



ECONOMIC UPDATE

Pakistan's economy started FY2026 with positive developments from the sustained improvements in FY2025 and setting a promising tone for the months ahead. CPI inflation remained moderate, suggesting that inflationary expectations are well-anchored through a mix of administrative measures and policy reforms along with prudent economic management. In July FY2026, the external sector showed a favourable performance, with a narrower current account deficit and a stable exchange rate, while FBR's tax collection recorded significant growth. These trends highlight a stable macroeconomic foundation at the beginning of FY2026. The stability achieved in FY2025 and sustained improvement in macroeconomic indicators prompted international credit rating agencies to upgrade Pakistan's sovereign outlook, reaffirming confidence in the economic direction and reinforcing the credibility of ongoing reform efforts.

Agricultural Support Continues Through Improved Inputs.

During FY2025, agricultural credit disbursement rose by 16.3 percent to Rs.2,577.3 billion compared to Rs.2,215.7 billion in FY2024. Imports of agricultural machinery and implements also increased significantly by 123.9 percent, reaching \$14.4 million in July FY2026. During the 2025 Kharif season (April-July), urea offtake grew by 2 percent to 1,859 thousand tonnes, while DAP offtake recorded a marginal decline of 0.7 percent to 416 thousand tonnes. The government remains committed to supporting farmers through timely access to quality seeds,

credit, fertilizers, and modern machinery. Nonetheless, adverse climatic events (heavy rainfall and floods) pose a risk in achieving the sector's targeted growth.

LSM Sector is on the Upside of Recovery.

Large-Scale Manufacturing (LSM) sector registered a year-on-year (YoY) increase of 4.1 percent in June 2025 while month-on-month (MoM), it declined by 3.7 percent. Cumulatively, LSM output declined by 0.74 percent during FY2025, compared to a marginal growth of 0.78 percent last year. Out of 22 sectors, 12 experienced positive growth, including textiles, wearing apparel, coke & petroleum products, beverages, and pharmaceuticals. The automobile sector performed well in July FY2026, with significant increase in the production of cars (49.0%), trucks & buses (40.1%), and jeeps & pickups (34.0%). Cement dispatches rose to 3.997 million tonnes in July FY2026, reflecting a 30.1 percent rise over last year. Domestic sales increased by 18.4 percent to 2.988 million tonnes, while exports jumped by 84.2 percent to 1.008 million tonnes reflecting an uptake in industrial activity.

CPI Inflation is Rising at a Moderate Pace.

CPI Inflation was recorded at 4.1 percent YoY in July 2025, compared to 3.2 percent in June 2025 and 11.1 percent in July 2024. MoM, it increased by 2.9 percent, following a 0.2 percent increase in June 2025 and 2.1 percent increase in July 2024. YoY major contributing factors include Health (10.8%), Education (10.2%), Clothing & Footwear (8.4%), Restaurants & Hotel (7.7%), Alcoholic Beverage & Tobacco (3.7%), Furnishing &

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Household equipment maintenance (3.3%), Housing, Water, Electricity, Gas & Fuels (3.6%), Non-perishable food items (2.6%),

Transport (2.7%), and Communication (0.5%). While a decline is observed in perishable food items (8.3%). The Sensitive Price Indicator for the week ending August 21, 2025, declined by 0.01 percent. During the week, out of 51 items 08 items decreased, prices of 18 items increased, and 25 items remained stable.

Fiscal Consolidation Efforts Stayed on Course, Strengthening the Fiscal Outlook.

FY2025 concluded with notable improvement, supported by strong revenue growth and prudent expenditure control. The fiscal deficit narrowed to 5.4 percent of GDP from 6.9 percent in FY2024, the lowest in eight years. The primary surplus rose significantly to Rs. 2,719.4 billion (2.4% of GDP) from Rs. 952.9 billion (0.9%), the highest in 24 years, driven by contained non-markup expenditures. Total expenditure grew by 18.0 percent to Rs. 24,165.5 billion, with current spending increasing by 15.9 percent to Rs. 21,528.6 billion. This moderation created space for development, as federal PSDP rose sharply by 43.3 percent. On the revenue front, tax collection grew by 26.2 percent, while non-tax revenues surged by 65.7 percent. In July FY2026, FBR's tax collection increased by 14.8 percent to Rs. 757.4 billion, with the 12.5 percent increase in domestic tax and 31.2 percent rise in customs duty.

