the fiscal deficit to PKR 5.6trn, or 3.9% of GDP. Importantly, the primary balance should remain positive at around PKR 2.9trn, or 2.0% of GDP, keeping the broader consolidation story intact. The fiscal challenge for FY27 is therefore less about maintaining a surplus and more about balancing discipline with the spending needed to support a stronger, more sustainable growth cycle.

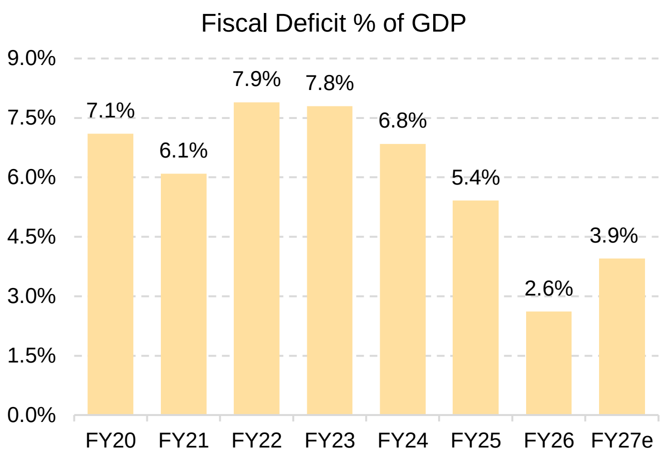
Revenue: A Broader Tax Base Does the Lifting

Revenue momentum strengthened in FY26, with gross receipts rising to PKR 18.2trn from PKR 16.8trn, driven by FBR collections of PKR 13.0trn, while non-tax revenue reached PKR 5.2trn. Net revenue after the provincial share stood at PKR 10.5trn. We expect gross receipts to rise further to PKR 18.8trn in FY27f, with FBR revenue reaching PKR 14.1trn, partly offset by lower non-tax revenue of PKR 4.7trn (SBP profit PKR 2.4trn in FY26 vs. PKR 1.9trn in FY27). Continued tax-base broadening, digitization and administrative reforms should support collection.

Expenditure: Interest Costs Return to the Spotlight

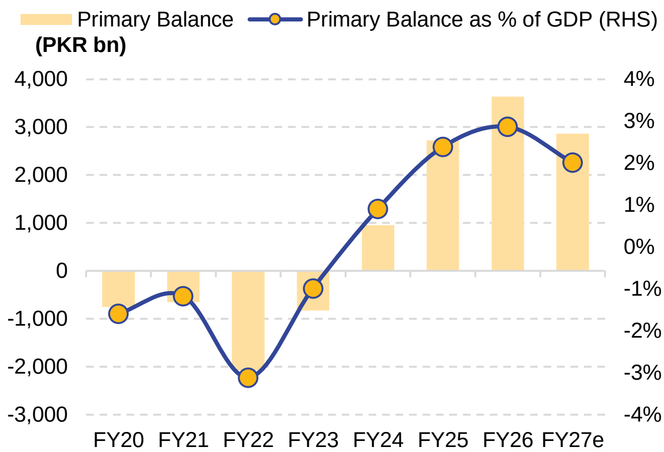
The expenditure side delivered much of FY26's fiscal improvement. Total expenditure fell to PKR 15.3trn from PKR 17.0trn, while current spending declined to PKR 14.6trn. Mark-up payments were the biggest contributor, falling to PKR 6.9trn from PKR 8.9trn as lower interest rates reduced financing costs. Development spending remained constrained at PKR 1.1trn, including PKR 918bn in federal PSDP. For FY27f, we expect expenditure to rise to PKR 17.8trn, with current spending at PKR 16.5trn and mark-up payments rebounding to PKR 8.5trn in FY27.

