Pakistan Banks Association

Macroeconomic and Banking Sector Implications of the Iran-GCC Conflict for Pakistan

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Executive Summary

This note examines the potential macroeconomic and banking sector implications for Pakistan arising from the recent escalation of tensions between Iran and several Gulf Cooperation Council (GCC) countries. The conflict has raised concerns about the security of key energy transit routes in the Middle East, particularly the Strait of Hormuz, through which a significant share of global oil and liquefied natural gas (LNG) trade passes. Given Pakistan's reliance on imported energy from Gulf producers, disruptions to shipping routes or sustained increases in global oil prices could have important implications for the country's macroeconomic environment.

Pakistan's exposure to these developments arises primarily through higher energy import costs, pressures on the external balance and potential inflationary effects. Petroleum imports currently account for nearly one-fifth of Pakistan's total import bill and sensitivity analysis in this note suggests that sustained increases in global oil prices could raise Pakistan's annual petroleum import bill by between **USD 1.4 billion to USD 4.7 billion**, depending on the magnitude of the price shock. Higher energy prices may also contribute to domestic inflation through increased transportation costs, electricity tariffs and higher input costs for energy-intensive industries.

Sustained increases in energy prices could also have implications for Pakistan's ongoing macroeconomic stabilization program supported by the International Monetary Fund (IMF), particularly if higher import costs place additional pressure on the external balance.

The analysis also highlights several potential transmission channels to Pakistan's banking sector. The banking system plays a central role in facilitating international trade through instruments such as letters of credit, guarantees and export financing facilities. Based on FY25 trade flows, the outstanding exposure of Pakistan's banking system to trade finance is estimated to range between **USD 9–22 billion** at any point in time. Disruptions to shipping routes, higher commodity prices or volatility in foreign exchange markets could therefore influence trade financing activity and foreign exchange liquidity conditions within the banking sector.

Remittance inflows represent another important transmission channel. During July–January FY26, more than **53 percent of Pakistan's remittances originated from GCC countries**, with Saudi Arabia and the United Arab Emirates accounting for the largest shares. Any disruption to economic activity in these countries or interruptions to remittance corridors could therefore affect foreign exchange inflows and liquidity conditions in the domestic financial system.

Finally, geopolitical tensions can also create operational risks for financial institutions. Banks may need to maintain heightened monitoring of cybersecurity threats and ensure the resilience of payment systems and digital banking infrastructure. In addition, several Pakistani banks maintain branches and operations across GCC jurisdictions. Continued coordination with host-country regulators and the activation of business continuity arrangements may therefore be necessary if regional disruptions affect financial infrastructure or cross-border banking operations.

Overall, while the duration and scale of the conflict remain uncertain, developments in global energy markets, remittance flows and regional financial conditions will remain important for Pakistan's macroeconomic outlook and the operating environment of the banking sector.

1. Regional Conflict and Global Energy Markets Implications

The recent escalation in tensions between Iran and several Gulf Cooperation Council (GCC) states has raised concerns about the stability of energy supply routes in the Middle East and the potential implications for global energy markets. The Strait of Hormuz has emerged as a key focal point of these concerns given its importance as one of the world's most critical maritime corridors for oil and liquefied natural gas (LNG) trade. Reports indicate that tanker traffic through the Strait declined sharply during the initial phase of the crisis, reflecting both heightened security risks and disruptions to normal shipping operations.

The Strait of Hormuz is one of the most strategically important energy transit routes in the world. It connects the Persian Gulf with international shipping lanes and serves as a key corridor for the movement of oil and liquefied natural gas (LNG) from major producing countries. **Approximately 20 percent of global petroleum liquids consumption and about one-third of global seaborne oil trade passes through the Strait of Hormuz. In addition, around one-fifth of global LNG trade transits this route**[1]. Given the concentration of global energy supply that moves through this narrow passage, disruptions to shipping in the Strait can have significant implications for global energy markets.