External Account Appears Favorable Compared to July FY2025.

In July FY2026, the current account posted a deficit of \$254 million, lower than the \$348 million deficit recorded in July FY2025. Goods exports increased by 16.2 percent to \$2.7 billion, while imports rose by 11.8 percent to \$5.4 billion, resulting in a trade deficit of \$2.7 billion compared to \$2.5 billion last year. At the commodity level, gains in key exports were observed in knitwear (43.5%), garments (35.5%), and bedwear (38.3%). While increase in major imports were recorded in petroleum products (27.4%), crude oil (10.4%), and palm

oil (26.1%). Service exports grew 18.1 percent to \$745 million; imports declined 0.7 percent to \$871 million, with service trade deficit of \$126 million compared to \$246 million last year. IT exports increased by 23.8 percent to \$354.6 million. Remittances were up 7.4 percent at \$3.2 billion, led by inflows from KSA (25.6% share) and UAE (20.7%).

The net FDI was 6.9 percent higher at \$208.1 million. Main sources were China (\$51.4 million), Canada (\$37.8 million) and Hongkong (\$30.1 million). Sector-wise, power (\$70.4 million) and financial services (\$58.9 million) attracted the most FDI. However, private and public Foreign Portfolio Investment recorded net outflows of \$33.8 million and \$10.8 million, respectively. As of August 15, 2025, foreign exchange reserves stood at \$19.6 billion, including \$14.3 billion with SBP.

Monetary Indicators are Showing Seasonal Behavior, whereas Pakistan Stock Market Continues to Trend Upward.

The Monetary Policy Committee (MPC), in its meeting on July 30th, 2025, kept the policy rate unchanged at 11 percent. Despite favourable inflation outcome in June 2025, the Committee observed a slight increase in the inflation outlook in the coming months due to a higher-than-expected adjustment in energy prices, particularly gas tariffs. During 1st July – 1st Aug, FY2026 money supply (M2) shows negative growth of 4.9 percent compared to negative growth of 3.2 percent last year. Within M2, Net Foreign Assets (NFA) of the banking system decreased by Rs. 61.8 billion as compared to decrease of Rs. 73.4 billion last year. On the other hand, Net Domestic Assets (NDA) decreased by Rs. 1,940.7 billion as compared to a decrease of Rs. 1,086.0 billion last year. Under the borrowing for budgetary support, the government has retired Rs. 450.9 billion against the borrowing of Rs. 304.2 billion last year. Private Sector has retired Rs. 222.4 billion as compared to the retirement of Rs. 346.7 billion last year. The Pakistan Stock Exchange (PSX) continued its upward trend, achieving historical high of 150,591 points in 3rd week of August 2025. The KSE-100 index

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gained 13,763 points in July and closed at 139,390 at the end of July 2025. The market capitalization of PSX increased by Rs. 1,464 billion and settling at Rs. 16,703 billion.

Emigration Continues an Upward Trend and Social Safety Nets Expand.

In July 2025, the Bureau of Emigration & Overseas Employment registered 63,255 workers, a 23.9 percent increase from 51,072

