

DAWN

[Dealing with vulnerabilities](#)

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DAWNEVERY crisis presents an opportunity to reflect upon underlying weaknesses and take corrective action. The current [turmoil](#) in the Gulf should be examined from this angle. It highlights long-existing vulnerabilities in Pakistan's economic structure that haven't always received adequate policy attention. The situation is particularly significant as it coincides with a broader transformation in the global economic environment.

For several decades, the world economy that functioned within a relatively liberal trading system has been giving way to rising protectionism, economic nationalism and inward-looking policies. For countries like Pakistan, which rely heavily on international trade, remittances and external financial flows, the shift brings a new layer of uncertainty. Since the war's duration and reopening of the [Strait of Hormuz](#) are uncertain, any assessment must be tentative. However, there are at least five major channels through which the situation could affect our economy.

First, the most immediate impact is through [higher oil prices](#). Disruptions to shipping routes, higher war-risk premiums and potential interruptions in oil and gas supplies have already pushed global energy prices upward. These increases have begun to be reflected in domestic petroleum pricing. [Higher](#) fuel prices translate into higher inflation — transportation costs rise and prices of imported inputs used in production and distribution also increase. Passing these higher costs on to consumers is politically unpopular but economically unavoidable. We simply don't have the fiscal space to finance large subsidies to keep domestic prices artificially low. Such subsidies will widen the fiscal deficit and risk derailing the IMF programme, creating more economic instability.

Pakistan must move towards a fully deregulated petroleum pricing system by making daily price adjustments to reflect global market movements, reducing distortions and removing criticism that governments manipulate prices for political reasons. In the immediate term, diesel supplies for the wheat harvest must be ensured. But deregulation must be accompanied by institutional safeguards. Strategic oil reserves must be built to cushion temporary supply disruptions, while oil marketing companies should be required to maintain at least a month's stock. The regulator must be vigilant to prevent profiteering or cartel behaviour.

Policy reforms can plug the structural economic gaps exposed by the Gulf conflict.

While exploring other shipping routes, domestic energy production must be strengthened by increasing gas production to compensate for potential disruptions in RLNG cargoes, implementing the long-delayed upgradation of domestic refineries, incentivising oil and gas companies to intensify exploration in new blocks without needing multiple approvals from the petroleum ministry at each stage. Expanding transmission networks to evacuate electricity from Thar coal and wind power projects, along with constructing the Lahore-Peshawar oil pipeline, would gradually reduce reliance on imported fuel.

Second, higher oil prices will place more pressure on Pakistan's external current account. Pakistan produces only about one out of every 10 barrels of oil it consumes; the remaining are imported. If global oil prices fluctuate around \$100 per barrel, our petroleum import bill could rise by an additional \$3-4 billion over the year, widening the trade deficit and intensifying pressure on foreign exchange reserves. Exports may also suffer. Higher freight charges, insurance premiums, supply chain disruptions, operational constraints faced by Dubai's Jebel Ali port and closure of regional airports and shipping routes could slow cargo movement. Moreover, several imported industrial inputs derived from petroleum, such as synthetic fibres, chemicals and fertilisers, would become costlier. The combined effect of higher energy prices, rising freight costs and supply disruptions could reduce export profitability at a time when export performance is already sluggish.

To mitigate these effects, the government should consider targeted grants from the Export Development Fund, concessional pre- and post-shipment financing, export insurance schemes and rebates on local taxes. Energy pricing for export-oriented industries must be predictable and competitive. Simplifying the export tax regime, expeditious refunds and restoration of the

Export Facilitation Scheme to its original form while penalising misuse would not only provide short-term relief but also boost export competitiveness in the long run.

Third, the war could affect remittances — a vital pillar of our external stability. They have grown from about \$1bn in 2000 to an expected \$42bn in 2025-26 and play a crucial role in financing the trade deficit, servicing external debt and supporting domestic consumption. Most remittances originate from Gulf states where Pakistani workers form a significant share of expat labour. The outlook for remittances will depend largely on how Gulf economies respond to the war. If instability persists, investment and tourism activity could slow, reducing job opportunities for migrant workers. Conversely, higher oil prices could generate windfall revenues for Gulf states, enabling greater spending on infrastructure and economic expansion, which may increase demand for foreign labour. Pakistan should thus invest in technical skills, vocational trades and specialised services for its migrants, allowing workers to compete more effectively in labour markets abroad.

Fourth, our balance-of-payments position has been supported by deposits from Saudi Arabia and UAE, along with oil-financing facilities. But relying on such deposits exposes us to rollover risk. Given the windfall Gulf economies may receive from higher oil prices, we should renegotiate these arrangements, proposing conversion into equity investments in strategic projects such as oil refineries and petrochemical complexes, while others could have their maturities extended to reduce short-term repayment pressures. Sovereign wealth funds in Saudi Arabia, UAE, Qatar and Kuwait could use some of the windfall gains for FDI in Pakistan.

Finally, domestic fiscal discipline must remain a priority. Non-development expenditure should be reduced further and the savings generated, increased collection of provincial taxes and bringing traders into the tax net could be used to abolish super tax and reduce taxes on the salaried class and industry; it will stimulate private sector activity, improve business confidence and retain talent. Pakistan should engage with the IMF as these external shocks necessitate revision of performance criteria due to deviation from the original assumptions upon which these were based.

In sum, while the present crisis exposes several structural vulnerabilities in Pakistan's economy, it also offers an opportunity to address these weaknesses through prudent policy reforms. By strengthening energy security, improving export competitiveness, upgrading labour skills, attracting foreign investment, and maintaining fiscal discipline, Pakistan can build buffers to face future

external shocks and transform a period of uncertainty into a catalyst for long-term economic resilience.

The writer is a former governor of the State Bank of Pakistan.

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