While some producers have limited capacity to divert exports through alternative routes, these options remain constrained. For example, Saudi Arabia can transport crude oil from its eastern oil fields to the Red Sea port of Yanbu through the East-West pipeline. However, the pipeline's capacity is significantly lower than total Gulf export volumes, meaning it cannot fully offset disruptions in the Strait of Hormuz.

[1] U.S. Energy Information Administration (EIA), "Strait of Hormuz is the world's most important oil transit chokepoint."

As a result, even partial disruptions to shipping routes in the region can lead to increased uncertainty in global energy supply and contribute to higher oil prices, freight costs and insurance premiums.

These developments are particularly relevant for Pakistan. The country imports a large share of its oil and LNG from producers in the Gulf region and these supplies are typically transported through shipping routes that pass the Strait of Hormuz. **Pakistan currently maintains strategic oil reserves equivalent to approximately 28 days of consumption**[2], which provides only limited buffer against prolonged supply disruptions. Consequently, developments affecting energy shipments in the Gulf region can have direct implications for Pakistan's energy supply chain and broader economic conditions.

2. Macroeconomic Implications for Pakistan

The macroeconomic impact of the conflict on Pakistan would primarily be transmitted through three channels: higher energy import costs, pressure on the external balance and rising domestic inflation.

Pakistan remains a net importer of energy and is therefore sensitive to movements in global oil and gas prices. In recent years the country has imported **between PKR 3.1 trillion and PKR 3.4 trillion worth of petroleum and associated products annually**, based on data from the last three fiscal years. In FY25, the petroleum imports accounted for **approximately 19.5 percent of Pakistan's total import bill**[3].

A large share of Pakistan's crude oil and LNG imports originate from producers in the Gulf region. Consequently, developments affecting energy supply routes or energy prices in the region can have direct implications for Pakistan's external balance and macroeconomic outlook.

Oil prices have already shown signs of volatility since the onset of the current conflict. According to the **U.S. Energy Information Administration (EIA) Brent spot price series**, Brent crude was trading at **around $72 per barrel in late February 2026** prior to the escalation of tensions in the Gulf region. Following the outbreak of hostilities, prices moved higher, reflecting increased geopolitical risk premiums in global energy markets. Given this volatility, the sensitivity analysis below assumes a **baseline oil price of $80 per barrel** to illustrate the potential magnitude of Pakistan's exposure under higher price scenarios.

[2] As reported by The Profit citing OGRA Officials
[3] Pakistan Economic Survey FY24-25 (Statistical Supplement)

To illustrate the potential magnitude of this exposure, a sensitivity analysis suggests that Pakistan's petroleum import bill could increase by between **PKR 0.39 trillion and PKR 1.28 trillion annually (approximately USD 1.4–4.7 billion)** depending on the extent of the increase in global oil prices **relative to a baseline oil price of $80 per barrel**.

Table 1 - Value Based Sensitivity Analysis of Oil Price/Barrel

Oil Price Scenario	Increase vs Baseline ($80/barrel)	Estimated Increase in Petroleum Import Bill
$90 per barrel	+$10 (+12.5%)	~PKR 0.39 – 0.43 trillion
$100 per barrel	+$20 (+25.0%)	~PKR 0.78 – 0.86 trillion
$110 per barrel	+$30 (+37.5%)	~PKR 1.16 – 1.28 trillion

Note: Estimates assume Pakistan's annual petroleum import bill of approximately **PKR 3.1–3.4 trillion** (Pakistan Economic Survey, FY25). Calculations assume constant import volumes and exchange rate and illustrate the direct sensitivity of the import bill to changes in oil prices.

Higher oil prices tend to increase Pakistan's import bill and widen the current account deficit. Historical experience suggests that sustained increases in global oil prices can place significant pressure on the country's external position particularly when combined with exchange rate volatility or weaker external inflows. In recent years Pakistan's macroeconomic stability has been closely linked to the management of external financing requirements and energy import costs.

Energy price shocks can also transmit into domestic inflation through multiple channels. Higher oil prices increase the cost of transportation and power generation, while higher gas and LNG prices raise energy costs for industry. Pakistan imports significant volumes of LNG to supplement domestic gas production, and these imports are widely used in power generation, fertilizer production and several industrial sectors. Sustained increases in global energy prices therefore tend to place upward pressure on electricity tariffs and transportation costs.

To illustrate the potential inflationary effects of oil price increases, Table 2 presents a simple sensitivity analysis based on empirical estimates from the International Monetary Fund (IMF)[4]. **IMF finds that a 10 percent increase in global oil prices can raise headline nflation by approximately 0.4 percentage points over a one-year horizon, assuming typical pass-through to domestic energy prices**. In economies such as Pakistan, where energy imports represent a significant share of the import bill, the inflationary impact may be larger due to indirect effects through transportation costs, electricity tariffs and industrial input prices.

[4] IMF (2017), Oil Prices and Inflation Dynamics: Evidence from Advanced and Developing Economies, IMF Working Paper No. 17 /196

Table 2 - Illustrative Impact of Oil Price Increases on Inflation

Oil Price Scenario	Oil Price ($/barrel)	Increase vs Baseline ($80/barrel)	Estimated CPI Impact (IMF baseline)	Estimated CPI Impact (Energy Import Dependant Economies)
Baseline	$80	-	6.98%[5]	6.98%
10% increase	$88	+10%	+0.4 % points	+0.8 % points
15% increase	$92	+15%	+0.6 % points	+1.2 % points
20% increase	$96	+20%	+0.8 % points	+1.6 % points

Note: Based on IMF empirical estimates suggesting that a **10 percent increase in global oil prices raises headline inflation by approximately 0.4 percentage points over a one-year horizon**, assuming typical pass-through to domestic energy prices.

Pakistan's Engagement with IMF

Pakistan has a long history of engagement with the **International Monetary Fund (IMF)**, having entered **more than twenty IMF supported stabilization programs since 1958**. Most recently, in **September 2024**, the IMF Executive Board approved a **$7 billion Extended Fund Facility (EFF)** for Pakistan with a duration of **37 months** (IMF Press Release). The program aims to restore macroeconomic stability, rebuild foreign exchange reserves, strengthen fiscal sustainability and advance structural reforms.

Financing under the EFF is disbursed in tranches linked to periodic program reviews. Following the completion of the **first and second program reviews**, cumulative disbursements under the EFF have reached **approximately $3.1 billion** (IMF Press Release). The remaining program financing is scheduled to be released in subsecuent tranches subject to the successful completion of future IMF reviews and continued progress on macroeconomic stabilization and reform commitments. At the time of writing, discussions related to the **next program review were ongoing**, and IMF staff have held consultations with a range of **public and private sector stakeholders** in Pakistan during early 2026.

The current stabilization program places significant emphasis on maintaining **external sector stability and fiscal consolidation**. A sustained increase in global oil prices could complicate this adjustment path by increasing the country's energy import bill and placing pressure on the current account balance. In such circumstances, the authorities may need to engage with the IMF regarding the macroeconomic implications of a prolonged external shock and the potential impact on the program's external financing and fiscal targets.

Figure 1 - Pakistan's Engagement with IMF

[5] Pakistan Bureau of Statistics – Pakistan YoY CPI (End of February 2026)

3. Implications for the Banking Sector

Financial markets in Pakistan have already shown sensitivity to developments in the Gulf region. During the early stages of the conflict the Pakistan Stock Exchange (PSX) experienced significant volatility. On March 2, 2026, the KSE-100 index declined by 16,089 points or approximately 9.6 percent, representing the largest single-day decline in the history of the index. The banking sector index also declined during this period reflecting broader market uncertainty and risk repricing.

The evolving geopolitical situation may affect the banking sector through several channels including trade finance for energy imports, foreign exchange liquidity, capital market exposures, remittance flows and operational risks.

3.1 International Trade and Trade Finance Exposure

International trade is closely linked to the banking system through trade finance instruments such as letters of credit, guarantees and export financing facilities. These instruments allow importers and exporters to mitigate payment risk and manage working capital needs. As a result, disruptions to trade flows can also affect the banking sector through its exposure to trade-related financing.