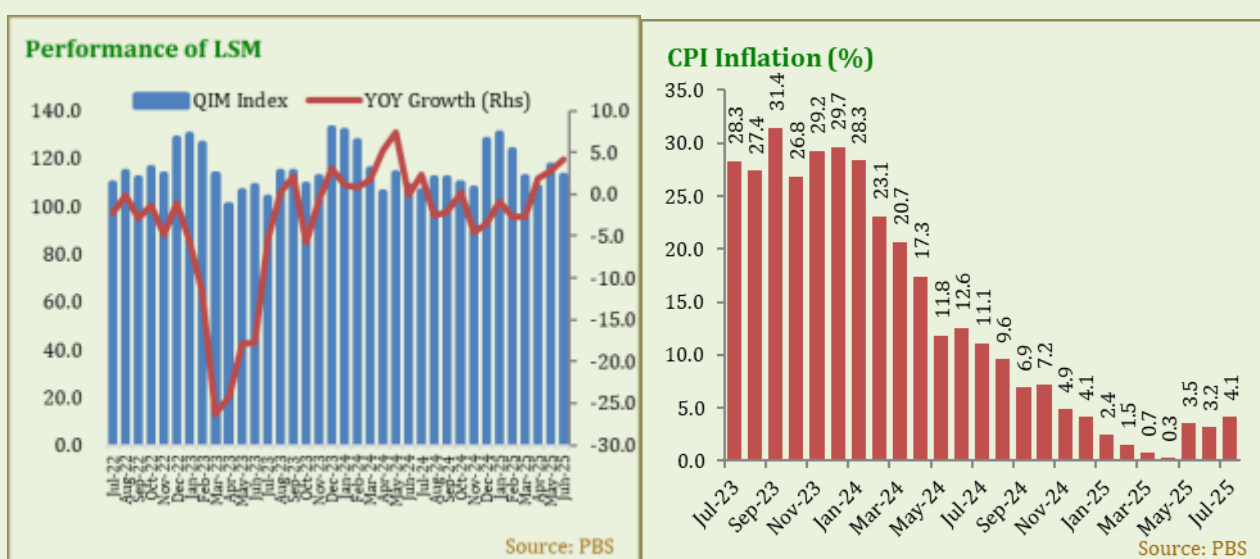
in June 2025. The Pakistan Poverty Alleviation Fund, in partnership with 26 organizations, disbursed 16,368 interest-free loans worth Rs. 840 million during July 2025. Since 2019, a total of Rs. 119.5 billion has been provided to the borrowers. During FY2025, Rs. 592.4 billion were spent under the BISP, representing an increase of 27.1 percent compared to last year.

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Pakistan's economy entered FY2026 with stable macroeconomic conditions and improved growth prospects, supported by a stronger external and fiscal position. On YoY basis, LSM has been on a steady recovery since April 2025, peaking in June, and is expected to gain further momentum with improvements in automotive and fertilizer output. Government measures for investment facilitation along with reforms to support private sector-led growth, easing inflation, and accommodative monetary

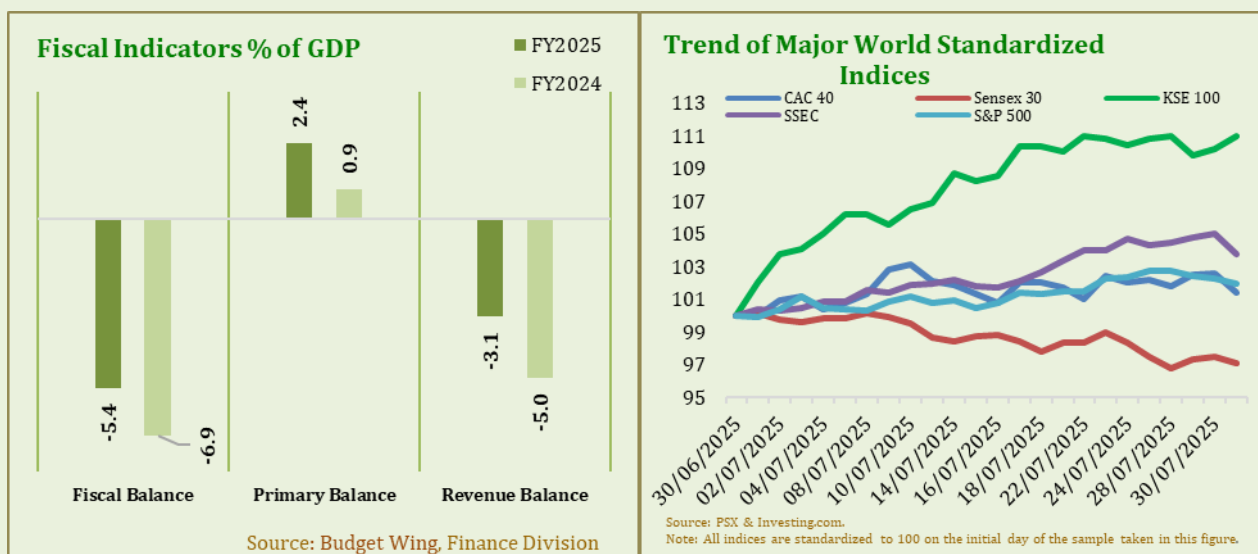
policy may likely to further reinforce business confidence. A favourable global environment, stronger demand from trading partners, and the recent trade deal of Pakistan with the U.S. are expected to boost exports, while workers' remittances will help contain trade deficit pressures from tariff rationalization-driven imports. However, flood-related damages may add fiscal pressures and disrupt food supplies in affected areas. Inflation is projected to remain within the range of 4.0-5.0 percent in August, 2025.

