Economy

Global Oil Price Surge: Risks to Pakistan's External Stability

- As Israel attacked Iran on Friday, tensions between the two countries escalated and oil prices surged reflecting fears that a wider conflict in the Middle East could lead to serious energy supply disruptions.
- Pakistan's external account position may face heightened pressure if rise in global oil and LNG prices persist and it may exert direct pressure on the Country's current account balance.
- Pakistan's economic outlook remains under pressure as multiple risks converge. Rupee has already weakened in 2025 with risks of further depreciation above PKR 285 against greenback amid rising import demand. Simultaneously, rising oil prices continue to pose a major risk to inflation outlook as global oil prices are up by 1.21% in 2025.

Escalation in Iran-Israel Conflict

As Israel attacked Iran on Friday, tensions between the two countries escalated and oil prices surged reflecting fears that a wider conflict in the Middle East could lead to serious energy supply disruptions.

Oil Prices up Significantly

On Friday, June 13, 2025, WTI Crude oil prices jumped by +6.98% closing at USD 71.3/bbl while Arab light crude climbed +8.92% to settle at 75.96/bbl. WTI touched a high of US$ 74.86/bbl post rise in tensions and is up nearly 23% since May-2025. However during the day, both benchmarks had surged even higher marking the largest single-day gains for both oil benchmarks since March 2022, shortly after Russia launched its full-scale invasion of Ukraine. Import of petroleum products accounts for a major contribution in Pakistan's import bill. In 10MFY25, the Country has imported USD 12.8bn of petroleum products which makes up approximately 26% of the total imports. If the conflict persists, sustained high oil prices can put considerable pressure on the Country's trade balance and overall fiscal position.

Global shipping disruption may lift freight costs

In addition to rising oil prices, Pakistan is also vulnerable to facing increase in freight costs due to supply chain disruptions as the Strait of Hormuz, a strategic maritime passage through which roughly 20% of the world's oil and LNG supplies pass through, is facing heightened risk amid the ongoing tensions between Israel and Iran. Prolonged instability in the region can also lead to a sharp incline in shipping costs, which can strain the external account further.

Analyst

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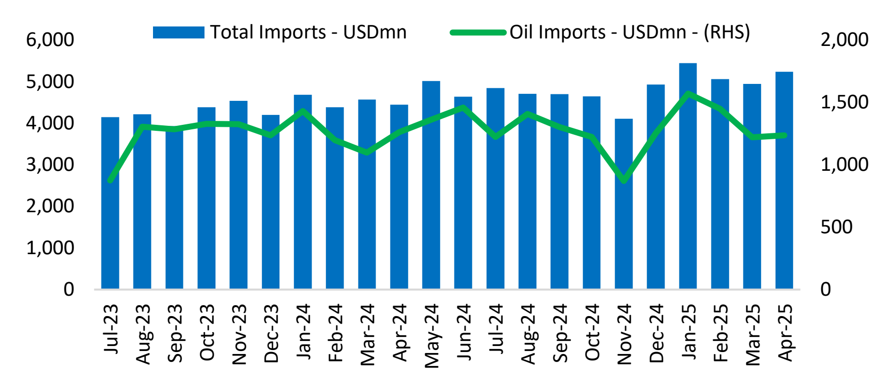
Exhibit: Petroleum imports vs total imports of Pakistan



Source: SBP, IGI Research

Impact on Current Account Balance

Pakistan's external account position may face heightened pressure if rise in global oil and LNG prices persist and it may exert direct pressure on the Country's current account balance. Although, Pakistan was able to record a decent current account surplus during 10MFY25, this cushion may prove to be short lived if oil prices surge drastically. This may also potentially lead to an increase in the Country's reliance on external financing including support from multilateral agencies and bilateral loans.

Exhibit: Petroleum Imports vs Arab Light Price

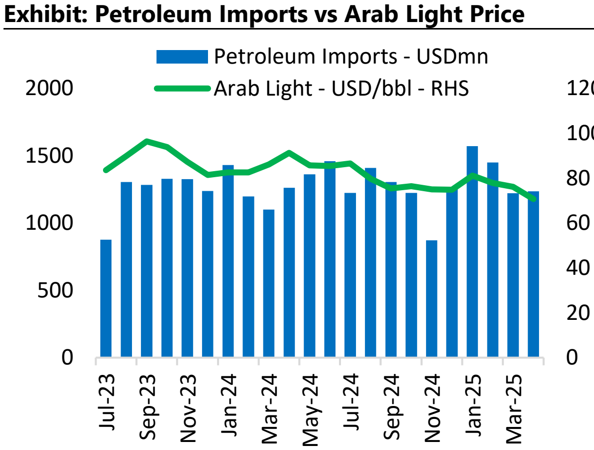
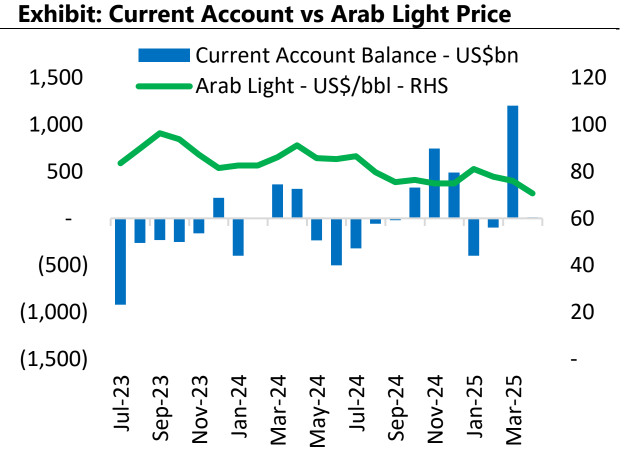