Exhibit: Trend and Forecast of Fiscal Deficit as % of GDP



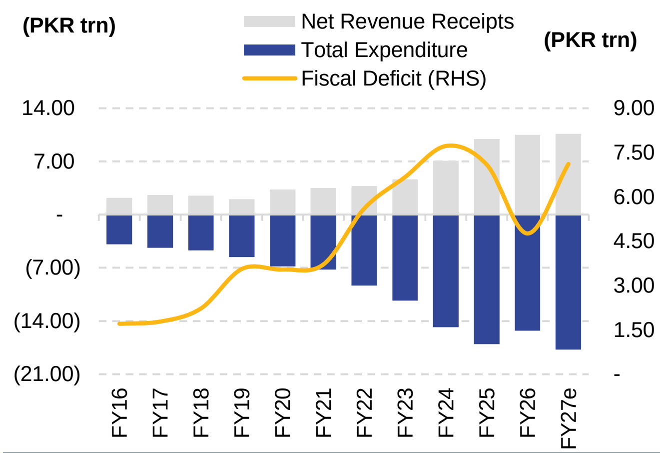
Source (s): MOF, AHL Research

Exhibit: Trend and Forecast of Primary Balance



Source (s): MOF, AHL Research

Exhibit: Trend of Net Revenue, Total Expenditure and Fiscal Deficit



Source (s): MOF, AHL Research

PAKISTAN ECONOMY

ARIF HABIB LIMITED

Pakistan's debt position

Deleveraging, Deliberately

Pakistan's debt metrics strengthened in FY26, supported by slower debt growth, lower interest costs, and record early debt retirement, while FY27 is expected to benefit from lower external debt servicing and reduced rollover pressures. However, rising mark-up payments and revenue risks could constrain fiscal space.

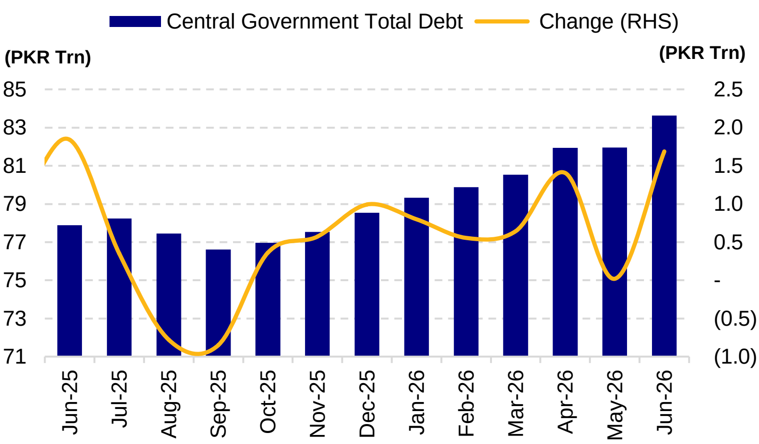
The good news: leverage is falling

Pakistan's debt metrics improved meaningfully in FY26, with the debt-to-GDP ratio declining to 68.3% from 70.2% in FY25, as nominal GDP growth of 11% outpaced debt growth of around 7.7%. Government figures suggest this was the slowest pace of debt accumulation in two decades, marking a shift from rapid build-up toward greater containment. Debt servicing also improved, with annual interest expenditure falling from PKR 8.9trn to PKR 6.9trn, while interest payments as a share of government revenue declined sharply from 61% in FY24 to 35% in FY26.

…however, servicing got higher in FY27

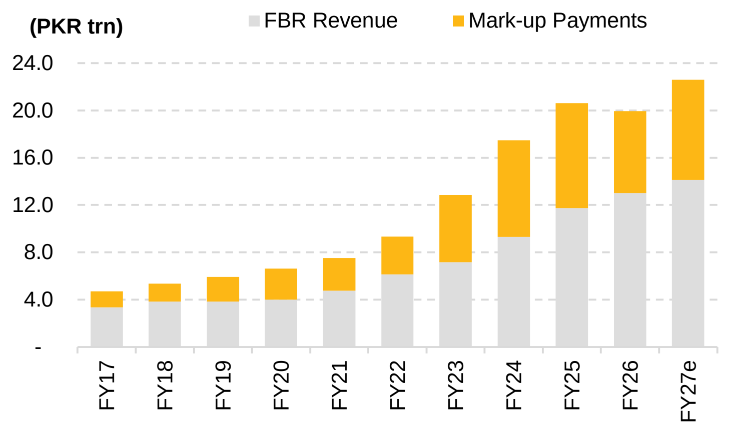
However, the picture could become more challenging in FY27: higher interest rates and increased fiscal borrowing are expected to push mark-up payments to around PKR 8.5trn (6.0% of GDP), up 22% YoY from PKR 6.9trn in FY26. Any shortfall in FBR revenue would further tighten fiscal space and make meeting the higher debt-servicing burden more challenging.

