MONTHLY
ECONOMIC
UPDATE & OUTLOOK
FEBRUARY 2026

GOVERNMENT OF PAKISTAN
FINANCE DIVISION
ECONOMIC ADVISER'S WING

Economic Update

Pakistan's economy entered the third quarter of FY2026 with improved macroeconomic fundamentals. Exchange rate stability, sustained growth in workers' remittances and rising IT exports have contributed to a manageable current account position–collectively strengthening the external sector position. Inflation remained within the target range, while monetary easing reduced borrowing cost across the economy supporting overall financing conditions. High-frequency indicators show a considerable pickup in output. Further, fiscal consolidation has improved, with surplus in both fiscal and primary balances. In parallel, a sizeable portion of public debt was retired ahead of schedule marking a significant step in prudent debt management. Alongside these improvements, Rs. 38 billion Ramadan Relief Package has enhanced the country's social safety net. Overall, the growth prospects have improved significantly, with momentum likely to strengthen in the remaining fiscal year, leading towards sustainable economic growth.

Better Input Availability Underpins Wheat Production Outlook.

During the Rabi season 2025-26, wheat has been sown on an area of around 23.1 million acres, compared to the target of 23.8 million acres, with targeted production at 29.7 million tonnes. The use of agricultural inputs is advancing steadily, backed by government efforts to boost productivity through the supply of quality seeds, access to agricultural credit, farm mechanization, and adequate fertilizer availability. On input side, the imports of agricultural machinery & implements witnessed an increase of 10.5 percent to $76.8 million during Jul-Jan FY2026 from $69.5 million last year. During Rabi 2025-26 (Oct-Jan), Urea offtake recorded at 2,744 thousand tonnes (12% higher than Rabi 2024-25), whereas DAP offtake remained 583 thousand tonnes.

Growth Momentum in LSM Remained Strong.

Large-Scale Manufacturing (LSM) registered a growth of 4.8 percent during Jul-Dec FY2026 against the contraction of 1.8 percent last year, mainly driven by the automobile, wearing apparel and coke & petroleum products with contribution of 1.6 percent, 1.3 percent and 1.0 percent, respectively. During the period, 14 sectors recorded positive growth, including textile, wearing apparel, non-metallic mineral products, food, beverages, coke & petroleum products, electrical equipment, automobiles and tobacco. During December 2025, LSM grew by 0.4 percent on year-on-year (YoY) basis and by a substantial growth of 9.3 percent on month-on-month (MoM) basis. During Jul-Jan FY2026, the performance of automobile sector remained robust, supported by substantial increase in the Production of Trucks & Buses by 92.9 percent, Cars by 57.5 percent, 2/3 Wheelers by 32.6 percent, and Jeeps & pick-ups by 26.5 percent. Similarly, cumulative cement dispatches grew by 10.6 percent in Jul-Jan FY2026 and reached 30.6 million tonnes. Domestic dispatches witnessed a growth of 12.5 percent and totalled at 25.0 million tonnes, while exports massively increased by 61.1 percent, with volume reaching to 0.9 million tonnes.

Steady Inflation Remains Well Below the Annual Target.

CPI inflation recorded at 5.8 percent on YoY basis in January 2026 as compared to an increase of 5.6 percent in the previous month and 2.4 percent in January 2025. On average during Jul-Jan FY2026, it stood at 5.2 percent as against 6.5 percent during the same period last year. YoY major contributing factors of inflation include Education (10.1%), Health (7.1%), Non-Perishable food items (7.6%), Housing, Water, Electricity, Gas & Fuels (7.3%), Clothing & Footwear (6.1%), Restaurants & Hotels (4.9%), Transport (2.6%), Alcoholic Beverages & Tobacco (3.7%), Furnishing & Household Equipment Maintenance (3.2%) and Communication (0.6%), while decline is observed in Perishable Food (19.7%) and Recreation & Culture (4.4%). Sensitive Price Indicator decreased by 0.54 percent on week ended February 26th, 2026. During the week, out of 51 items, prices of 13 items increased, 14 items decreased and 24 items remained stable.