LSM shows gradual recovery while inflation remains within the target limit

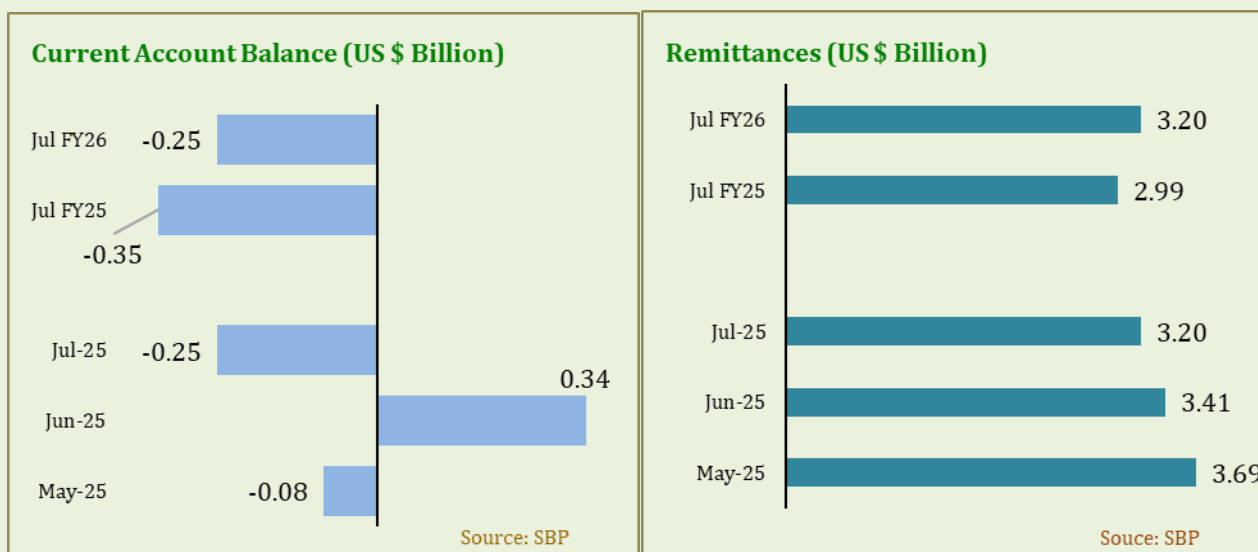


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Steady fiscal consolidation efforts continued, bolstering the fiscal position. While the new record is galore in Pakistan Stock Market.



Yearly improvements are observed in external account.



Global Economic Update and Outlook

Global economic growth is projected at 3.0 percent in 2025 and 3.1 percent in 2026, as per the IMF's July 2025 World Economic Outlook (WEO), an upward revision from April. Downside risks persist in the form of higher effective tariffs, elevated policy uncertainty, supply chain disruptions, tighter financial conditions, and commodity price volatility amid

geopolitical tensions. On the upside, growth could strengthen if trade predictability improves, tariffs ease out, and fiscal buffers are rebuilt alongside needed structural reforms.

In July, global growth accelerated on the back of stronger services activity, while manufacturing slipped back into contraction.