Pakistan's trade in FY25 amounted to approximately **USD 90.2 billion**, comprising exports of **USD 32.0 billion** and imports of **USD 58.2 billion**[6]. Globally, it is commonly estimated that **around 40–50% of international trade is supported by bank-intermediated trade finance instruments**[7], including letters of credit and documentary collections. Applying this benchmark to Pakistan suggests that a substantial portion of the country's trade flows is supported by the domestic banking system.

Trade finance facilities are typically short-tenor instruments. For example, under the Export Finance Scheme of the State Bank of Pakistan, financing is generally provided for **up to 180 days**, while import letters of credit frequently carry **30 to 90-day deferred payment terms**. This implies that most trade finance exposures remain on banks' balance sheets for **three to six months** before being settled.

[6] Pakistan Bureau of Statistics
[7] Asian Development Bank (ADB), Trade Finance Gaps, Growth and Jobs Survey, various editions.

Based on these parameters, an indicative estimate of Pakistan's banking sector exposure to trade finance is presented below:

Table 3 - Estimated Trade Finance Exposure of Pakistan's Banking System

Component	Value	Explanation
Pakistan exports (FY25)	**USD 32.0 bn**	Pakistan Bureau of Statistics (PBS)
Pakistan imports (FY25)	**USD 58.2 bn**	Pakistan Bureau of Statistics (PBS)
Total trade	**USD 90.2 bn**	Exports + Imports
Portion typically financed by banks	**40–50%**	Global estimate for bank-intermediated trade finance[8]
Annual trade financed by banks	**USD 36–45 bn**	Estimated flow financed through banking system
Average tenor of trade finance	**3–6 months**	Typical maturity of LCs and trade facilities
Estimated outstanding exposure at any time	**USD 9–22 bn**	Flow × tenor adjustment

This suggests that Pakistan's banking system may carry **trade finance exposure in the range of USD 9–22 billion (approximately PKR 2.5–6 trillion)**[9] at any point in time. This estimate reflects the short-term revolving nature of trade finance instruments such as letters of credit and documentary collections, which typically remain outstanding for only a few months before settlement.

While SME participation in trade finance remains limited - SME trade finance exposure is approximately **PKR 30 billion (USD 109 million)**[10], the bulk of trade-related financing is concentrated in **large corporate borrowers**, particularly firms engaged in imports of energy, commodities and industrial inputs.

[8] Asian Development Bank, Trade Finance Gap, Growth and Jobs Survey.
[9] Conservative estimate for USD/PKR (1 USD = 275 PKR) Exchange Rate Used
[10] SBP SME Finance Quarterly June 2025

Trade Finance Constraints During the 2022–2023 Trade Compression

Pakistan's experience during the **2022–2023 foreign exchange crisis** highlights the critical role of bank intermediated trade finance in sustaining international trade.

During this period, foreign exchange shortages led the State Bank of Pakistan to tighten administrative oversight over import payments, including stricter scrutiny of letters of credit (LCs) opened by commercial banks. As a result, banks significantly curtailed the issuance of LCs for a wide range of import categories.

Because a large share of Pakistan's trade is financed through bank-issued trade instruments, particularly letters of credit, these restrictions had an immediate and pronounced impact on trade flows. **Pakistan's imports declined from USD 80.1 billion in FY22 to USD 55.3 billion in FY23, representing a contraction of approximately USD 25 billion (31%) while exports declined by 12% from USD 31.7 billion to USD 27.7** within a single year. (Data from PBS)

Several manufacturing sectors, including textiles, automobiles and electronics reported production disruptions due to delays in the opening of LCs, especially for imported inputs. Imports of certain capital goods and machinery categories also fell sharply during this period.

The episode underscores the extent to which Pakistan's external trade is dependent on the smooth functioning of bank intermediated trade finance. When banks are unable or unwilling to open letters of credit, the impact is transmitted quickly to trade volumes and industrial activity.

Figure 2 - Trade Finance Constraints During the 2022–2023 Trade Compression

3.2 Foreign Exchange Liquidity

Higher oil prices increase Pakistan's demand for foreign exchange to finance energy imports. As discussed earlier, petroleum imports already account for a significant share of Pakistan's import bill. Any sustained increase in global oil prices therefore raises the demand for U.S. dollars to finance these imports.

Pakistan's external position also depends on the level of foreign exchange reserves held by the State Bank of Pakistan (SBP). As of **20 February 2026, SBP's foreign exchange reserves** stood at approximately **$16.3 billion**[11]. This level provides an important buffer against external shocks, but sustained increases in the energy import bill or disruptions to remittance inflows from the Gulf region could place additional pressure on these reserves. SBP may -

[11] State Bank of Pakistan, Weekly Statement of Foreign Exchange Reserves, February 2026.

need to draw on part of its reserves to help manage exchange rate volatility and ensure orderly functioning of the foreign exchange market during periods of heightened geopolitical uncertainty.

Oil Price Impact on Forex Reserves

Estimates suggest that **every $10 increase in global oil prices may raise Pakistan's annual energy import bill by roughly $1.4–1.6 billion**, depending on import volumes and exchange rate movements. If sustained, such increases could represent a meaningful share of current foreign exchange reserves and could contribute to tighter liquidity conditions in the foreign exchange market.

Figure 3 - Oil Price Impact on Forex Reserves

3.3 Capital Market and Collateral Exposure

Volatility in equity markets may have limited direct impact on bank balance sheets given that the investment portfolios of Pakistani banks are primarily concentrated in government securities. However, movements in equity prices can still affect banks indirectly through changes in collateral values and certain investment holdings.

Some corporate lending facilities are secured against listed shares and declines in equity prices can therefore reduce the value of collateral supporting these exposures. In such cases banks may need to reassess collateral coverage and margin requirements where equity-linked securities form part of the credit structure.

While direct equity exposures are generally limited across the banking sector, sustained volatility in capital markets may still influence risk management practices and collateral monitoring within banks.

3.4 Remittance Flows

Remittances represent one of Pakistan's most important sources of foreign exchange and play a significant role in supporting external sector stability. During **FY26 (July–January)** Pakistan received approximately **$23.2 billion in remittances**[12], reflecting continued strong inflows through formal financial channels.

Remittance inflows are highly concentrated in the Gulf region. Countries in the Gulf Cooperation Council (GCC) account for **more than half of Pakistan's total remittance inflows**, with Saudi Arabia and the United Arab Emirates representing the two largest sources. The concentration of remittances in Gulf economies is summarized in Table 4.

[12] All remittance data taken from State Bank of Pakistan – Workers Remittances by Country

Table 4 - International Remittances to Pakistan (July-Jan FY26)

Source Country / Region	Remittances ($ bn)	Share of Total
Saudi Arabia	*5.45*	*23.5%*
United Arab Emirates	*4.78*	*20.6%*
Other GCC Countries (Qatar, Kuwait, Oman, Bahrain)	*2.21*	*9.5%*
United Kingdom	3.48	15.0%
United States	1.98	8.5%
Total GCC	12.44	53.6%

As shown above, **Saudi Arabia and the United Arab Emirates together account for approximately 44 percent of Pakistan's total remittance inflows, while the broader GCC region accounts for over half of remittances received through formal financial channels.**

Given this concentration, economic disruptions or operational challenges in Gulf countries could have implications for remittance inflows to Pakistan. Any slowdown in remittance flows would not only affect foreign exchange availability but could also influence liquidity conditions within the financial system, as remittances contribute significantly to deposit growth within the banking sector. Maintaining the efficiency and reliability of formal remittance channels therefore remains important during periods of regional uncertainty.

3.5 Operational and Cybersecurity Risks

Periods of geopolitical tension can also create operational and cybersecurity risks for financial institutions. In recent years, geopolitical conflicts have increasingly been accompanied by cyber activities targeting financial infrastructure, payment systems and digital banking channels. While no direct disruptions have been reported in Pakistan's financial system, heightened monitoring of cyber threats remains prudent during periods of regional instability.

Banks with operations or branches in GCC countries may also face additional operational considerations. Several Pakistani banks maintain a presence in the Gulf region. In the event of disruptions to transportation, communications or financial infrastructure in these jurisdictions, Pakistani banks may need to activate business continuity arrangement and maintain close coordination with host-country regulators.

Maintaining the resilience of payment systems, remittance corridors and digital banking infrastructure therefore remains important during periods of heightened geopolitical uncertainty. **Close coordination between banks, the Pakistan Banks Association (PBA) and SBP can help ensure the continued stability and functioning of the financial system.**

4. Conclusion

The analysis presented in this note suggests that the ongoing conflict in the Gulf region could affect Pakistan through several macroeconomic channels. Higher oil prices would increase the country's energy import bill and place pressure on the external balance, while disruptions to economic activity in Gulf economies could affect remittance inflows. At the same time, sustained increases in energy prices may transmit into domestic inflation through higher fuel prices, electricity tariffs and transportation costs.

From a banking sector perspective, these macroeconomic developments could affect several areas of financial intermediation. As discussed earlier, Pakistan's banking system supports a substantial share of the country's international trade through bank intermediated trade finance instruments such as letters of credit and export financing facilities. Based on FY25 trade flows, estimated outstanding trade finance exposure in the banking system may range between USD 9–22 billion, reflecting the short-term revolving nature of these facilities. Higher energy import costs, volatility in foreign exchange markets and disruptions to global shipping routes could therefore influence trade financing needs, foreign exchange liquidity and risk management practices within the banking sector.

To illustrate the potential magnitude of external sector pressures under a combined shock scenario, Table 5 presents indicative estimates of the annual impact of higher oil prices and a decline in remittance inflows from Gulf economies.

Table 5 - Illustrative External Account Pressure
Under Oil and Remittance Shocks (Annual Estimates)

Scenario	Oil Price	Increase vs Baseline ($80/barrel)	Additional Petroleum Import Cost	Remittance Decline (20%)	Combined External Pressure
Moderate pressure	$90/barrel	+$10	$1.4–1.6 bn	~$4.3 bn	~$5.7–5.9 bn
Elevated pressure	$100/barrel	+$20	$2.8–3.2 bn	~$4.3 bn	~$7.1–7.5 bn
Severe pressure	$110/barrel	+$30	$4.2–4.7 bn	~$4.3 bn	~$8.5–9.0 bn

Note: Estimates are annualized. Oil import sensitivity is based on the petroleum import analysis in Table 1. Remittance decline assumes a 20 percent reduction in inflows from GCC economies.

For context, Pakistan recorded a current account surplus of approximately USD 2.1 billion in FY25, reversing a deficit of about USD 2.1 billion in FY24[13]. While the magnitude and duration of the conflict remain uncertain, sustained disruptions in energy markets or regional economic activity could create meaningful macroeconomic pressures that warrant close monitoring by regulators and financial institutions. This could also have implications for Pakistan's ongoing stabilization program supported by the International Monetary Fund.

[13] State Bank of Pakistan – Annual Report FY25

About Pakistan Banks Association

Established in 1953, the Pakistan Banks Association (PBA) is the representative body of Pakistan's banking sector, working to foster a conducive environment for banking operations and financial services in the country. PBA promotes the collective interest of its members and plays a pivotal role in policy advocacy, regulatory engagement, and industry collaboration.

PBA represents a sector that continues to be the highest taxpaying in the country, underscoring its critical role in Pakistan's economic stability and sustainable growth. The sector also leads in corporate social responsibility (CSR), contributing the highest among all industries toward education, healthcare, environmental sustainability, and disaster relief.

PBA remains committed to advancing financial inclusion, digital transformation, and sustainable development through innovation and collaboration. Its continued efforts aim to strengthen Pakistan's economic system, support national priorities, and contribute to the prosperity of the people of Pakistan.

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