Exhibit: Trend of Central Government Debt



Source (s): SBP, AHL Research

Exhibit: Trend and Forecast of Primary Balance



Source (s): MOF, AHL Research

FY27 external financing plan: how the reserve build gets funded

$21.5bn
EXTERNAL DEBT SERVICING, FY27E

$6.1bn
ALREADY REPAID IN JUL'26

$7.3bn
FURTHER EXPECTED ROLLOVERS

$3.5bn
EXPECTED TO BE REFINANCED

Source: SBP, AHL Research

The Ministry of Finance retired a record PKR 2.9trn of debt ahead of maturity in FY26, up 62% YoY, helping reduce rollover risk, optimize liquidity and extend average debt maturity to over 3.8 years from 2.7 years in FY24. FY27 brings further relief, with external debt servicing projected to fall to USD 21.5bn from USD 26.5bn, while rollovers and refinancing should materially reduce fresh repayment needs. Debt-servicing ratios are consequently expected to move toward multi-year lows. With the proposed USD 10bn US financial cooperation package still under discussion, we expect SBP reserves to reach ~USD 20.5bn by Jun'27, supported by continued inflows and manageable financing requirements.

Sovereign Rating and Capital Markets

From Distress to Distinction: Pakistan's Rating Renaissance

Pakistan's credit story is turning a corner, with all three major rating agencies now signalling a stable outlook as macro stability, fiscal discipline and external buffers improve. The landmark Panda Bond issuance further strengthens the story, opening a new funding channel in China and broadening Pakistan's access to global capital.

Credit Story: The Direction Has Changed

Pakistan's credit story has turned a corner. All three major rating agencies now carry Stable outlooks, reflecting improving macroeconomic stability, stronger external buffers and greater fiscal discipline. S&P Global Ratings upgraded Pakistan to B from B- in July 2026, while Moody's raised its rating to B3 from Caa1 in August 2026. Fitch reaffirmed Pakistan at B- in April 2026, maintaining its Stable outlook. The improvement marks a clear reversal from the deterioration seen during FY22–23, when sovereign ratings reached their weakest levels. While Pakistan remains below investment grade and structural vulnerabilities persist, the direction of travel is increasingly constructive, with the recent upgrades signaling greater confidence in the reform and stabilization path.

Exhibit: Pakistan's - credit rating

Date	Rating	Outlook
S&P Global		
Oct'16	B	Stable
Feb'19	B-	Stable
Jul'22	B-	Negative
Dec'22	CCC+	Stable
Jul'25	B-	Stable
Jul'26	B	Stable
Moody's		
Jun'22	B3	Negative
Oct'22	Caa1	Negative
Feb'23	Caa3	Stable
Aug'24	Caa2	Positive
Aug'25	Caa1	Stable
Aug'26	B3	Stable
Fitch's		
Feb'23	CCC-	na
Jul'23	CCC	na
Dec'23	CCC	na
Jul'24	CCC+	na
Apr'25	B-	Stable
Apr'26	B-	Stable

Source (s): Bloomberg, AHL Research

B-

FITCH

Affirmed B- (Stable)

13 April 2026

B

S&P GLOBAL

Upgraded B- → B (Stable)

22 July 2026

B3

MOODY'S

Upgraded Caa1 → B3 (Stable)

24 August 2026

Panda Bond: Opening a New Capital-Market Door

Pakistan also took a meaningful step toward diversifying its external funding base, entering China's onshore capital market for the first time with a RMB 1.75bn (~USD 250–258mn) three-year Panda Bond in May 2026. Issued under a broader USD 1bn programme, the bond carries a 2.5% coupon and attracted bids of over RMB 8.8bn, more than five times the amount offered, highlighting strong investor appetite. Backed by ADB and AIIB credit guarantees, the issuance helped improve pricing and broaden Pakistan's access to Chinese institutional investors, while reducing reliance on traditional dollar funding. Proceeds are earmarked for water, energy and health projects, adding a sustainable-finance dimension to what could become an increasingly important funding channel.