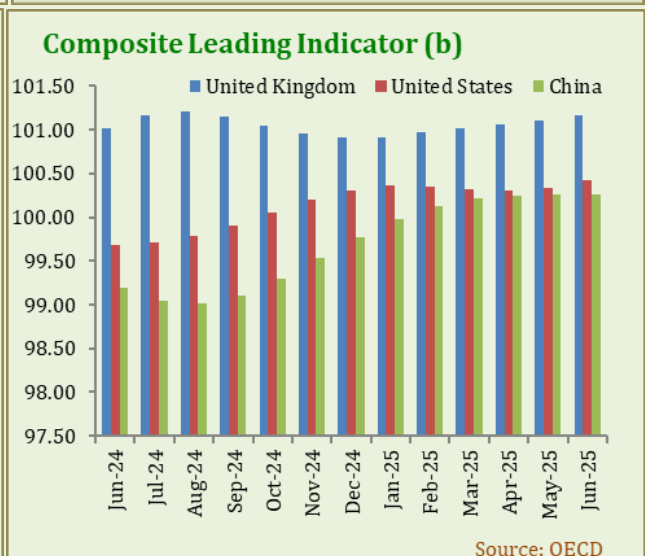
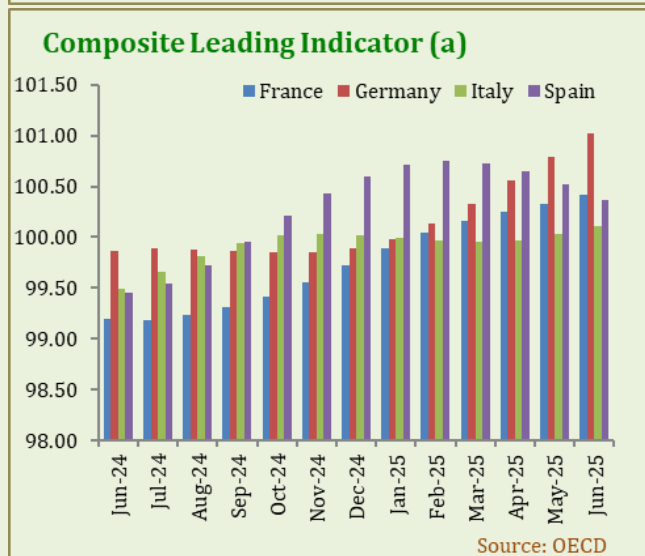
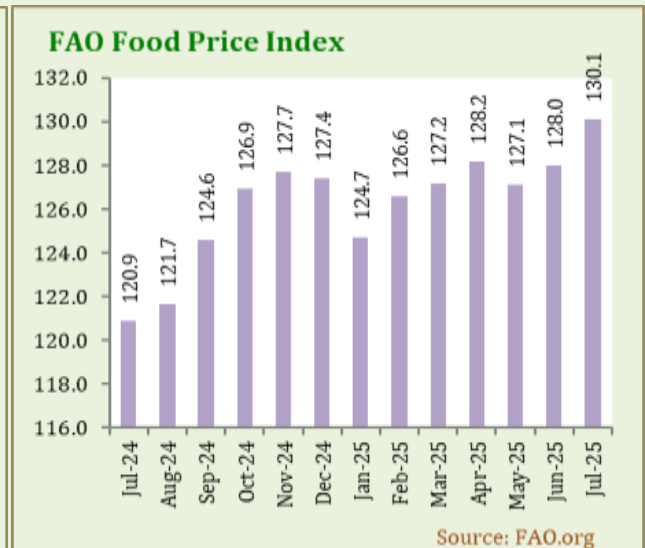
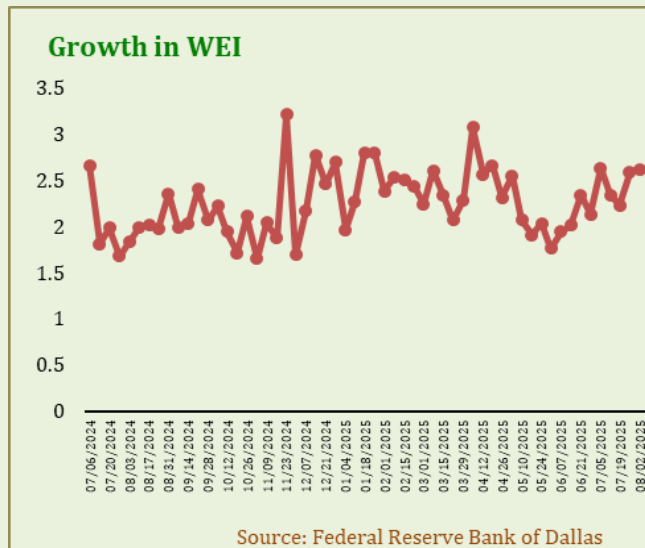
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The J.P. Morgan Global Composite PMI rose to 52.4 in July (from 51.7 in June), consistent with the global economy expanding at an annualized pace of 2.7 percent. Services growth was led by new business in software, banking, insurance, and healthcare across developed and emerging economies. However, business optimism subdued due to ongoing trade uncertainty.

Among major economies, the U.S is projected to grow by 1.9 percent in 2025 and 2.0 percent in 2026, supported by tariff reductions and fiscal stimulus. Growth in the U.K is expected at 1.2 percent in 2025 and 1.4 percent in 2026, while China is projected at 4.8 percent in 2025, driven by stronger-than-expected activity and

lower U.S-China tariffs. In the euro area, growth is forecasted at 1.0 percent in 2025 and 1.2 percent in 2026.

Global trade volume is projected to grow by 2.6 percent in 2025 and 1.9 percent in 2026. Recent front-loading of orders in anticipation of tariff hikes is expected to fade in the second half of 2025. Headline global inflation is forecasted to decline to 4.2 percent in 2025 and 3.6 percent in 2026, though it will remain above target in the U.S. Global commodity prices showed mixed trends in July: energy and non-energy indices eased slightly, while food prices rose by 0.9 percent, driving the FAO Food Price Index up by 1.6 percent from June.



Note : For July, OECD has not yet published CLI estimates

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Economic Indicators

(28-08-2025)

External Sector				
	FY2025	FY2025 (July)	FY2026 (July)	%Change
Remittances (\$ billion)	38.299	2.994	3.214	↑ 7.4
Exports FOB (\$ billion)	32.302	2.361	2.743	↑ 16.2
Imports FOB (\$ billion)	59.088	4.849	5.422	↑ 11.8
Current Account Balance (\$ billion)	2.113	-0.348	-0.254	↑
FDI (\$ million)	2,457.0	194.7	208.1	↑ 6.9
Portfolio Investment- (\$ million)	-650.2	168.7	-44.6	↓
Total Foreign Investment (\$ million)	1,806.9	363.4	163.5	↓55.0
Forex Reserves (\$ billion)	19.3 (SBP: 14.5) (Banks: 4.8) (End June)	14.7 (SBP: 9.3) (Banks: 5.4) (On 16 th Aug 2024)	19.6 (SBP: 14.3) (Banks: 5.3) (On 15 th Aug 2025)	
Exchange rate (PKR/US\$)	283.7 (End June)	278.3 (On 27 th Aug 2024)	281.8 (On 27 th Aug 2025)	

Source: SBP

Fiscal (Rs Billion)						
	FY2024	FY2025	% Change	FY2025 (July)	FY2026 (July)	% Change
FBR Revenue	-	-	-	659.8	757.4	14.8
Non-Tax Revenue	3,050.4	5,056.4	↑ 65.8			
Fiscal Balance	-7,206.9	-6,168.0	↑14.4			
Primary Balance	952.9	2,719.4	↑			

Source: FBR & FD (Budget Wing)

Monetary Sector				
	FY2025	FY2025 (July)	FY2026 (July)	
Agriculture Credit (July-June)	2,577.3	-	-	-
Credit to private sector (Flows)	1,000.5	-317.3 (1 st July to 16 th Aug)	-232.7 (1 st July to 15 th Aug)	↑
Growth in M2 (percent)	13.5	-3.46 (1 st July to 16 th Aug)	-3.31 (1 st July to 15 th Aug)	
Policy Rate (percent)	11.0 (End June)	19.50 (29-July-2024)	11.0 (30-July-2025)	

Source: SBP

Real Sector			
	FY2025	FY2025 (July)	FY2026 (July)
CPI (National) (percent)	4.5	11.1	4.1
Large Scale Manufacturing (LSM) (percent) (July-June)	4.14 (Jun) -0.74	-	-

Source: PBS

Financial Sector				
	FY2025	FY2025 (July)	FY2026 (July)	% Change
PSX Index*	125,627 (On 30 th June 2025)	78,084 (On 27 th Aug 2024)	147,497 (On 27 th Aug 2025)	↑ 88.89
Market Capitalization (Rs trillion)	15.24 (On 30 th June 2025)	10,424 (On 27 th Aug 2024)	17,529 (On 27 th Aug 2025)	↑ 68.16
Market Capitalization (\$ billion)	53.72 (On 30 th June 2025)	37.46 (On 27 th Aug 2024)	62.20 (On 27 th Aug 2025)	↑ 66.07
Incorporation of Companies	35,210	2,871	4,065	↑ 41.6

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP