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REER Trends and the Uraan Pakistan Ambition

Introduction

Pakistan's Real Effective Exchange Rate (REER) rose to 106.15 in May 2026, reaching its highest level in nearly 92 months. A stronger REER can reduce the rupee cost of imports, especially for fuel, machinery, raw material and intermediate inputs. However, it can also make exports relatively less competitive if productivity, energy costs, logistics and value addition do not improve at the same pace. The issue is therefore not simply whether the rupee looks stronger, but whether this strength supports Pakistan's export-led recovery.

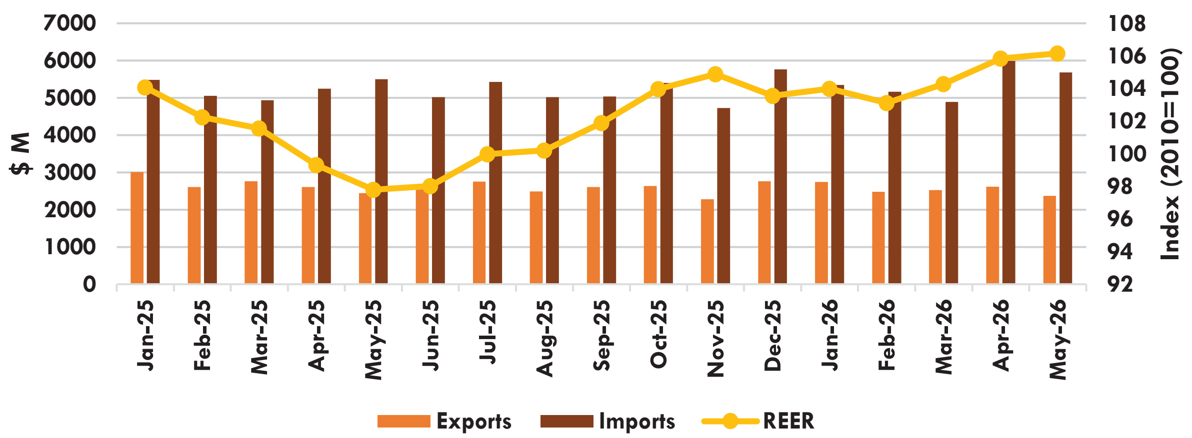
This matters because Uraan Pakistan places exports at the center of economic transformation, aiming to increase foreign exchange earnings and strengthen Pakistan's global trade position. After Budget 2026-27, the economy needs growth without renewed external pressure. Cheaper imports can help only if they support productive capacity and export growth. If they mainly increase consumption or import dependence, the stronger REER may work against the export ambition that Uraan Pakistan is trying to achieve.

Cheaper Imports, Pressured Exports

The REER is an important competitiveness indicator because it combines exchange-rate movements with relative inflation against trading partners. When the REER rises, domestic goods generally become relatively more expensive in foreign markets, while imports become relatively cheaper in the domestic market. For Pakistan, this matters because the economy depends on imported fuel, machinery, raw material and intermediate inputs, but also needs export growth to sustain external stability and foreign exchange earnings.

The recent data show a clear appreciation trend after mid-2025. Pakistan's REER declined from 104.06 in January 2025 to 97.79 in May 2025, but then rose steadily to 103.96 in October 2025, 105.84 in April 2026 and 106.15 in May 2026. During April-May 2026, imports remained high at US$5,989 million and US$5,686 million, while exports stood at US$2,619 million and US$2,368 million, respectively. This does not prove direct causality, but it raises a key policy concern: whether cheaper imports are supporting production capacity or simply adding pressure to the trade balance.

Figure 1: REER and Pakistan's Trade Performance (Jan-25 till May-26)



Source: State Bank of Pakistan

The Uraan Pakistan Test

The REER trend is important for Uraan Pakistan because the plan places exports at the center of Pakistan's economic transformation. Its objective is to raise foreign exchange earnings, improve global trade positioning and shift the economy toward a more competitive growth path. In this context, a stronger REER creates a policy test: Can Pakistan use cheaper imports to build export capacity, or will cheaper imports mainly increase domestic demand for imported goods?

REER appreciation is not always negative. If lower import costs help firms buy machinery, technology, raw material and intermediate inputs, it can support productivity and value addition. However, if imports rise mainly in consumption goods or non-productive categories while exports remain weak, the economy may move away from the export-led direction that Uraan Pakistan aims to achieve. Between April and May 2026, REER remained above 105, imports stayed above US$5.6 billion, and exports remained below US$2.7 billion. This shows that the benefit of cheaper imports must be judged by their use, not by their size alone.

Post-Budget Growth: Productive or Import-Led?

The post-Budget 2026-27 environment makes the REER issue more sensitive. Pakistan is trying to support growth while maintaining fiscal discipline, raising tax collection and protecting external stability. In this setting, cheaper imports can provide short-term relief by lowering the cost of fuel, machinery, raw material and intermediate inputs, especially where these are used for export-oriented production.

However, the risk is that cheaper imports may widen import demand at a time when exports are not rising at the same pace. If firms and consumers respond to a stronger REER by increasing non-essential or consumption-related imports, the trade gap may widen again. For Pakistan, the stronger REER can be useful only if imported machinery, technology and intermediate goods translate into higher productivity, value addition and export expansion. Otherwise, the benefit may remain short-term, while the cost appears later through renewed pressure on the current account, reserves and exchange-rate management.

Turning REER Strength into Export Capacity

Pakistan's policy response should focus on using REER appreciation as a productive opportunity rather than allowing it to become an import-led pressure. A stronger REER can reduce import costs, but the real benefit will come only if cheaper imports support investment, productivity and export capacity. Therefore, imports of machinery, technology, raw material and intermediate goods should be closely linked with sectors that can generate export growth.

First, REER should be monitored alongside export volumes, import composition and sector-wise productivity indicators. A rising REER is manageable if exports remain strong and imports are linked with production. Second, policy support should prioritize exporters through timely tax refunds, competitive energy pricing, export finance, technology upgradation, and faster customs clearance. Third, import growth should be assessed by quality, not only quantity. Productive imports that support value addition should be encouraged, while non-essential import demand should remain carefully monitored.

For Uraan Pakistan, the key lesson is clear: exchange-rate stability alone cannot deliver export-led growth. It must be supported by competitiveness reforms that reduce the cost of doing business, improve logistics, expand market access and raise productivity. Pakistan's stronger REER should therefore be treated as a policy signal, not a comfort zone.

Conclusion

Pakistan's REER appreciation to a 92-month high presents both an opportunity and a warning. Cheaper imports can support production if they reduce the cost of machinery, technology, raw material and intermediate inputs. However, the same appreciation can weaken export competitiveness if domestic firms are unable to improve productivity, quality and value addition. The real test is whether the stronger REER supports Uraan Pakistan's export-led growth ambition or encourages another cycle of import-led demand. A stronger rupee may provide temporary relief, but only stronger exports can provide lasting stability.

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