



Energy Market Disruptions and Deepening Macro Risks for Pakistan

Preface

The oil and gas markets were the first to react to the Iran-Israel-US conflict; war is the reason, but more so because of the effective closure of the Strait of Hormuz, which accounts for about one-fifth of global oil supply; around 20% of the world's liquefied natural gas (LNG) also transits Hormuz.

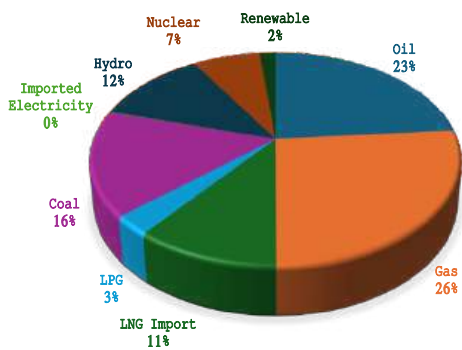
Brent crude, the international benchmark, increased from \$70.6/barrel (BBL) on February 26, 2026, to \$109/BBL on April 02, 2026. In the same period, Platts Dubai, the benchmark for medium-sour crude oil used across the Middle East and Asia-Pacific, increased from \$78/BBL to \$117.25/BBL. At one point, the price for Platts Dubai crude reached a record of approximately \$170/BBL. Gas prices also increased from \$2.78/MMBtu on February 26, 2026, to \$3.3/MMBtu on March 12, 2026, but later subsided as energy companies injected gas into storage. Compared with last year, gas prices remain low (Trading Economics, 2026).

Supply disruptions also raised freight charges and insurance premiums, as operations in the region became riskier. Low petroleum product inventories, along with infrastructure disruptions, impacted economies globally, especially in Asia, including Pakistan.

Energy Mix for Pakistan

In Pakistan, oil and gas are the two largest sources of energy: 49% of total energy supplies and 65% of primary energy consumption. Oil is the primary fuel for transportation, making up nearly 90% of its needs. This means that any disruption in supply or prices hits the transport sector extensively, with limited direct fallout for industry and other

Figure 1. Primary Energy Supplies FY 2025



sectors. However, it will have a significant indirect impact across all sectors, as Pakistan's supply chains depend on road transport. Higher fuel prices mean higher costs of moving goods from farms to markets and from factories to consumers.

Gas remains the leading source of energy consumed by households and industry, despite increasing rooftop solar installations by households and captive solar installations, possibly because most installed solar is undocumented.



Figure 2. Final Energy Consumed FY 2025

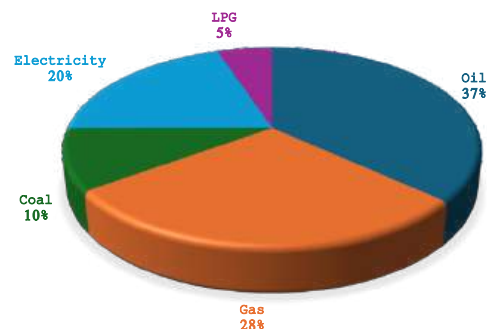
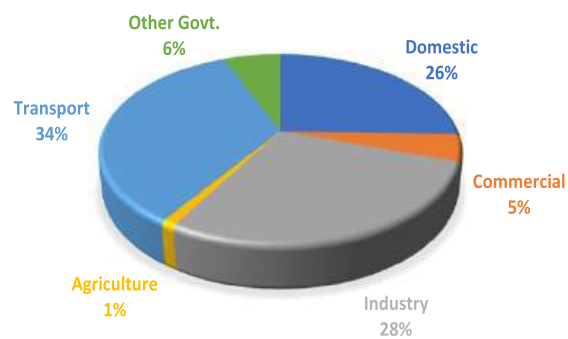
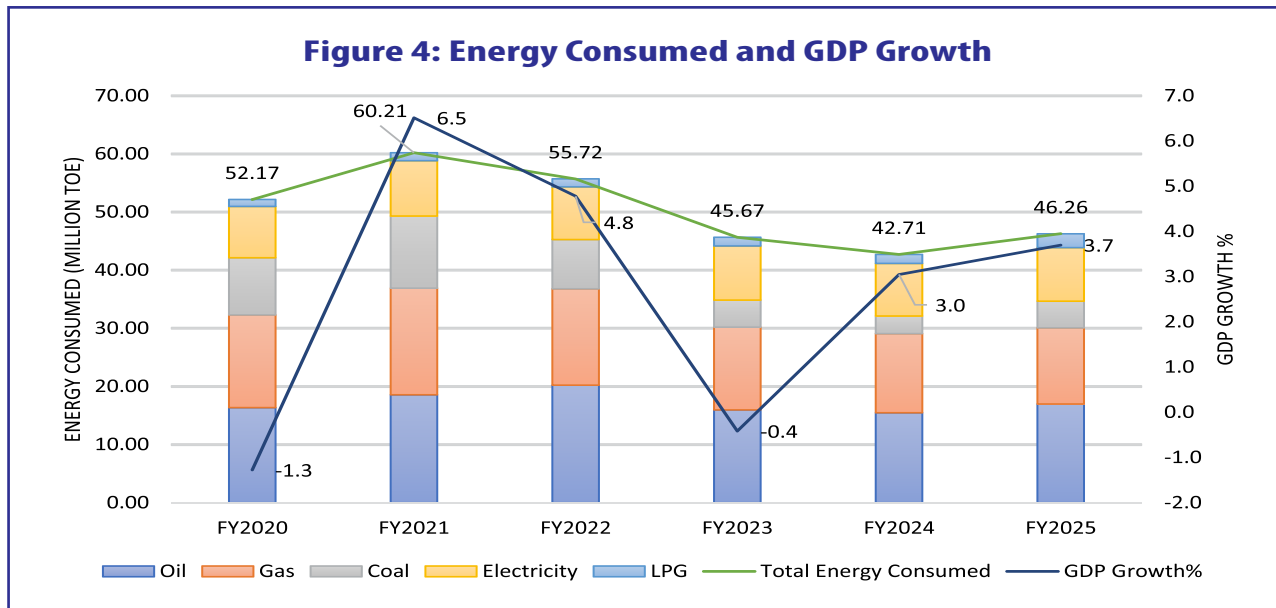


Figure 3: Sectoral Energy Consumption FY2025



Source: Pakistan Energy Yearbook, 2024-25.



Source: Pakistan Energy Yearbook, 2024-25 and SBP

Pakistan's Exposure to Global Energy Disruptions

Pakistan's economy has remained structurally exposed to global energy price shocks due to its significant import dependence (41% in FY2025). Despite recent advances in diversifying the energy mix, the country still relies heavily on imported energy for transport, industry, households, and the electricity sector.

The petroleum group, including LNG and LPG, is the largest item in Pakistan's import bill, accounting for 20% to 30% of total goods imports in USD, variations influenced by prevailing prices and exchange rates. In FY2025, these imports were approximately \$16 billion (27% of total imports) (PBS, 2026).

Since FY2021, energy consumption has decreased. Many analysts attribute this to increasing solar adoption. Solar did contribute, but it is primarily due to the low economic growth trajectory, which has significantly affected energy consumption (Figure 4).

On average, 70-80% of crude processed in Pakistan's five refineries is imported. Refineries still rely largely on hydro skimming technology; the products they produce are insufficient to meet local demand - 48% of consumed petroleum products are imported. Gasoline (petrol) and High-Speed Diesel (HSD) are the two major petroleum products consumed in the country, together accounting for 90% of total petroleum product consumption. In FY2025, 70% of petrol and 29% of HSD consumed were imported. Pakistan is also importing high-octane and aviation fuels for 60% and 50% of its needs; though the share of these products is relatively small, 1.8% and 3%.

In the gas sector, import dependency was 29% in FY2025. LNG import demand has decreased by 40% in recent years due to lower demand from the two primary consumers: RLNG-based power plants and captive power plants. To regulate gas pressure in the pipeline distribution system, the flow of natural gas from local fields has been reduced multiple times whenever there is an LNG surplus (Malik, 2025). In January, Pakistan had to divert excess LNG shipments to other countries.

Despite the decrease, electricity generation is still the leading LNG consumer. Pakistan has a long-term LNG import agreement with Qatar. Qatar's declaration of force majeure on LNG supplies could be a blessing in disguise given the declining demand. But in summer, this may pose challenges for the sector during peak hours, requiring the use of costly furnace oil to meet demand and thereby significantly increasing electricity costs.

Moreover, structural inefficiencies – system losses and circular debt, further weaken electricity supply reliability. On the positive side, the rapid growth of solar can help reduce electricity bills for many, but it also poses challenges due to outdated infrastructure and excess installed capacity.

Global Price Changes and Domestic Prices

As the conflict escalated, the Platts petrol benchmark rose from \$111.54/BBL on February 26, 2026, to \$138.18/BBL (April 2, 2026). Diesel prices reached a historic peak of \$230.50/BBL, up from \$119.80 at the start of the conflict. This led to a significant increase in import costs for Pakistan, which will be reflected in the current account and foreign exchange reserves in April.

Petroleum prices in Pakistan responded quickly due to the fuel pricing system (which is based on the average Platts benchmark prices of petroleum products during the pricing period) and limited fiscal capacity to subsidize or cut taxes on retail prices. Furthermore, the severity of the crisis led the government to adjust domestic prices within a week, breaking its usual fortnightly schedule.

The conflict affected nearly all Asian countries, with Pakistan experiencing the highest increases in petrol and diesel prices. All raised prices, except for a few, e.g., India and Bangladesh, but the magnitude of increase remains smaller. The main difference between these countries and Pakistan (and Cambodia) is that other Asian countries have strong currencies, substantial foreign reserves, and stable economies.

In addition, countries that prepare for potential crises by building strategic petroleum reserves (SPR), not just commercial stocks, appear less affected by the conflict, e.g., Japan, China, and South Korea. In contrast, Pakistan has only 20 days of operational inventories and no formal SPR, making it more vulnerable. SPR enhances energy security, at least in the short term.

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On the supply side, Pakistan responded swiftly and secured crude and petroleum product supplies from alternative sources and maritime routes; refineries operated at near-maximum capacity (80-100%). This helped delay immediate shortages but could not eliminate import dependence.

Macro Risks for Pakistan

Pakistan has been facing severe economic imbalances for years, leading to an immense burden of interest payments and external debt obligations. The total public debt stock has reached PKR 81.4 trillion, of which 32% is the external debt. Interest payments are consuming a major share of national revenue (PKR 8.2 trillion) (FD, 2026). Recent policies (under the IMF program), lower oil prices, and debt rollovers from friendly countries — all helped in stabilizing the economy. The recent conflict has become a significant test not only for the energy system but for the entire economy; the economy has already been struggling with GDP growth stagnating at around 2 to 3% (Malik, 2026).

A greater reliance on imported energy is often associated with weaker GDP performance, particularly during periods of high global fuel prices, e.g., the energy shock following the Ukraine War (Figure 8). Increased import bills lead to a larger current account deficit, budgetary and exchange rate pressures, higher inflation, and increased production costs, which can slow economic growth.

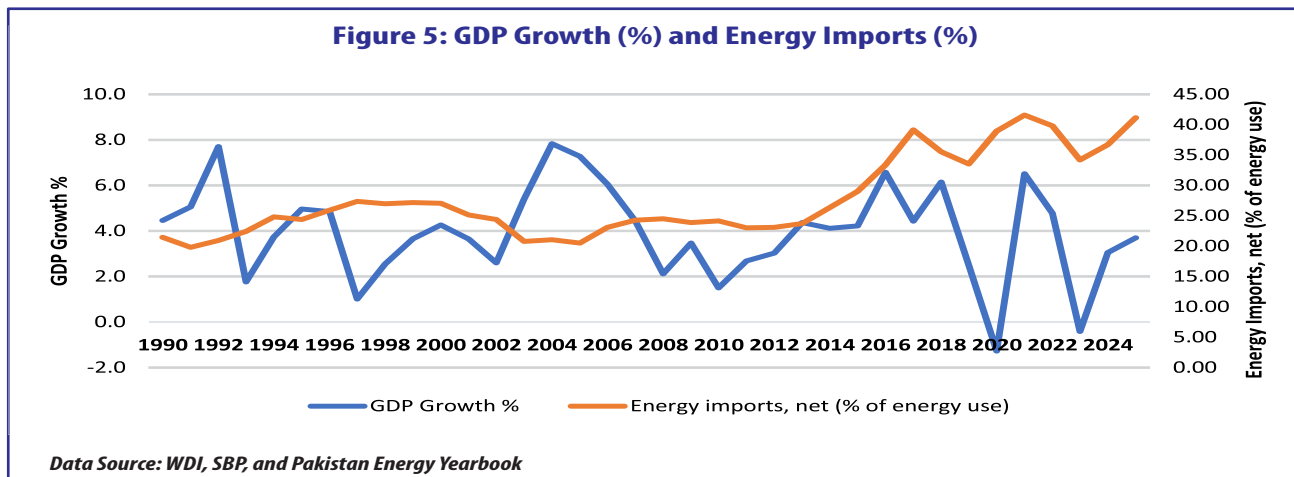
Slow global cost transmission through tax adjustments or subsidies can protect consumers from abrupt inflation but burdens the government's budget, while faster transmission maintains fiscal discipline but exposes households to inflationary pressures. In Pakistan, the government opted for faster transmission, which will lead to higher inflation. It is also evident from the inflation estimates released by the Pakistan Bureau of Statistics: month-on-month inflation increased by 1.2% in March 2026 and by 7.3% year-on-year compared to March 2025. These inflationary pressures could have significant implications for Pakistan, which has one of the lowest per capita incomes in the region.

Pakistan's external sector is fragile, with exports far below imports, resulting in a persistent trade deficit. This energy shock will increase its import bill, widening the trade deficit and straining (limited) foreign reserves (\$21.8 billion, including commercial banks' reserves, as of March 27, 2026). These reserves could provide approximately 2.5 months of import cover, below the recommended 3 months. Furthermore, Pakistan is expected to face increasing pressure in the coming months as \$5.3 billion in external debt obligations are due (\$4 billion to the UAE, an amount held by SBP for several years, and \$1.3 billion as the 10-year Eurobond matures). If this amount is fully paid and there are no new inflows, it could drain about one-third of SBP's reserves.

In the medium term, if the ongoing crisis continues, it is expected to trigger a global recession, which will create dual pressure on Pakistan's external sector, as both exports and remittances are likely to decline, widening the current account deficit. Remittances have supported Pakistan's foreign reserves, reaching \$26.49 billion in the first eight months of FY2026, a 10.5% increase (SBP, 2026). However, a decline is expected due to issues in the UAE, Saudi Arabia, and Western countries, potentially leading to a loss of \$1 billion to \$4 billion annually (Farooq, 2026).

Exports have already fallen by 14.4% in March 2026 (PBS, 2026); the crisis may decline them further. The main exporting sector — textiles — is under stress due to high energy costs and gas rationing. To address the balance-of-payments crisis and declining foreign reserves, the government may impose import restrictions, similar to those implemented after the Ukraine war in 2023, which could further slow production and increase unemployment.

The pressure on foreign reserves due to higher import payments may weaken the Pakistani Rupee. Also, if domestic inflation rises faster than global inflation, exports will become less competitive, causing the nominal exchange rate to fall. When foreign reserves fall, interest rates usually rise sharply, as lower reserves signal higher economic risk and trigger cost-push inflation. Unlike inflation driven by demand, higher interest rates cannot control inflation caused by supply issues.



Moreover, higher energy costs raise businesses' production costs and reduce consumer purchasing power for other goods and services; both channels suppress economic activity. Notably, household disposable income has already been declining, as HIES data across years show, due to past energy cost increases; this current shock will further worsen the situation (Malik, 2026).

Way Forward

Pakistan should focus on reforms that encourage growth, as this is the best way forward. The focus should be on building foreign reserves through investment-led and export-led growth.

Pakistan needs growth, to be achieved through structural transformation rather than increased resource consumption. Energy use efficiency, diversification of energy sources, and development of technological alternatives are essential to reduce future vulnerabilities. Pakistan's transportation and industrial sectors are energy-inefficient; fuel-efficient vehicles and energy-saving technologies can significantly reduce fuel demand. Electrification is often suggested, but without indigenization of technology, it cannot be done cost-effectively.

Pakistan must accelerate its transition to low-carbon energy to help cut emissions, increase resilience, and achieve energy independence. Expanding solar alone will help only a few. For its broader impact on energy and economic security, it must be integrated into the grid. Therefore, grid upgrades, development of utility-scale storage capacity, and indigenization of solar technology are essential.

Tariff design adjustments can also help share solar benefits across a larger population. Similarly, such adjustments in the gas sector can help in the better utilization of scarce resources. Market-based tariffs in the upstream sector can also encourage exploration activities.

Upgrading Pakistani refineries has now become unavoidable to reduce future economic risks. Importing

crude and processing locally is a lower drain on foreign reserves than importing refined products.

Maintaining not only commercial stocks but also SPR is critical. Furthermore, diversifying energy markets beyond the Gulf countries, including Iran and Russia, has now become essential.

It is time to rethink Pakistan's transport policy – switching to rail for cargo can save fuel, cut spending on imported oil, lower transportation costs, and reduce greenhouse gas emissions.

Finally, a sustainable solution lies in improving fiscal policy to reduce reliance on fuel-based taxes, establishing a transparent, market-based framework for fuel pricing that reflects global oil prices, and providing targeted budgetary support for vulnerable groups rather than blanket subsidies.

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Note: The data that is not cited within the text is from Pakistan Energy Yearbook, 2024-25.

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