Fiscal Consolidation Efforts Are Strengthening the Fiscal Accounts.

The government's strategy to optimize revenue collection and improve expenditure management is reflected in the overall fiscal position during Jul-Dec FY2026. Total revenue increased by 9.4 percent and reached Rs. 10,683.6 billion, which was contributed by growth in both tax and non-tax revenues by 10.9 percent and 7.0 percent, respectively. Total expenditure declined by 10.3 percent to Rs.10,141.7 billion. This contraction was mainly driven by curtailment of current expenditure, which fell by 5.2 percent on account of 30.7 percent decline in markup expenditure. Development expenditure, on the other hand, increased by 43.2 percent, largely contributed by provincial development spending. Overall fiscal balance recorded a surplus of 0.4 percent of GDP (Rs. 541.9 billion) during Jul-Dec FY2026 as compared to a deficit of 1.3 percent of GDP (Rs. 1,537.9 billion) during the corresponding period last year. Primary surplus was recorded at Rs. 4,105.5 billion (3.2% of GDP) as compared to Rs. 3,603.7 billion (3.2% of GDP) last year. During Jul-Jan FY2026, FBR's tax collection grew by 10.5 percent and reached Rs. 7,176.9 billion. This growth was broad-based, driven by both direct and indirect taxes, which grew by 11.1 percent and 9.8 percent, respectively. Within indirect taxes, sales tax, customs duties, and federal excise duty increased by 10.3 percent, 5.4 percent and 15.2 percent, respectively.

External Account Position Remains Manageable.

In January 2026, the current account recorded a surplus of $121.0 million, bringing the aggregate position during Jul-Jan FY2026 to a deficit of $1.1 billion, compared to a surplus of $0.6 billion recorded last year. Goods & services export recorded at $23.9 billion compared to $24.1 billion last year, of which goods export stood at $18.3 billion. Services export were primarily driven by IT services that increased by 19.8 percent to $2.6 billion. Goods & services import recorded at $44.4 billion compared to $40.0 billion last year, where goods imports were $36.7 billion. Trade deficit of goods & services increased to $20.5 billion from $15.9 billion last year.

According to PBS data, gains in key exports were observed in knitwear (2.1%), garments (5.7%) and bedwear (2.7%). Increase in major import items were recorded in petroleum crude (8.2%) and palm oil (24.7%), while petroleum products declined (1.8%).

Remittances were up 11.3 percent to $23.2 billion, led by inflows from Saudi Arabia (23.5% share) and UAE (20.6%). Net FDI recorded at $981.4 million. Main sources of net inflows were from China ($495.5 million) and Hong Kong ($188.4 million). Sector-wise, power ($541.8 million) and financial services ($462.0 million) attracted the most FDI. Private and public FPI recorded net outflows of $287.6 million and

$176.4 million, respectively. As of February 13, 2026, foreign exchange reserves stood at $21.3 billion, including $16.2 billion with SBP.

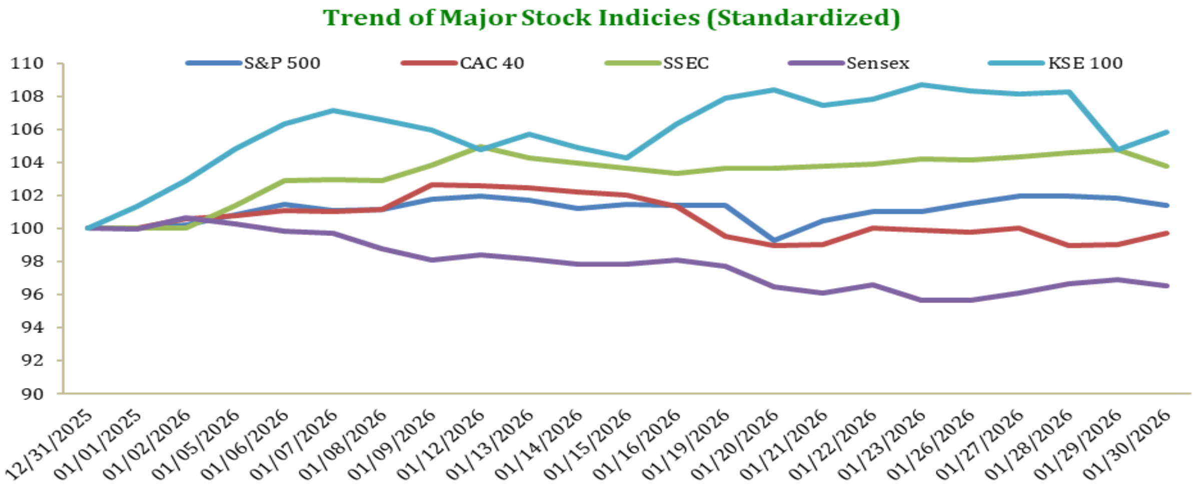
Monetary Indicators Show Anchored Inflation Expectations. While Stock Market Reaches All Time High.

To support sustainable economic growth and price stability, the Monetary Policy Committee in its meeting on 26th January 2026 decided to maintain the policy rate at 10.5 percent. During 1st Jul–30th Jan FY2026, money supply (M2) show growth of 2.3 percent compared to a contraction of 1.0 percent during the same period last year. Within M2, Net Foreign Assets (NFA) of the banking system increased by Rs. 473.5 billion as compared an increase of Rs. 744.0 billion last year. On the other hand, Net Domestic Assets (NDA) of the banking sector increased by Rs. 459.8 billion as compared a decrease of Rs. 1,115.2 billion last year. Under the borrowing for budgetary support, the government borrowed Rs. 158.9 billion against the retirement of Rs. 1,105.7 billion last year. Private sector borrowed Rs. 711.4 billion as compared to borrowing of Rs. 1,017.8 billion in last year. Within private sector credit, loans to private sector businesses increased to Rs. 513.4 billion as compared borrowing of Rs. 1,074.1 billion last year. Within businesses loans, demand for fixed investment loans reached Rs. 236.0 billion as compared Rs. 197.0 billion during the same period last year. In equity market, January 2026 witnessed a robust growth at the Pakistan Stock Exchange (PSX). The KSE-100 Index gained 10,120 points, closing at 184,174.5 points, reflecting improved investor confidence and renewed buying interest. Market capitalization increased by Rs.1,137.6 billion, reaching Rs. 20,827.5 billion by the end of the month.

Employment Abroad and Interest-Free Credit Remain Central to Social Safety Resilience.

In January 2026, the Bureau of Emigration & Overseas Employment registered 75,663 workers, a 19.0 percent increase from 63,559 in January, 2025. The Pakistan Poverty Alleviation Fund, in partnership with 26 organizations, disbursed 10,321 interest-free loans worth Rs. 630.0 million during January 2026. Since 2019, a total of Rs. 123.4 billion have been provided to the borrowers. During Jul-Dec FY2026, Rs. 328.7 billion was disbursed under the BISP.

Stock market remained favorable compared to major global indices.

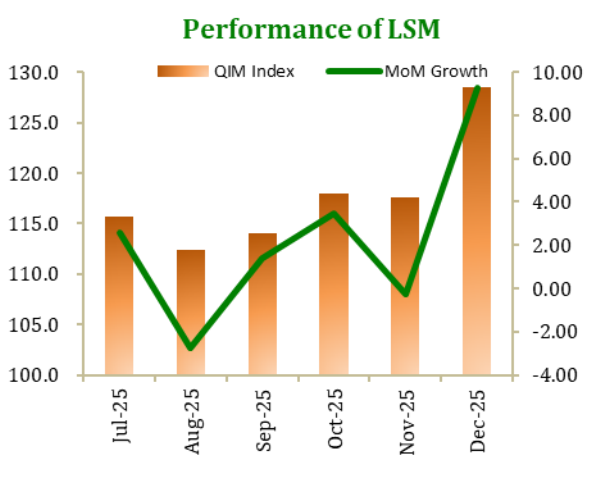


Source: PSX & Investing.com
Note: All indices are standardized to 100 on the initial day of the sample taken in this figure