PROGRAMME	MANDATED CONSORTIUM (3-YEAR MANDATE)
Eurobonds	Standard Chartered, Citi, Deutsche Bank, Emirates NBD & MUFG Securities Asia
International Sukuk	Standard Chartered, Dubai Islamic Bank, Citi, Emirates NBD & Mashreq
PKR-denominated, USD-settled bonds	Standard Chartered, Citi & Deutsche Bank

Following a competitive procurement process, the Ministry of Finance named these consortiums for its Global Medium-Term Note (GMTN), International Sukuk and PKR-denominated USD-settled bond programmes — a further signal of investor confidence and of the government's push toward a disciplined, diversified, market-oriented funding strategy. Source: Ministry of Finance.

PAKISTAN ECONOMY

ARIF HABIB LIMITED

The IMF Programme

The Fund's Report Card: From Stabilization to Resilience

In May 2026, the Executive Board completed the third EFF review and second RSF review, unlocking roughly USD 1.1bn and USD 220mn respectively and taking total disbursements under both programmes to about USD 4.8bn.

$1.1bn	$220m	$4.8bn	7/7	Sep'26
EFF TRANCHE, MAY'26	RSF TRANCHE, MAY'26	CUMULATIVE DISBURSED	QPCS LIKELY MET	NEXT REVIEW DUE

IMF Review: Execution Takes Centre Stage

An IMF team is expected in Pakistan in Sep'26 for the fourth EFF and third RSF reviews, assessing performance against end-March and end-June 2026 criteria. Based on publicly available data, we believe Pakistan is on track to meet nearly all seven Quantitative Performance Criteria (QPCs), with one data point yet to be disclosed. As QPCs represent the programme's hard benchmarks, meeting them would pave the way for a smooth review with limited risk of waivers or major hiccups.

More importantly, the upcoming review is less about securing new commitments and more about demonstrating consistency in implementation, in our view. It is also the first full review since the Moody's and S&P upgrades and Pakistan's debut Panda Bond. A clean review would reinforce the view that improving credit ratings and market access are reflecting genuine progress in reforms—not simply running ahead of the fundamentals.

FISCAL

A 2%-of-GDP primary surplus target for FY27, backed by stronger FBR collection, a broader tax base and tighter expenditure control.

MONETARY & EXTERNAL

A sufficiently tight, data-driven policy stance, plus greater exchange-rate flexibility and deeper FX markets to absorb external shocks.

ENERGY

Cost-recovery tariffs, targeted subsidies, and measures to contain and reduce circular debt, alongside DISCO reform and privatization.

STRUCTURAL

Stronger SOE governance, an accelerated privatisation agenda, less market intervention, and streamlined trade policy.

CLIMATE

Better water-resource management, stronger disaster-risk financing, and a push toward cleaner, more sustainable mobility under the RSF.

Exhibit: Quantitative Performance Criteria

	Actual (Jun'26)	Actual (Mar'26)	IMF Target 26-Mar	IMF Target 26-Jun	Status (AHL Estimates) Mar'26	Status (AHL Estimates) Jun'26
Floor on net international reserves of the SBP (USD mn)	n/a*	n/a*	(5,600)	(4,800)	Likely	Likely
Ceiling on net domestic assets of the SBP (stock, PKR bn)	11,095	11,737	15,560	15,798	Likely	Likely
Ceiling on SBP's stock of net foreign currency swaps/forward position (-USD mn)	(881)	(1,729)	(1,750)	(1,500)	Likely	Likely
Ceiling on the general government primary budget deficit (PKR bn)	3,634	4,092	(3,418)	(3,156)	Likely	Likely
Ceiling on the amount of government guarantees (PKR bn)	n/a*	4,322	5,800	5,800	Likely	Likely
Cumulative floor on targeted cash transfers spending (PKR bn)	706	-	512	694	Likely	Likely
Cumulative floor on the number of new tax returns from new filers (thousands)	n/a	n/a	750	1,000	Data not Known	Data not Known

Source: SBP, IMF, MoF, AHL Research *Likelihood of remaining below the target, exact numbers n/a

Outlook and risks

The Road to FY28: Risks, Rewards and the Reckoning Ahead

Strip away the noise, and FY27 is best understood as a transition year — the point where Pakistan trades the easy wins of stabilization for the harder work of managing a recovery without losing the gains already banked. FY28, in our view, is where that work starts to pay off more.

AHL's FY27 vs FY28 scorecard

Exhibit: Key Economic Indicators

INDICATOR	FY26	FY27E	FY28F
Real GDP growth	3.70%	3.84%	4.30%
Average CPI inflation	7.05%	8.22%	5.63%
SBP policy rate (year-end)	11.50%	11.00%	8.00%
PKR/USD (period-end)	278.16	280.95	283.76
Current account balance, % of GDP	-0.07%	-0.78%	-0.82%
Fiscal deficit, % of GDP	2.60%	3.90%	3.70%
Primary balance, % of GDP	2.90%	2.00%	1.80%

Source: SBP, MOF, PBS, AHL Research

Risk map

Upside risks: a faster Gulf de-escalation could bring oil down toward pre-conflict levels, accelerating disinflation and easing the rate cycle sooner than our base case; sustained rating momentum could unlock cheaper, deeper access to international bond markets beyond the debut Panda Bond; and a smooth September 2026 IMF review would reinforce policy credibility heading into FY28 budget-making.

Downside risks: a prolonged or escalating Middle East conflict would keep oil and freight costs elevated for longer, widening the CAD and delaying disinflation; a repeat FBR shortfall would strain the FY27 fiscal math; and any slippage on IMF structural benchmarks — particularly FX liberalisation or energy-tariff notifications — could complicate the review calendar.

FY27 is the transition; FY28 is the normalization — with geopolitics and its spillovers remaining the key two-sided risk in either direction.

Put together, the picture is of an economy that has done the hard, unglamorous work of repairing a balance sheet — cutting the deficit, de-leveraging debt, rebuilding reserves and re-earning market access — at precisely the moment external conditions turned against it. The next twelve months will show whether that resilience can be sustained as growth, and the import bill that comes with it, picks back up.

Disclaimer

Analyst Certification: The research analyst(s) is (are) principally responsible for preparation of this report. The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject security (ies) or sector (or economy), and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. In addition, we currently do not have any interest (financial or otherwise) in the subject security (ies). Furthermore, compensation of the Analyst(s) is not determined nor based on any other service(s) that AHL is offering. Analyst(s) are not subject to the supervision or control of any employee of AHL's non-research departments, and no personal engaged in providing non-research services have any influence or control over the compensatory evaluation of the Analyst(s).

Equity Research Ratings

Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Jun 2027 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +10% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -5% and +10% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -5% from last closing of market price(s)

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks: The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk

Disclaimer: This document has been prepared by Research analysts at Arif Habib Limited (AHL). This document does not constitute an offer or solicitation for the purchase or sale of any security. This publication is intended only for distribution to the clients of the Company who are assumed to be reasonably sophisticated investors that understand the risks involved in investing in equity securities. The information contained herein is based upon publicly available data and sources believed to be reliable. While every care was taken to ensure accuracy and objectivity, AHL does not represent that it is accurate or complete and it should not be relied on as such. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. AHL reserves the right to make modifications and alterations to this statement as may be required from time to time. However, AHL is under no obligation to update or keep the information current. AHL is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Past performance is not necessarily a guide to future performance. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for any investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his or her own advisors to determine the merits and risks of such investment. AHL or any of its affiliates shall not be in any way responsible for any loss or damage that may be arise to any person from any inadvertent error in the information contained in this report