Exhibit: Current Account vs Arab Light Price



Source: SBP, IGI Research

Fiscal Policy and IMF

The surge in global oil prices may place Pakistan in a difficult policy bind. Passing the full cost to consumers may be challenging, while absorbing it through subsidies would widen the fiscal deficit and worsen the circular debt crisis, which already exceeds PKR 5.2 trillion across the power and gas sectors.

Pakistan has spent over PKR 1.04 trillion on energy subsidies in recent years, and further outlays would undermine fiscal consolidation efforts under the IMF program. Moreover, IMF conditions explicitly restrict the use of untargeted energy subsidies, limiting the government's ability to shield consumers from rising energy costs.

With growing risks of stagflation, external financing pressure, and macroeconomic instability, the government must urgently secure external support, streamline energy procurement, and prepare contingency plans to preserve economic stability.

Exhibit: CPI vs Arab Light Price

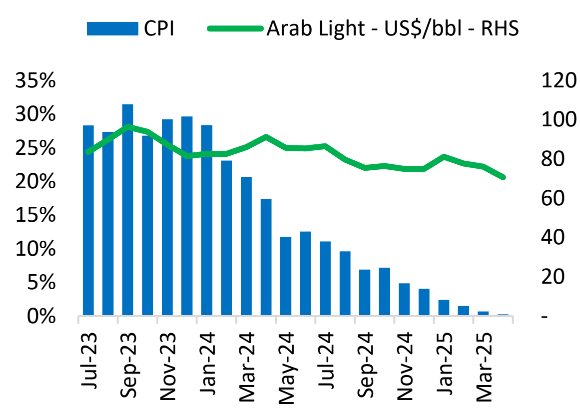
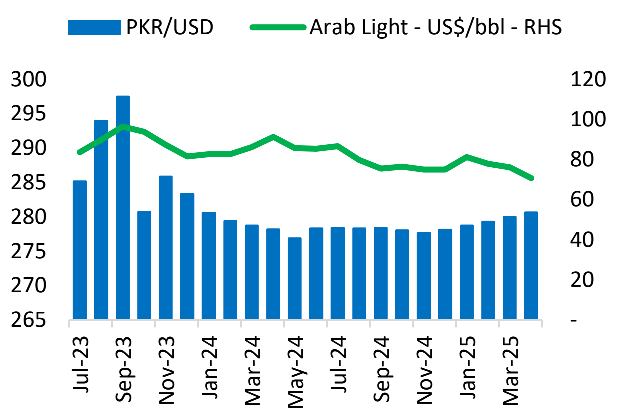


Exhibit: PKR/USD Exchange Rate vs Arab Light Price



Source: SBP, PBS, IGI Research

Monetary Policy and Exchange Rate

Pakistan's economic outlook remains under pressure as multiple risks converge. Rupee has already weakened in 2025 with risks of further depreciation above PKR 285 against greenback amid rising import demand. Simultaneously, rising oil prices continue to pose a major risk to inflation outlook as global oil prices are up by 1.21% in 2025. Indirectly this may also impact local electricity prices as well. Headline inflation has already spiked to 3.46%y/y in May-25, averaging 4.6% in Jul–May FY25, and is likely to accelerate further in the near term, especially if energy costs remain elevated.

Considering impact of prolonged conflict on oil price and external pressures, a cautious Monetary Policy stance may be adopted by State Bank of Pakistan (SBP) and may hold rates steady at 11%. While earlier signs pointed to a potential easing cycle, a prudent policy may be appropriate. Such a stance, while necessary to manage inflation and currency risks, could limit credit availability and dampen private sector growth.

Impact on market volatility

The KSE-100 index may also face some volatility and selling pressure due to heightened regional tensions as foreign investors may also want to reduce their exposures in energy intensive sectors. Nevertheless, Exploration and Production companies including OGDC, PPL, MARI and POL, may benefit from rising oil prices. Unless there is greater clarity on the matter, the overall market sentiment is expected to remain cautious and index levels are to remain range bound.

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