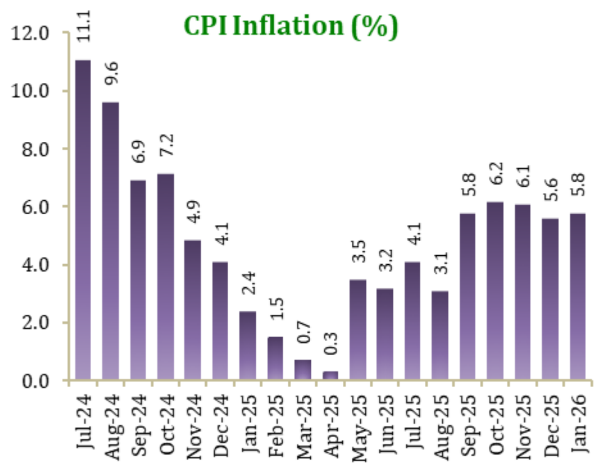
Economic Outlook

Economic activity is expected to maintain its upward trajectory in FY2026, supported by sustained macroeconomic stability, easing inflationary pressures, and an improved fiscal position. The accommodative monetary policy, alongside continued fiscal consolidation and structural reforms, is likely to reinforce business confidence and private sector activity. Inflation is expected to remain within the range of 6.0-7.0 percent in February. Growth is projected to be driven by a rebound in LSM, improved remittances, and resilient agricultural performance, while the external sector is expected to remain manageable amid stable exchange rate and contained current account pressures. Meanwhile, downside risks persist, particularly from geopolitical uncertainties and global commodity price volatility. However, the prudent macroeconomic management is expected to safeguard the stability.

Growth momentum in LSM continued to strengthen. Whereas inflation marginally picked up.

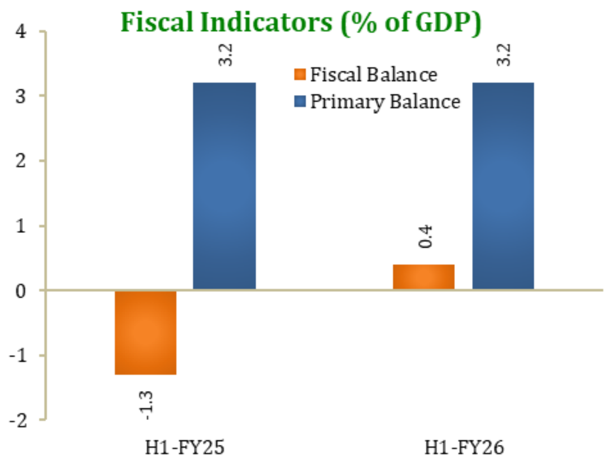


Source: PBS

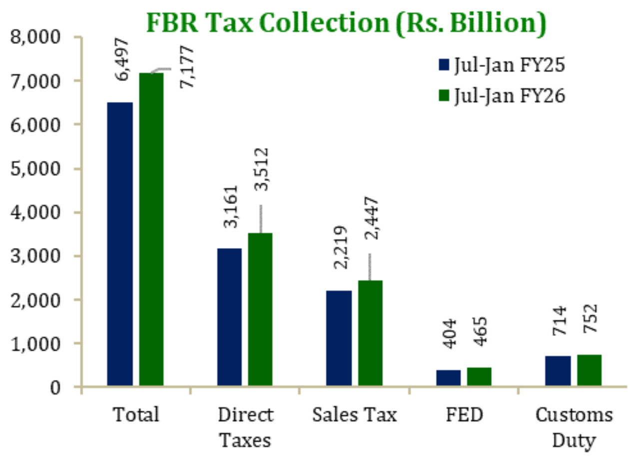


Source: PBS

Efforts toward fiscal consolidation are supporting the stability.

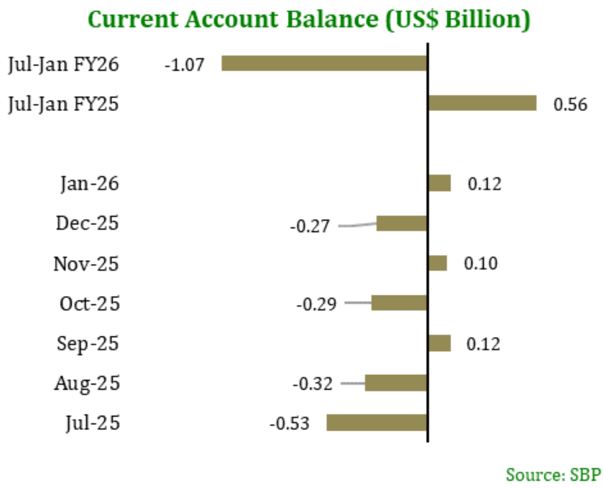


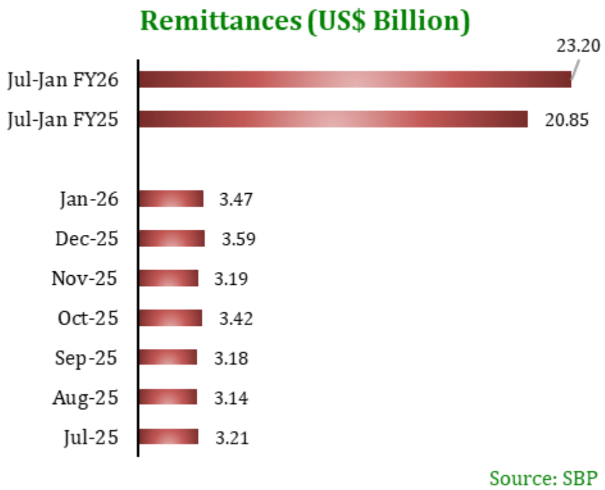
Source: Budget Wing, Finance Division



Source: FBR

Remittances continue to play a major role in partially offsetting pressures on the external account.





Global Economic Update and Outlook

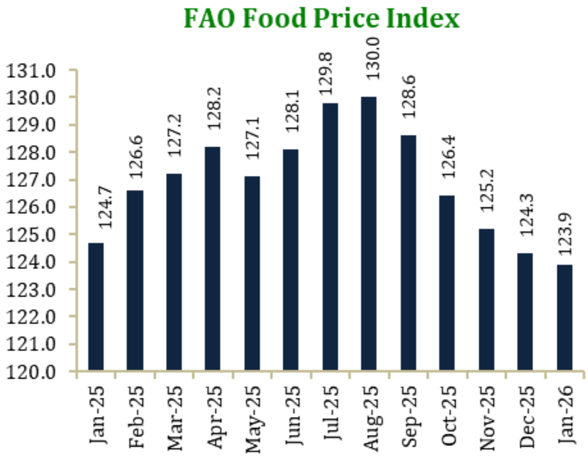
The global economic expansion gained momentum at the beginning of 2026, supported by improvements across both manufacturing and service sectors. The pickup was led by stronger manufacturing output, with production notably rising globally at the equally highest pace since June 2024, driven by fastest increase in new orders in nearly a year. Meanwhile global services activity growth also accelerated on MoM basis, reinforcing the broader upturn. Reflecting these gains, the J.P. Morgan Global Purchasing Managers' Index Composite Output edged up to 52.5 (from 52.0 in December), a level broadly consistent with global GDP growing at an annualized rate of 2.6 percent. Despite this progress, business confidence remained subdued and price pressures intensified, raising concerns about the durability of the ongoing expansion.

Although the strong economic expansion at the start of 2026 raised early hopes that 2025's resilient had carried into 2026, yet several warning signs still prevails. These include: subdued business confidence and concerns over geopolitical uncertainties often linked to U.S policy and tariffs as well as escalating U.S related risks surrounding Iran that raised uncertainty over oil prices.

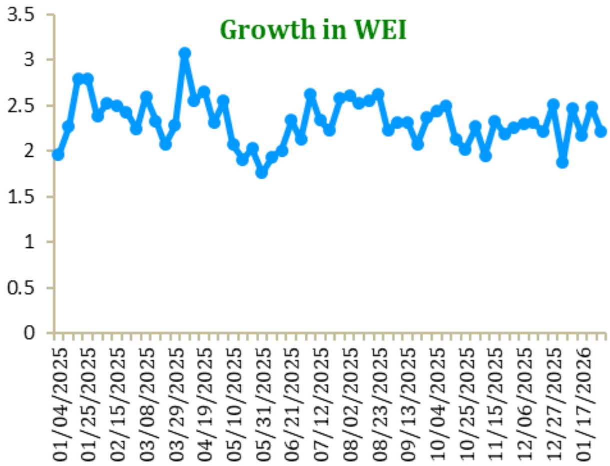
Against this backdrop, Benchmark crude prices reflected these pressures, rising by about \$6 per barrel to nearly \$66 per barrel in early January before easing to around \$64 per barrel, but subsequently rebounding to \$71.5–\$72.0 per barrel as of 20th February. These volatile swings in international oil prices pose a downside risk for oil-importing economies by worsening import bills, exerting pressure on current account balances and pushing up domestic inflation (particularly through higher energy and transport costs). This risk is compounded by intensifying global output price inflation in January, as cost pressures continued to rise at an elevated pace, posing additional risks to a sustained recovery in demand.

However, some moderation is observed in global food prices. The FAO Food Price Index (FFPI) averaged 123.9 points in January 2026, down 0.5 points from December, marking the fifth consecutive month of decline. The FFPI stood 0.8 points below its level on YoY basis and 36.4 points down from the peak reached in March 2022. The index decline owing to relative drop in the price indices for dairy products, meat and sugar compared to offset increases in the indices of cereals and vegetable oil. In commodity markets, the energy price index surge by 12 percent (driven by a 78.4% spike in U.S natural gas price and 4.6% increase in crude oil) and non-energy by 2.9 percent in January. Similarly, raw materials gained by 1.3 percent, fertilizer by 2.4 percent and metals & precious metals by 9.3 and 17.0 percent, respectively.

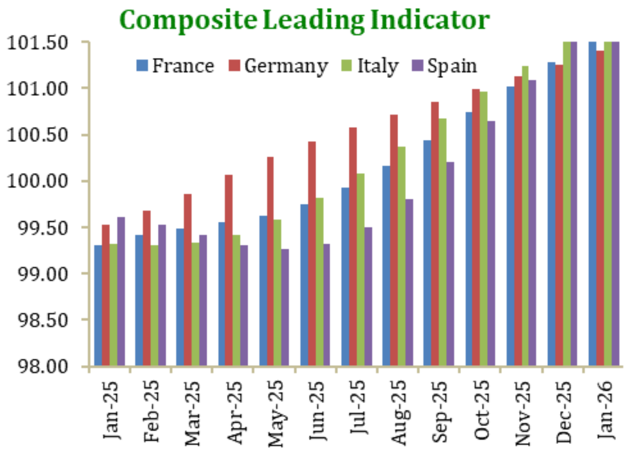
Among high-frequency indicators, U.S Weekly Economic Index (WEI) is currently at 2.58 percent for the week ended February 14, with 13-week moving average at 2.3 percent. Further, economic condition in Pakistan's key export destinations via Composite Leading Indicator suggests that economic activity is fluctuating around its long-term potential (except China showing modest downward yet stabilization at 98.80, below the long-term potential level of 100), indicating that external demand conditions remain broadly stable.



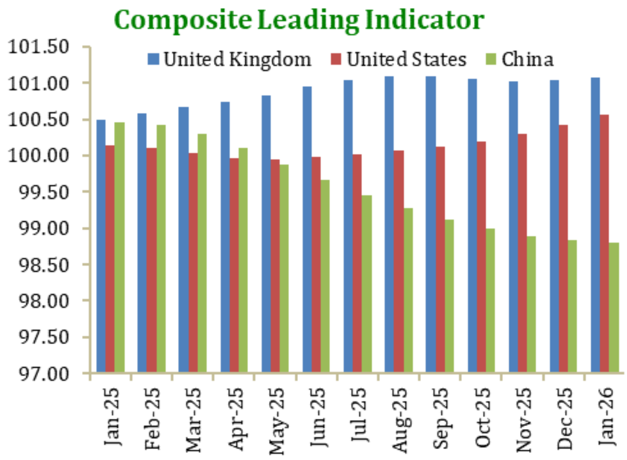
Source: FAO.org



Source: Federal Reserve Bank of Dallas



Source: OECD



Source: OECD

Economic Indicators
(27-02-2026)

External Sector	FY2025	FY2025 (Jul-Jan)	FY2026 (Jul-Jan)	% Change	FY2025 (Jan)	FY2026 (Jan)	% Change
Remittances ($ billion)	38.3	20.8	23.2	↑ 11.3	3.0	3.5	↑15.3
Exports FOB ($ billion)	32.3	19.3	18.3	↓5.5	3.0	2.7	↓8.7
Imports FOB ($ billion)	59.1	33.4	36.7	↑ 9.8	5.5	5.3	↓2.6
Current Account Balance ($ million)	1,932	564	-1,074	↓	-393	121	↑
FDI ($ million)	2,489.7	1,660.7	981.4	↓40.9	235.8	173.3	↓
Portfolio Investment- ($ million)	-650.2	-177.0	-463.9	↓	-95.2	136.7	↑
Total Foreign Investment ($ million)	1,839.5	1,483.7	517.4	↓	140.6	310.0	↑
Forex Reserves ($ billion)	19.3 (SBP: 14.5) (Banks: 4.8) (End June)	15.9 (SBP: 11.2) (Banks: 4.7) (On 14th Feb 2025)	21.3 (SBP: 16.2) (Banks: 5.1) (On 13th Feb 2026)				
Exchange rate (PKR/US$)	283.8 (End June)	279.6 (On 26th Feb 2025)	279.5 (On 26th Feb 2026)				

Source: SBP

Fiscal (Rs. Billion)	FY2025	FY2025 (Jul-Dec)	FY2026 (Jul-Dec)	% Change	FY25 (Jan)	FY26 (Jan)	% Change
FBR Revenue (Jul-Jan)	11,744	6,497.4	7,176.9	↑ 10.5	872.6	1,016.1	↑16.4
Federal Non-Tax Revenue	5,056.4	3,602.0	3,847.4	↓6.8			
Fiscal Balance	-6,168.0	-1,537.9	5,41.9	↑			
Primary Balance	2,719.4	3,603.7	4,105.5	↑			

Source: Finance Division

Monetary Sector	FY2025	FY2025	FY2026	% Change
Agriculture Credit (Jul-Dec)	2,577.3	1,266.7	1,411.6	↑ 11.4
Credit to private sector (Flows)	1,081.6	770.8 (1st Jul to 14th Feb)	638.2 (1st Jul to 13th Feb)	↓
Growth in M2 (percent)	13.7	-1.41 (1st Jul to 14th Feb)	1.71 (1st Jul to 13th Feb)	
Policy Rate (percent)	11.0 (End June)	12.0 (28th-Jan-2025)	10.5 (26th-Jan-2026)	

Source: SBP

Real Sector	FY2025	FY2025	FY2026
CPI (National) (percent)	4.5	2.4 (Jan) 6.5 (Jul-Jan)	5.8 (Jan) 5.2 (Jul-Jan)
Large Scale Manufacturing (LSM) (percent)	-0.73	-1.80 (Jul-Dec)	4.82 (Jul-Dec)

Source: PBS

Financial Sector	FY2025	FY2025	FY2026	% Change
PSX Index*	125,627 (On 30th June 2025)	113,862 (On 26th Feb 2025)	168,893 (On 26th Feb 2026)	↑ 48.3
Market Capitalization (Rs trillion)	15.24 (On 30th June 2025)	14.05 (On 26th Feb 2025)	19.01 (On 26th Feb 2026)	↑ 35.4
Market Capitalization ($ billion)	53.69 (On 30th June 2025)	50.25 (On 26th Feb 2025)	68.04 (On 26th Feb 2026)	↑ 35.4
Incorporation of Companies (Jul-Jan)	35,210	20,274	25,554	↑ 26.0

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP