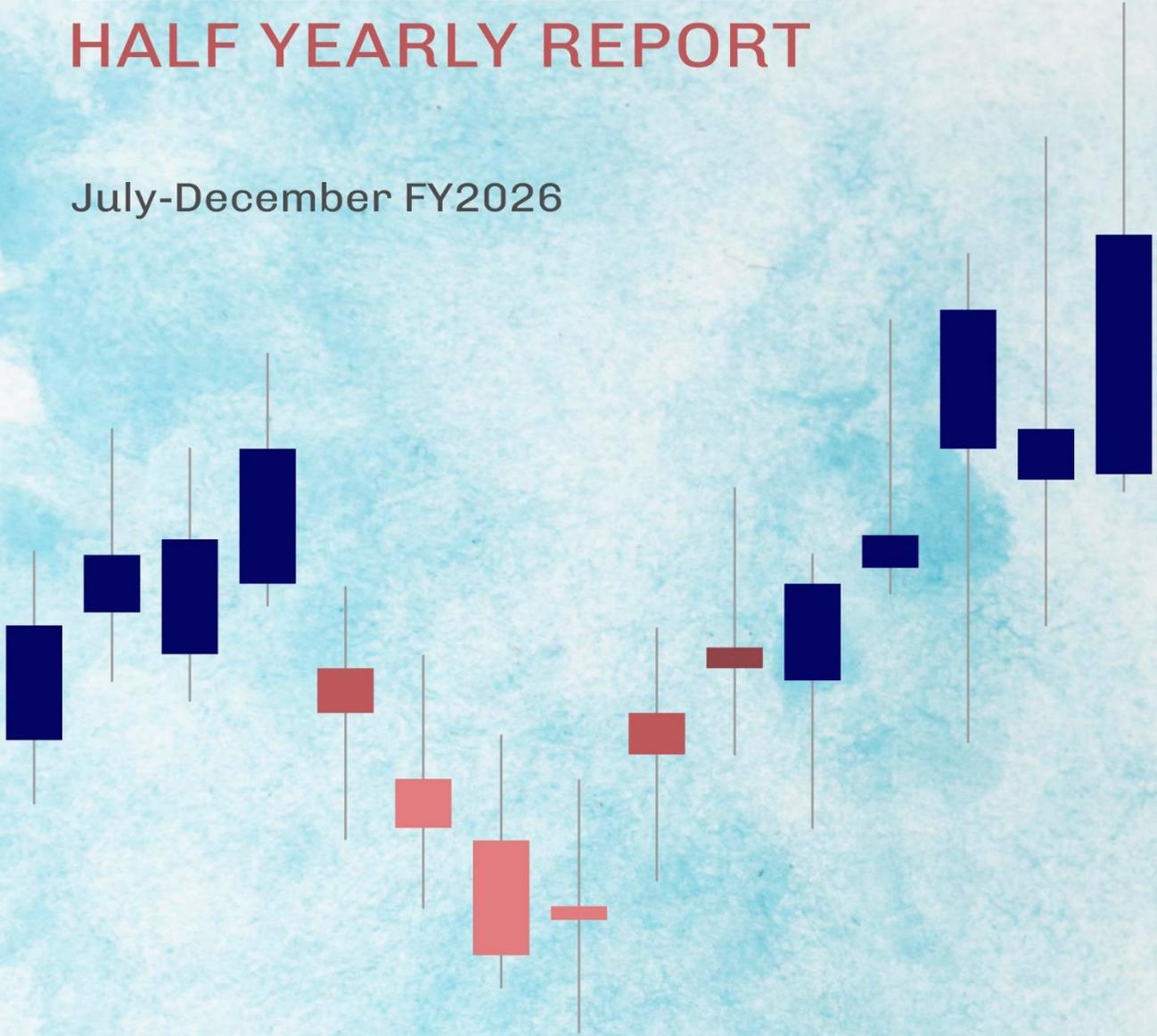


STATE OF PAKISTAN'S  
**ECONOMY**  
HALF YEARLY REPORT

July-December FY2026



GOVERNMENT OF PAKISTAN  
FINANCE DIVISION  
ECONOMIC ADVISER'S WING

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## List of Abbreviations

ATM	Average Time to Maturity	NDA	Net Domestic Assets
ADR	Advance to Deposit Ratio	NFA	Net Foreign Assets
B2B	Business to Business	NTP	National Tariff Policy
BE&OE	Bureau of Emigration and Overseas Employment	NPSES	National Priority Sectors Export Strategy
BISP	Benazir Income Support Programme	PAMA	Pakistan Automotive Manufacturers Association
BOP	Balance of Payments	PPAF	Pakistan Poverty Alleviation Fund
CBU	Completely Build Unit	PBS	Pakistan Bureau of Statistics
CPEC	China Pakistan Economic Corridors	PIBs	Pakistan Investment Bonds
CPI	Consumer Price Index	PPP	Public-Private Partnership
CY	Calendar Year	PSIB	Pakistan's Skills Impact Bond
EFF	Extended Fund Facility	SECP	Securities & Exchange Commission of Pakistan
EU	European Union	PSDP	Public Sector Development Programme
FBR	Federal Board of Revenue	PSX	Pakistan Stock Exchange
FDI	Foreign Direct Investment	PMI	Purchasing Manager's Index
GDP	Gross Domestic Product	RFCDs	Residents Foreign Currency Deposits
FOB	Free on Board	RSF	Resilience and Sustainability Facility
HIES	Household Integrated Economic Survey	SBP	State Bank of Pakistan
IMF	International Monetary Fund	SPI	Sensitive Price Indicator
IRSA	Indus River System Authority	UAE	United Arab Emirates
IT	Information Technology	UK	United Kingdom
KSE	Karachi Stock Exchange	US	United States
LFS	Labour Force Survey	USA	United States of America
LSM	Large-Scale Manufacturing	WAPDA	Water and Power Development Authority
LPG	Liquefied Petroleum Gas	WPI	Wholesale Price Index
MAF	Million Acre Feet	WEO	World Economic Outlook
MoM	month-on-month	YoY	year-on-year
NEDB	National Export Development Board		

## Executive Summary

Pakistan's economy demonstrated broad-based strengthening in the first half of FY2026, marking a significant step forward in the post-stabilization growth phase initiated in FY2024. Real GDP growth accelerated to 3.7 percent in Q1 FY2026, more than double the 1.6 percent recorded in the same quarter of FY2025, underpinned by a coordinated recovery across agriculture, industry, and services. This performance reflects the cumulative impact of disciplined fiscal management, easing inflationary pressures, a collaborated monetary policy stance, and continued macroeconomic reforms, collectively reinforcing the country's economic trajectory on a stable and balanced footing.

Inflation remained well anchored during H1 FY2026, averaging 5.2 percent, down from 7.2 percent in H1 FY2025. The decline was driven by stable exchange rate conditions, easing global commodity and energy prices, improved domestic food supply, and prudent fiscal and monetary coordination.

The agriculture sector showed a notable recovery in Q1 of FY2026, growing by 2.9 percent compared to 1.0 percent in the same period last year, reflecting resilience despite floods. While the crops segment continued to face challenges particularly, a slight decline in cotton and other crops. Encouragingly, major Kharif crops such as sugarcane, rice, and maize recorded increase in production. Livestock emerged as the main growth driver, expanding by a strong 6.3 percent, while forestry and fishing maintained steady progress.

The industrial sector posted a robust recovery, expanding by 9.4 percent in Q1 FY2026 against near-stagnation in the previous year. Growth in the manufacturing sector was led by large-scale industries including food processing,

automobiles, textiles, non-metallic minerals, and petroleum products. Construction activity rebounded strongly, supported by higher cement dispatches and allied indicators, while electricity, gas, and water supply recorded substantial growth. The automobile industry exhibited notable expansion in both production and sales, signaling rising consumer demand and improved business confidence.

The services sector maintained steady growth of 2.4 percent in Q1 FY2026, driven by wholesale and retail trade, transport and storage, and finance and insurance. Rising workers' remittances and expanding digital services supported consumption and private sector activity. Services trade also recorded growth, particularly in IT and telecommunications exports, reinforcing Pakistan's transition toward a digital economy.

On the external front, the current account recorded a manageable deficit in H1 FY2026. However, this was partially offset by strong remittances growth of 10.6 percent and expanding services exports. Foreign exchange reserves remained strengthened, supported by IMF disbursements under the Extended Fund Facility (EFF) and Resilience and Sustainability Facility (RSF), ensuring exchange rate stability.

Fiscal performance during H1 of FY2026 reflects continued progress in revenue mobilization and expenditure discipline, supported by prudent fiscal management. Tax revenues recorded broad-based growth, while non-tax revenues benefited from strong SBP profit transfers. On the expenditure side, effective containment of current spending, particularly lower debt-servicing costs and prudent debt management, helped create fiscal space, allowing a modest pickup in development spending. As a result, the overall as well as primary fiscal balances

remained in surplus, underscoring the government's commitment to reduced reliance on budgetary support, and sustained macroeconomic stability.

Investor confidence improved markedly, evidenced by sovereign credit rating upgrades by major international agencies and a strong rally in the Pakistan Stock Exchange. Continued structural reforms, tariff rationalization under the National Tariff Policy 2025-30, export enhancement initiatives, ease-of-doing-business measures, and strengthened regional industrial cooperation are expected to support medium-term growth.

### 1. Economic Performance

Pakistan's economy has continued its growth momentum in H1 FY2026, supported by reduced inflationary pressures, monetary easing, sound fiscal management, exchange rate stability and foreign exchange buffers.

In Q1 FY2026, growth has been estimated at 3.7 percent, compared to 1.6 percent in Q1 FY2025, on the back of 2.9 percent growth in agriculture, 9.4 percent in industry and 2.4 percent in services.

#### 1.1. Agriculture Sector

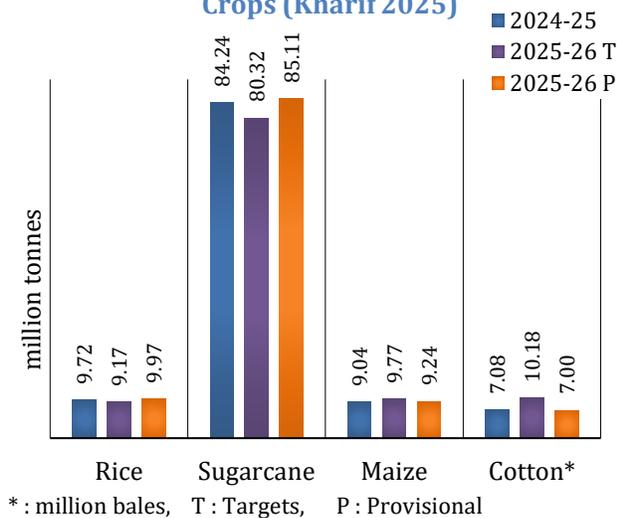
The agriculture sector grew at 2.9 percent in Q1 of FY2026, showing a significant improvement from 1.0 percent growth during the same period last year. The important Kharif crops recorded a contraction of 0.7 percent as compared to a contraction of 13.1 percent during Q1 last year, mainly due to a decline in cotton production (-1.2%). Other crops also witnessed a contraction of 6.4 percent compared to a growth of 19.3 percent in Q1 last year driven by lower green fodder production (-14.4%) and increase in input (fertilizer 13.0%). Livestock recorded strong growth of 6.3 percent, up from 2.0 percent in Q1 last year benefited from the decrease in value of inputs. Forestry and fishing recorded steady growth of 2.1 percent and 0.9 percent, respectively by retaining their normal growth trajectory (Table 1.1).

The post flood agriculture growth in Q1 FY2026 is supported by an increase in crops areas which increased important crops' outputs except cotton. During Kharif 2025, the production of major crops increased, with sugarcane rising by 1.0 percent, rice by 2.5 percent, and maize by 2.3 percent, while cotton output recorded a slight

Table 1.1: Agriculture Sector Growth (%)

Sectors/Industry	2024-25 (R)				2025-26 (P)
	Q1	Q2	Q3	Q4	Q1
<b>Agriculture</b>	1.01	1.63	2.37	1.05	2.89
1 Crops	-0.75	-3.22	1.82	-1.46	-3.65
Important crops	-13.07	-13.08	-9.49	-17.47	-0.75
Other crops	19.33	18.80	19.33	20.91	-6.37
Cotton Ginning & Misc.component	-2.93	-20.20	-26.62	-24.48	-12.05
2 Livestock	1.97	5.59	2.63	2.13	6.29
3 Forestry	0.48	2.77	3.82	3.60	2.13
4 Fishing	-0.07	1.95	0.49	2.23	0.91
<i>R: Revised P: Provisional</i>					<i>Source: PBS</i>

**Figure 1.1: Production of Important Crops (Kharif 2025)**



Source : M/o NFS&R, PBS

decline of 1.2 percent compared to the same period last year. (Figure 1.1).

In Q1 FY2026, the government remained committed to support agriculture by ensuring the timely availability of quality farm inputs, especially certified seeds, fertilizers, pesticides, mechanization and credit facilities. An allocation of Rs. 3.15 billion in the PSDP for FY2026 signals the government's focus on improving agriculture productivity and advancing sector modernization. During H1 FY2026, agricultural credit disbursement increased by 11.4 percent to Rs. 1,411.6 billion from Rs. 1,266.7 billion last year. The imports of agricultural machinery & implements increased by 21.6 percent to \$65.8 million during H1 FY2026 from \$54.1 million last year. The fertilizer offtake during the Kharif 2025 sowing season witnessed an increase, with total Urea offtake stood around 3,169 thousand tonnes, which is 15.4 percent more than Kharif 2024 and DAP offtake is estimated to increase by 9.5 percent (703 thousand tonnes) against 642 thousand tonnes during Kharif 2024. Fertilizers offtake was improved during Kharif 2025 due to incentives offered by the Punjab Government

such as interest free loans and cash assistance. For the Rabi 2025-26 (Oct-Dec), urea offtake was 2,526 thousand tonnes (26.1% higher than Rabi 2024-25), whereas DAP offtake was 543 thousand tonnes (22% less than Rabi 2024-25). The irrigation system was pivotal in supporting Kharif 2025 crops despite challenging climatic conditions such as floods. The Indus River System Authority (IRSA) reported water availability at 60.56 MAF, slightly above the 60.48 MAF recorded in Kharif 2024.

Recent data on sowing patterns and satellite imagery suggest positive outlooks for the wheat crop. Updated figures on cultivated area, input availability, and government-supported incentive programmes indicate that wheat production is likely to surpass the target of 29.7 million tonnes. Prospects for Rabi crops have also improved due to the anticipated rise in post-flood yields.

## 1.2. Industrial Sector

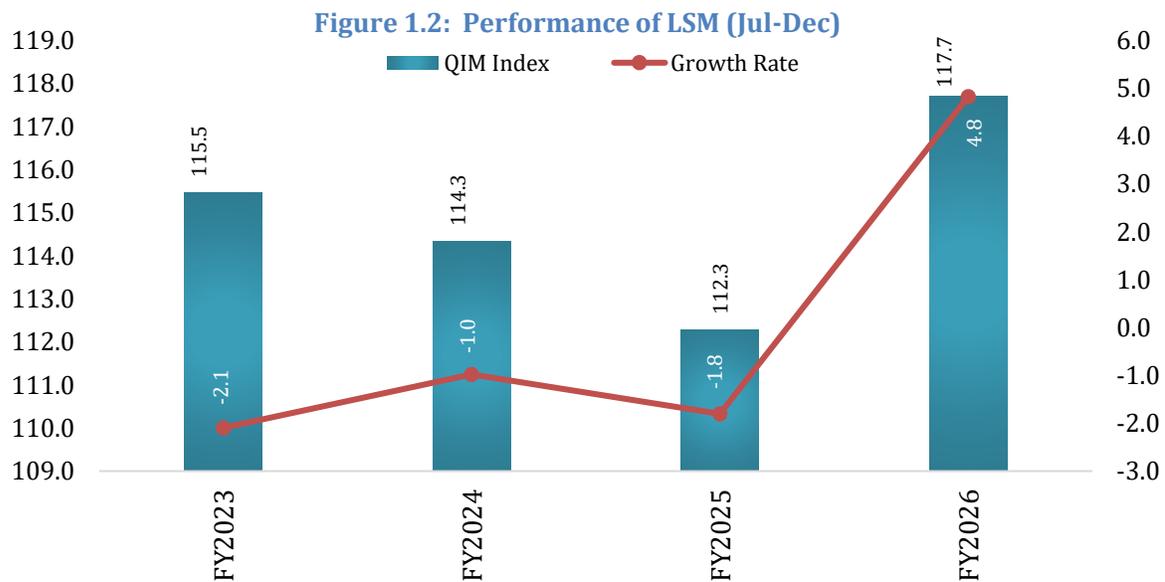
The industrial sector recorded a robust growth of 9.4 percent in Q1 FY2026, compared to 0.1 percent in Q1 FY2025, reflecting a broad-based recovery (Table 1.2). Manufacturing witnessed a growth of 5.8 percent on the back of Large-Scale Manufacturing (LSM) which grew by 4.1 percent in Q1 FY2026. Major contributors were food (6.3%), automobiles (84.6%), transport equipment (40.7%), non-metallic mineral products (13.9%) and rubber products (14.1%). Electricity, gas & water supply strongly grew by 25.5 percent, driven mainly by increased output from WAPDA and power generation companies. Construction posted 21.0 percent growth, supported by an increase in cement production and improvement in allied construction activities. However, downside risks persist in mining and quarrying, which declined by 4.1 percent, mainly due to a decline in production of gas (-7.1%), crude oil (-4.9%), limestone (-6.8%) and other minerals (-4.2%).

Sectors/Industry	2024-25 (R)				2025-26 (P)
	Q1	Q2	Q3	Q4	Q1
<b>Industry</b>	0.12	0.77	0.52	20.26	9.38
1. Mining & Quarrying	-5.80	-3.25	-3.36	-2.10	-4.13
2. Manufacturing	1.78	0.49	0.95	4.76	5.78
Large Scale	-0.85	-2.60	-1.95	2.96	4.10
Small Scale	8.59	8.64	8.93	9.46	10.22
Slaughtering	6.21	6.21	6.44	6.88	7.53
3. Electricity, Gas & Water Supply	-0.77	3.12	-9.64	120.90	25.46
4. Construction	-3.29	-3.01	10.73	17.67	21.03

*Source: PBS*

LSM registered a growth of 4.8 percent during H1 FY2026, against the contraction of 1.8 percent last year (Figure 1.2). During the period, 14 sectors recorded positive growth, including textile, wearing apparel, non-metallic mineral

products, food, beverages, coke & petroleum products, electrical equipment, automobile and tobacco (Figure 1.3). Automobile, wearing apparel, coke & petroleum products and remained the major contributing factors to

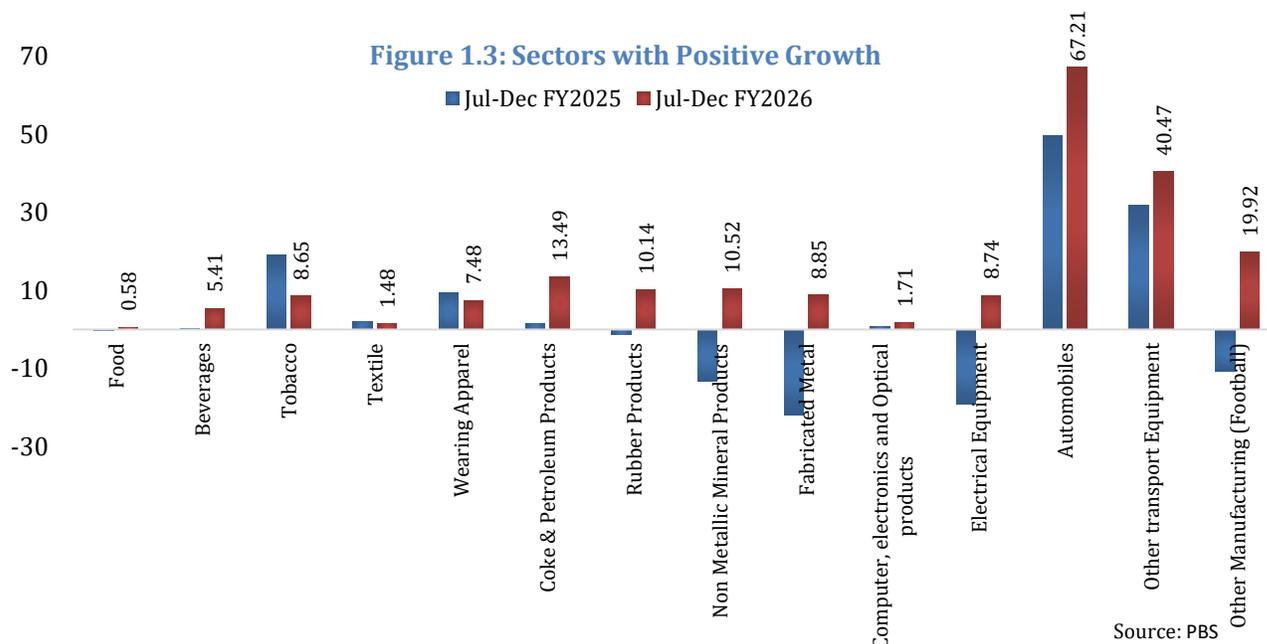


overall growth with contribution of 1.6 percent, 1.3 percent, and 1.0 percent, respectively.

In December 2025, LSM grew by 0.4 percent on year-on-year (YoY) basis and by 9.3 percent on month-on-month (MoM) basis. The growth was underpinned by improved macroeconomic

conditions, including a decline in inflation, exchange rate stability, and a reduced policy rate that lowered borrowing costs and stimulated investment.

The textile sector, which constitutes 18.2 percent of the LSM output, witnessed a growth



of 1.5 percent during Jul-Dec FY2026, with broad-based growth in sub-components including yarn, cloth and woolen products. The rise in textile machinery imports and increased borrowing under fixed investment reflects the sector's commitment to expanding and modernizing its production capacity, reinforcing the outlook for sustained growth and expansion in the coming months.

The automobile industry demonstrated a strong growth during H1 FY2026. Production and sales of all vehicles witnessed the growth of 33.5 percent and 32.2 percent, respectively. Production of cars increased by 56.1 percent, trucks & buses by 89.4 percent, jeeps and pick-ups by 36.9 percent, 2 & 3 wheelers by 32.9 percent while tractors production showed a decline of 19.6 percent (Table 1.3).

**Table 1.3: Performance of Auto Industry (unit 000)**

Sectors/Industry		Jul-Dec FY2025	Jul-Dec FY2026	Growth Rate %
<b>Indicators</b>				
Total Cars	Prod	47,990	74,919	56.1
	Sales	46,502	65,910	41.7
Trucks & Buses	Prod	2,036	3,856	89.4
	Sales	1,798	3,532	96.4
Jeeps & Pickups	Prod	15,623	21,386	36.9
	Sales	14,174	22,412	58.1
Tractors	Prod	16,621	13,366	-19.6
	Sales	17,397	12,929	-25.7
Two & three Wheelers	Prod	698,446	928,521	32.9
	Sales	696,455	921,566	32.3
Total Vehicles	Prod	780,716	1,042,048	33.5
	Sales	776,326	1,026,349	32.5

Source: PAMA

The cement industry demonstrated encouraging performance during H1 FY2026. Cumulative cement dispatches grew by 9.7 percent and reached 25.8 million tonnes, with domestic dispatches totalled 21.1 million tonnes, 13.1 percent YoY increase, showing rising demand in construction related industries. However, exports declined by 3.7 percent and reached at 4.6 million tonnes against 4.8 million tonnes same period last year. The decline in exports is primarily the results of border closure with Afghanistan being Pakistan's major export destination of cement.

### 1.3. Services Sector

The services sector recorded a growth of 2.4 percent in Q1 FY2026 from 2.2 percent in same period last year. The increase in services growth is largely attributed to wholesale & retail trade, finance & insurance, public administration & social security & human health and social work.

Trade volume in services (encompassing both exports and imports) grew by 7.7 percent in H1 FY2026, supported by expansion in the Telecommunication, computer & information services sector, a cornerstone of Pakistan's transition toward a digital economy.

Furthermore, remittance inflows saw a notable surge of 10.6 percent during H1 FY2026, enhancing household incomes and stimulating consumer spending across retail businesses and other private services. The other private services sector is expected to improve further, driven by rising economic activity and improved consumer sentiment. The services sector's substantial forward and backward linkages with other sectors amplify its influence on overall economic stability and growth.

## 2. Inflation

Inflationary pressures eased during H1 FY2026, reflecting sustained macroeconomic stabilization. As illustrated in Figure 2.1, CPI inflation declined to an average of 5.2 percent compared to 7.2 percent in the same period last year. The downward trend is evident across the months, with inflation falling from 11.1 percent in July 2024 to 4.1 percent by December 2024, while remaining relatively contained in FY2026 despite some monthly fluctuations. This improvement underscores the continued impact of prudent fiscal and monetary management, exchange rate stability, and easing supply-side pressures. Together, these factors helped

Table 1.4: Services Sector Growth (%)

Sector/ Industry	2024-25 R				2025-26
	Q1	Q2	Q3	Q4	Q1
<b>Services Sector</b>	2.24	2.57	3.44	4.10	2.35
1 Wholesale & retail trade	0.56	-0.95	-0.20	2.59	3.08
2 Transport & Storage	1.95	2.21	2.20	4.33	3.16
3 Accommodation and Food Services	3.94	3.96	4.09	4.31	4.64
4 Information and Communication	3.44	5.81	15.16	4.24	-28.70
5 Finance & Insurance Activities	-3.51	11.41	9.86	8.98	10.36
6 Real Estate Activities (OD)	3.62	3.65	3.77	3.97	4.26
7 Public admn and Social Security	3.73	8.31	12.69	12.16	8.08
8 Education	3.96	3.77	3.42	3.14	5.24
9 Human Health and Social work	3.96	4.33	3.35	2.47	6.27
10 Other Private Services	3.77	3.74	3.54	3.06	2.88

Source: PBS

anchor inflation expectations and maintain price stability during H1 FY2026.

The comparison of urban and rural CPI inflation indicates a broad-based but uneven disinflationary trend during H1 FY2026 relative to the corresponding period last year. Urban CPI inflation declined sharply to an average of 5.2 percent during H1 FY2026 from 8.7 percent in H1 FY2025, largely driven by a pronounced slowdown in non-food inflation. This moderation reflects lower housing rent adjustments, easing electricity and gas charges, reduced transport costs amid declining fuel prices, and stable service-sector prices, supported by a relatively stable exchange rate and subdued imported inflation.

Conversely, rural CPI inflation exhibited only a marginal decline, averaging 5.0 percent in H1 FY2026 compared to 5.1 percent last year. The persistence of rural inflation primarily emanated from food prices, as food items carry a significantly higher weight in the rural consumption basket. Price pressures in non-perishable food items, coupled with distribution inefficiencies and seasonal supply constraints, offset the relief from lower energy and housing costs. Overall, the divergence between urban and rural inflation trends suggest that macroeconomic stabilization and monetary tightening have been more effective in curbing

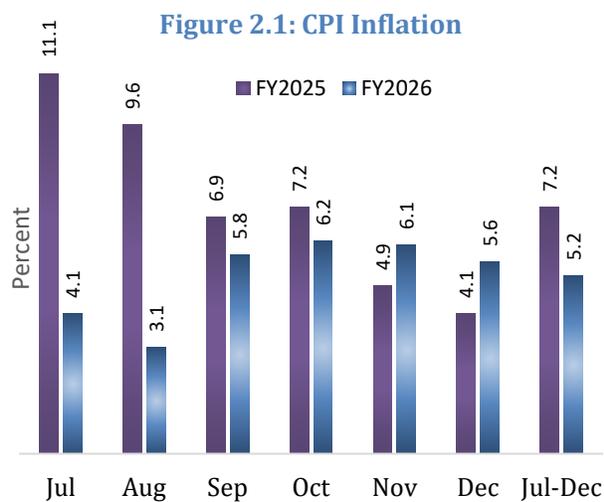
non-food and administered prices in urban areas (Table 2.1).

Wholesale Price Index (WPI) inflation showed a pronounced improvement during H1 FY2026 as an average basis decline to 0.3 percent compared to 4.4 percent in the same period last year. This broad-based moderation reflects negative or subdued inflation across several major commodity groups, particularly those linked with primary production and energy. Prices of agriculture, forestry and fishery products (weight: 25.77%) shifted from an increase of 5.1 percent in H1 FY2025 to a contraction of 2.0 percent in H1 FY2026, suggesting improved supply conditions and softer farm-gate prices. Similarly, the group covering ores, minerals, electricity, gas and water (weight: 12.01%) witnessed a sharp reversal, with inflation declining from a high 22.8 percent last year to -3.1 percent, reflecting easing energy prices and reduced cost-push pressures. Overall, the marked decline in headline WPI inflation underscores a significant easing of cost pressures at the wholesale level in H1 FY2026 compared to last year. This improvement is further validated by the Sensitive Price Indicator (SPI) for the lowest income group, which declined to 3.0 percent from 9.4 percent, indicating reduced inflationary stress for vulnerable households.

Table 2.1: CPI Inflation-YoY (%)

Months	FY2025			FY2026		
	CPI National	Food (U)	Food (R)	CPI National	Food (U)	Food (R)
July	11.1	3.4	1.3	4.1	2.2	1.5
August	9.6	4.1	1.9	3.1	-0.5	-0.5
September	6.9	1.7	-0.9	5.8	4.4	6.0
October	7.2	2.7	0.6	6.2	4.5	6.8
November	4.9	1.7	-0.2	6.1	5.0	5.9
December	4.1	2.5	-0.2	5.6	3.2	3.8
H1	7.2	2.7	0.4	5.2	3.1	3.9

Source: PBS



Source: PBS

### 3. External Sector

During H1 FY2026, remittance inflows along with IT-related exports continued to provide key support to the external account. However, the pickup in economic activity led to higher import demand, which in turn resulted in a current account deficit of \$ 1.2 billion during the period. These developments indicate an improving economic outlook, although challenges related to balancing trade dynamics remain.

#### 3.1. Trade in Goods

The goods trade deficit widened by 36.6 percent, reaching \$15.8 billion in H1 FY2026, up from \$11.6 billion last year, primarily driven by an increase in imports.

#### Exports

Export receipts (FOB) declined by 5.0 percent, reaching \$15.5 billion in H1 FY2026 from \$16.3 billion in the corresponding period of the previous year. The decline in exports is mainly due to instability in regional economic conditions.

#### Textile Exports

Textile exports (58% of total export receipts), recorded a 5.2 percent increase, reaching \$9.1 billion in H1 FY2026, up from \$8.6 billion in the corresponding period of the previous year. This growth was driven by strong performance in key segments, notably knitwear, which rose significant by 12.2 percent to \$2.6 billion, and readymade garments increase by 7.2 percent to \$2.1 billion. Other categories, such as bedwear, made-up articles, and cotton yarn, also showed positive growth. Conversely, certain segments, including towels and cotton cloth, registered declines during the period, reflecting a mixed performance across the sector.

#### Non-Textile Exports

Food exports declined by 35.5 percent, reaching \$2.3 billion, due to declines of \$0.7 billion (43.4%) in rice exports, \$0.2 billion (66.3%) in oil seeds exports and \$0.1 billion (46.0%) in vegetables exports. Another factor for the decline is no sugar export this year as compared to its \$0.3 billion export during the same period last year. Moreover, declines were recorded in exports of pharmaceutical, chemicals, and carpet & rugs. Conversely, exports of engineering goods, sports goods, and leather manufactures, cement and surgical items experienced increase, indicating a mixed performance across these sub-sectors (Table 3.1).

The country-wise, exports to the USA recorded an increase of 5.3 percent, while exports to South Korea grew markedly by 25.8 percent. However, exports to China declined by 5.6 percent. Similarly, other regional partners exhibited a downward trend, with exports to Afghanistan and Bangladesh falling significantly by 56.6 percent and 7.5 percent, respectively,

Table 3.1: Exports of Goods by Group (Million US\$)

Sector/ Industry	Jul-Dec			
Commodity	FY2025	FY2026	% age Change	Absolute Change
A. Food Group	3,579.2	2,307.8	-35.5	-1,271.43
B. Textile Group	8,654.0	9,100.8	5.2	446.78
Raw Cotton	0.1	3.8	6054.1	3.69
Cotton Yarn	319.3	335.7	5.2	16.48
Cotton Cloth	963.3	863.2	-10.4	-100.05
Yarn Other than Cotton Yarn	16.7	14.4	-13.8	-2.31
Knitwear	2,280.0	2,558.0	12.2	278.01
Bed Wear	1,525.5	1,645.8	7.9	120.26
Towels	522.7	485.1	-7.2	-37.61
C. Petroleum Group	432.3	406.7	-5.9	-25.63
Petroleum Crude	65.2	37.5	-42.4	-27.64
D. Other Manufacture	2,079.0	2,045.9	-1.6	-33.10
E. All Others	1,369.0	1,515.3	10.7	146.34
Total	16,319.1	15,507.0	-5.0	-812.02

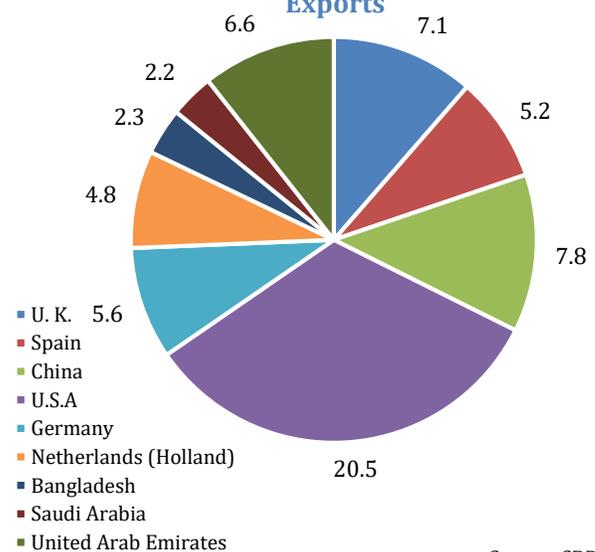
Source: SBP

indicating that regional instability weighing on Pakistan's export performance.

### Imports

Imports during H1 FY2026 witnessed an increase of 12.3 percent, reaching \$31.3 billion, compared to \$27.9 billion during the same period in last year. This growth was fueled by all commodities groups except petroleum and textile (Table 3.2). Machinery imports rose by 15.4 percent to \$4.6 billion driven by a significant 33.6 percent rise in construction and mining machinery along with a 168.4 percent surge in mobile phones imports. Textile machinery and agriculture machinery also observed an increasing trend of 18.0 percent and 29.7 percent, respectively. Moreover, the transport group imports experienced a significant rise of 109.2 percent, led by a 106.3 percent increase in road motor

Figure 3.1: Country wise Share in Exports



Source: SBP

Table 3.2: Group-wise Commodity Imports (Million US\$)

Sector/ Industry	Jul-Dec			
	FY2025	FY2026	% age Change	Absolute Change
A. Food Group	3,428	4,111	19.9	683
B. Machinery Group	4,017	4,634	15.4	617
Office Mach. Incl. Data Pros. Equip.	160	274	71.3	114
C. Transport Group	817	1,708	109.2	891
Road Motor Vehicles	766	1,580	106.3	814
Aircraft, Ships and Boats	42	105	147.6	62
D. Petroleum Group	7,284	7,091	-2.6	-192
Petroleum Products	2,920	2,749	-5.9	-171
Petroleum Crude	2,577	2,922	13.4	345
E. Textile Group	2,591	2,589	-0.1	-3
Raw Cotton	910	642	-29.4	-267
Synthetic Fibre	309	367	18.9	58
F. Agri. & Other Chemical	4,664	5,023	7.7	359
G. Metal Group	2,439	2,848	16.8	409
H. Miscellaneous Group	491	569	15.9	78
Total	27,902	31,325	12.3	3,423

Source: SBP

vehicles mainly due to 483.7 percent growth in the completely build unit (CBU) of vehicles. The metals group observed 16.8 percent growth, particularly in iron and steel, signaling a recovery in both construction and allied industries. Miscellaneous imports also grew by 15.9 percent, with rubber tires and tubes showing substantial 53.7 percent increase.

Conversely, the petroleum group, experienced a 2.6 percent decline due to reduced imports of key items such as petroleum products and liquefied natural gas. For other major import categories, trends were varied. Some categories saw increased volumes and unit price stability, while others experienced fluctuations, showcasing the complexity of import dynamics.

### 3.2. Trade in Services

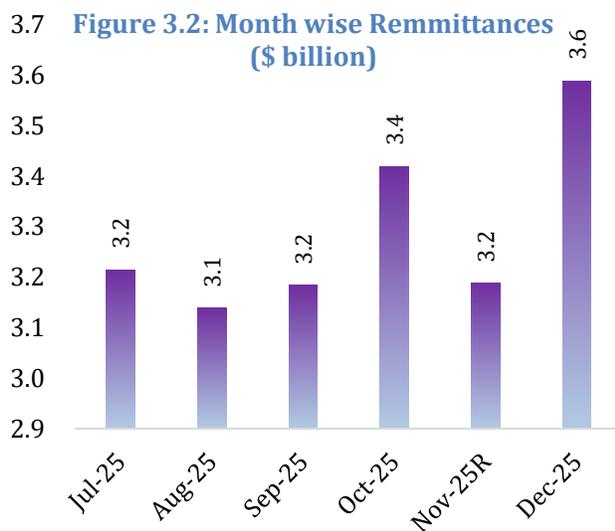
The services trade deficit increased by 13.6

percent to \$1.7 billion during H1 FY2026. The service exports experienced an impressive growth of 16.5 percent, which reached \$4.8 billion from \$4.1 billion last year, and had a crucial role in curtailing the deficit. The main contributors are telecommunications, computer, and information services, expanding by 19.8 percent and reaching \$2.2 billion. Service imports increased by 15.7 percent to \$6.5 billion with major imports of \$2.6 billion and \$1.7 billion recorded in transport and travel sectors, respectively.

### 3.3. Workers' Remittances

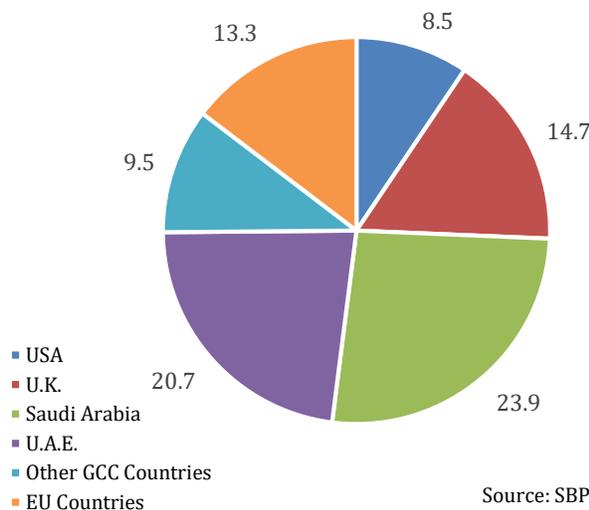
Remittances witnessed an impressive growth of 10.6 percent to reach \$19.7 billion during H1 FY2026. This significant increase was fueled by multiple factors, including higher overseas employment, exchange rate stability, and

targeted government incentives. As the largest source of remittances, Saudi Arabia maintained its position, contributing 24.0 percent with \$4.7 billion, a 6.6 percent rise. The UAE followed with \$4.1 billion, showing a substantial 14.1 percent increase, particularly boosted by Dubai's remarkable 10.9 percent growth to \$3.1 billion. Other significant contributors included the U.K and the EU with 11.0 and 22.8 percent growth in remittances, respectively. The standout contributions received from Netherlands, Ireland and Denmark.



Source: PBS

**Figure 3.3: Country-wise Share of Remittances**



Source: SBP

### 3.4. Current Account

The current account experienced a deficit of \$1.2 billion in H1 FY2026, compared to a deficit of \$0.9 billion in the corresponding period last year. In December 2025, the current account posted a deficit of \$0.24 billion. This was primarily attributed to the declining exports, largely driven by regional instability and the prevailing border situation with Afghanistan.

### 3.5. Foreign Investment

Net Foreign Direct Investment (FDI) inflows during H1 FY2026 amounted to \$808.1 million, supported by continued interest from key partner countries. In December, gross inflows reached \$322.5 million, reflecting sustained engagement in strategic sectors, while outflows were part of routine portfolio adjustments.

China remained the largest contributor with net inflows of \$422.9 million, followed by Hong Kong at \$163.8 million, highlighting strong bilateral investment ties. Sectoral analysis indicates that the power sector continued to attract the largest share of inflows at \$470.9 million, followed by financial sector with a net inflow of \$401.5 million. The telecommunication sector also experienced portfolio movements consistent with dynamic capital adjustments.

During the same period, foreign private portfolio investment reflected ongoing adjustments, foreign private portfolio investment recorded a net outflow of \$225.1 million, broadly unchanged from the \$221.8 million outflow in H1 FY2025. Foreign public portfolio investment also recorded a net outflow of \$375.5 million as compared a net inflow of \$140.1 million last year. As a result, total foreign investment inflows in H1 FY2026 amounted to \$207 million.

### Box 1: Key Initiatives of FY2026 for Strengthening of External Account

- Government of Pakistan has announced National Tariff Policy (NTP) 2025-30 which aims to rationalize tariffs and simplify the complex concessionary regime to provide a conducive environment that encourages export led growth, consumer welfare and employment generation along with positive impact on other relevant economic indicators. The Policy also aims to attract investment, stimulate higher productivity, enhance competitiveness, improve trade in value-added manufacturing, discourage anti-export bias and encourage trade in green and emerging technology products.
- In line with the National Export Development Board (NEDB) and the National Priority Sectors Export Strategy (NPSES), the work on the Services Export Enhancement Roadmap during FY2026 started. The roadmap focuses on boosting exports from non-traditional service sectors such as transport, logistics and warehousing, IT and e-commerce, and tourism and hospitality.
- On 5<sup>th</sup> November 2025 Assan Karobar Bill was passed to facilitate ease of doing business.
- Following the B2B Investment Conference held in China, promotion of China–Pakistan industrial cooperation under CPEC continued.

### 3.6. Reserves and Exchange Rate

Pakistan's foreign exchange reserves recorded a notable improvement during H1 FY2026, strengthening the country's external sector position. By end-December FY2026, total foreign exchange reserves rose to \$20.7 billion, compared to \$15.9 billion in the corresponding period last year. Of this, reserves held by the State Bank of Pakistan (SBP) amounted to \$16.1 billion, while commercial banks held \$4.7 billion. The improving trend in reserves continued into January, with total foreign exchange reserves reaching \$21.3 billion in the week ending 23<sup>rd</sup> January 2026. During this period, SBP's reserves stood at \$16.1 billion, while commercial bank holdings increased to \$5.2 billion. The sustained build-up in reserves reflects improved external inflows and prudent foreign exchange management, strengthening market confidence and providing a more comfortable cushion against external shocks.

The exchange rate followed a gradual appreciating trend during the period, moving from an average of Rs. 282.9/USD in July to Rs. 280.3/USD by end-December, based on the interbank floating exchange rate at month-end. The orderly strengthening of the rupee reflects improved foreign exchange liquidity conditions and enhanced market confidence, supported by rising reserve buffers.

### 4. Fiscal Performance and Public Debt Management

#### 4.1. Fiscal Performance

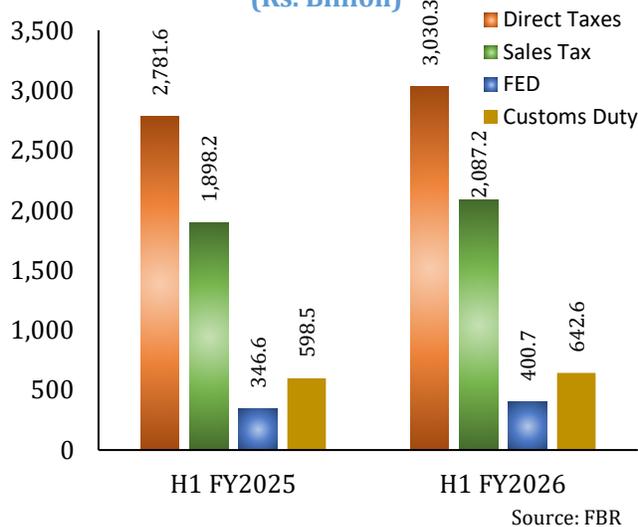
The fiscal performance during H1 FY2026 shows an impressive growth in both tax and non-tax revenues and a decline in current expenditure. FBR's tax collection increased by 9.5 percent over the corresponding period of last year and reached Rs. 6,160.8 billion. Direct tax collection with a growth of 8.9 percent stood at Rs. 3,030.3 billion while indirect taxes grew by 10.1

percent with growth in sales tax, customs duties, and federal excise duty by 10.0 percent, 7.4 percent and 15.6 percent, respectively.

Non-tax revenue during H1 FY2026 increased to Rs. 3,954.2 billion with a growth of 7.0 percent. This performance was supported by higher receipts from petroleum levy, petroleum levy on LPG, natural gas development surcharge, and windfall levy against crude oil, etc. A major contribution continued to come from the SBP which transferred a surplus profit of Rs. 2,428.4 billion as compared to Rs. 2,500 billion last year.

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 (PSDP), on the other hand, increased by 43.2 percent, largely contributed by provincial development spending.

**Figure 4.1: FBR Tax Collection (Rs. Billion)**

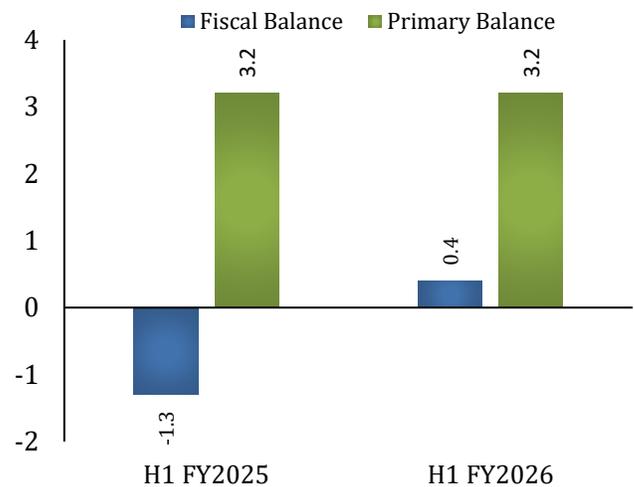


**Fiscal Balance and Primary Balance**

The government’s initiatives to strengthen expenditure management and optimize resource mobilization are reflected in the overall

fiscal position. During H1 FY2026, overall fiscal balance recorded a surplus of 0.4 percent of GDP (Rs. 541.9 billion), 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, which reflects improved fiscal management (Figure 4.2).

**Figure 4.2: Fiscal Indicators (% of GDP)**



Source: Budget wing Finance Division

**4.2. Public Debt**

During H1 FY2026, public debt developments remained broadly aligned with the government’s medium-term debt management objectives, with continued emphasis on lengthening the maturity profile of domestic debt, reliance on concessional external financing, active liability management, and diversification of the investor base.

With respect to domestic debt, the overall stock remained broadly stable at around Rs. 54 trillion while its composition continued to improve. Reduced reliance on short-term instruments helped contain refinancing pressures and near-term gross financing needs. Consequently, the

average time to maturity (ATM) of domestic government debt securities increased from 3.80

reached a record level of Rs. 2 trillion, reflecting continued growth in Islamic financing.

Table 4.1: Public Debt (Rs. Billion)			
Sector/Industry	FY2024	FY2025	Dec 2025*
A-Domestic Debt	47,160	54,471	55,360
Pakistan Investment Bonds (PIBs)	28,026	35,015	34,930
Sukuk/Bai-Muajjal	4,766	6,350	7,184
Market Treasury Bills (MTBs)	10,248	8,756	8,744
Unfunded Debt (NSS/Prize Bonds)	3,184	3,429	3,579
SBP Loan to GoP against SDR	475	475	475
Foreign Currency Loans*	374	380	385
Naya Pakistan Certificates/Others	88	66	63
B- Central Govt External Debt	21,754	23,417	23,166
Long-Term	21,542	23,207	22,861
Short-Term	211	210	305
C-Debt from IMF	2,332	2,630	2,845
Total (A+B+C)	71,246	80,518	81,371
<i>*Provisional</i>			

Source: SBP and Debt Management Office, Finance Division

years in June 2025 to 3.99 years by December 2025, with a medium-term target to extend the ATM to 4.25 years by FY2028.

As part of its liability management strategy, the government continued debt buyback operations during H1 FY2026, repurchasing PKR 2.09 trillion. This included the retirement of approximately Rs. 1.89 trillion of SBP floating rate debt and Rs. 200 billion of market-held debt. These operations in addition to interest savings contributed to reducing concentration and liquidity risks associated with the FY2029 maturity profile.

To meet diverse investor preferences and deepen the domestic debt market, the government introduced zero-coupon bonds in 2-year and 15-year tenors for conventional PIBs, along with a 10-year zero-coupon Sukuk for Shariah-compliant investors. In CY 2025, issuance of Shariah-compliant instruments

On the external front, inflows from multilateral and bilateral development partners remained the primary source of financing. During Jul–Nov FY2026, total external disbursements amounted to \$ 3 billion. In addition, during Jul–Dec 2025, Pakistan received \$ 1.2 billion under the IMF's EFF (out of a total arrangement of \$ 7 billion).

To strengthen fiscal risk management, the government has developed and published a Risk Monitoring Framework for Contingent Liabilities related to Public-Private Partnership (PPP) projects at both the federal and provincial levels.

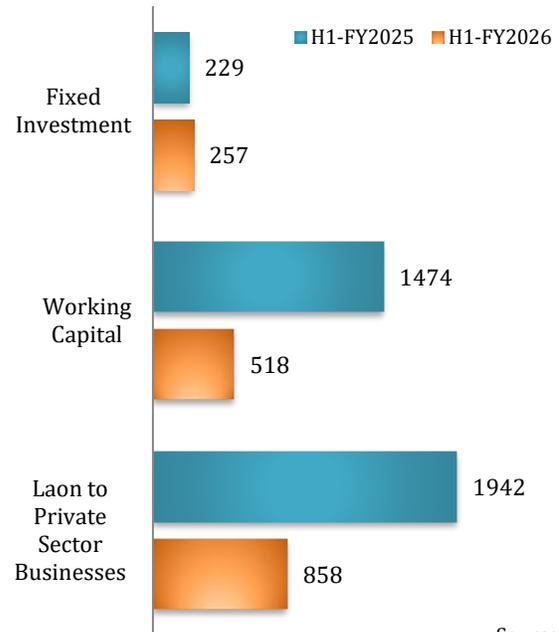
## 5. Monetary Policy

The State Bank of Pakistan started monetary policy normalization in June 2024, after keeping it unchanged at 22.0 percent for around one year. Economic recovery alongside receding inflationary pressures allowed for policy shift. Accordingly, policy rate has been reduced by a cumulative 1150 basis points since June 2024

and currently stands at 10.5 percent. In response to accommodative policy stance, short-term market interest rates have adjusted broadly in line with the policy rate, providing support to industrial and economic recovery. During H1 FY2026, loans to private sector businesses increased to Rs. 858.0 billion as compared to expansion of Rs. 1,942.0 billion during same period last year, with notable increase in manufacturing sectors included textile, motor vehicles and chemicals along rice processing, wholesale & retail trade, transport & storage and information & communication. During H1 FY2025, private sector credit was higher due to ADR criteria while during current fiscal year, increased demand for fixed investment loans by businesses, bodes well for sustaining LSM growth in coming months.

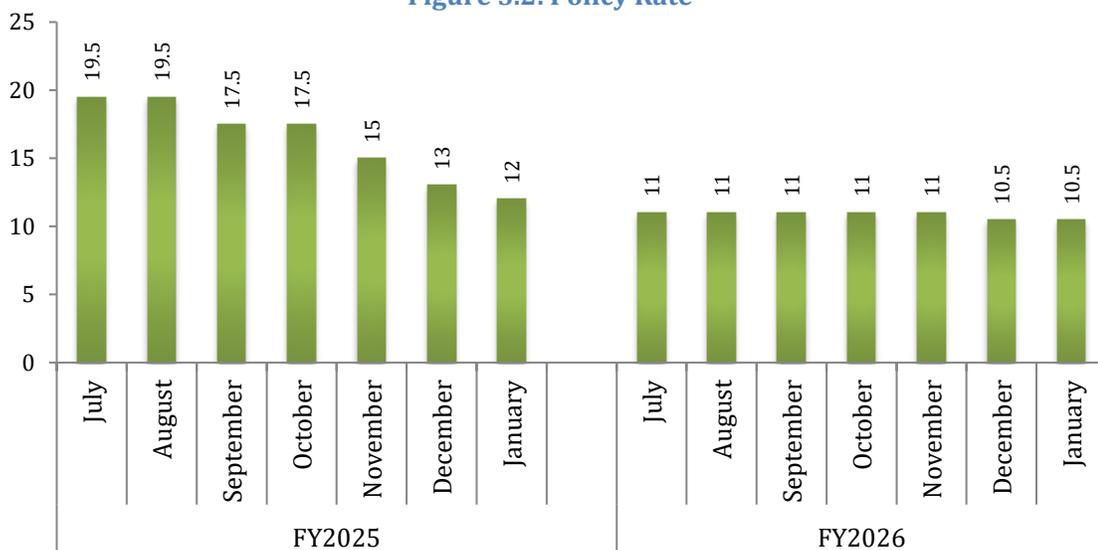
The adjustment in policy rate through calibrated monetary policy stance is expected to further stimulate economic activity, enhance business confidence, and support sustainable economic recovery. Moreover, policy rate adjustment will anchor the inflationary expectations in FY2026 and it will remain within medium-term target range of 5-7 percent.

**Figure 5.1: Loans to Private Sector Businesses (Rs. Billion)**



Source: SBP

**Figure 5.2: Policy Rate\***



\*: end-month

Source: SBP

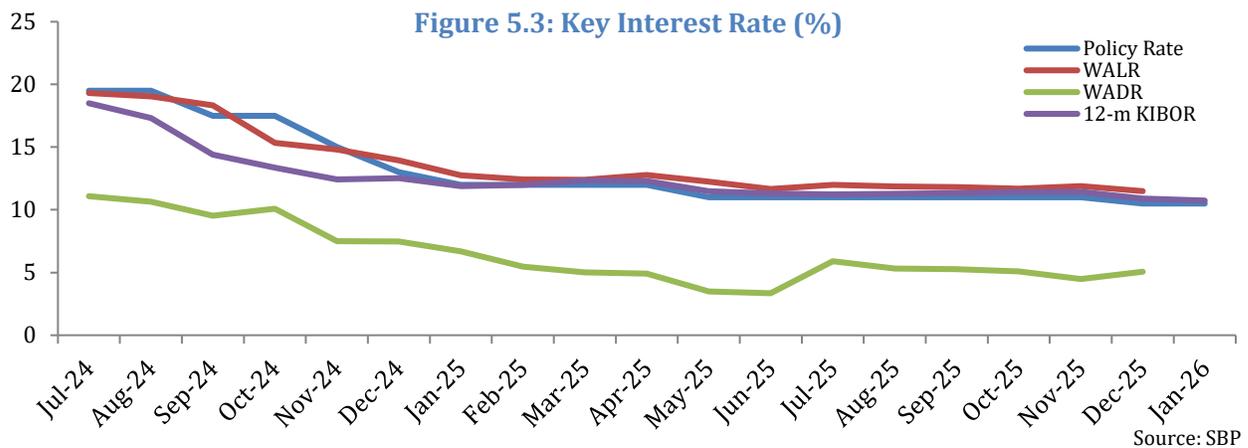


Table 5.1: Monetary Aggregates (Rs. Billion)

Sector/Industry	H1 FY2025	H1 FY2026	Growth (H1 FY25)	Growth (H1 FY26)
<b>Liability Side of the Banking System</b>				
Currency in Circulation	-37.2	238.1	-0.4	2.2
Total Deposits with Banks	-226.0	1279.6	-0.8	4.3
Demand Deposits	13.1	1071.3	0.1	3.8
Time Deposits	-297.8	396.8	-30.2	68.9
Residents Foreign Currency Deposits (RFCDs)	58.6	-188.4	3.7	-11.1
Broad Money (M2)	-267.4	1514.4	-0.7	3.7
<b>Assets Side of the Banking System</b>				
Net Foreign Assets of the Banking System	667.3	107.9	58.6	14.5
(i) State Bank of Pakistan	651.7	777.8	913.0	53.5
(ii) Scheduled Banks	15.7	-669.9	1.5	-94.5
Net Domestic Assets of the Banking System	-934.7	1406.5	-2.5	3.5
(i) State Bank of Pakistan	-653.5	-350.2	-6.4	-3.4
(ii) Scheduled Banks	-281.2	1756.7	-1.1	5.9
Net Government Sector Borrowings	-2433.1	-329.1	-7.8	-0.9
Borrowings for Budgetary Support	-2215.4	-347.0	-7.5	-1.0
(i) From SBP	-888.5	-1480.6	-19.6	-38.6
(ii) From Scheduled banks	-1326.8	1133.6	-5.3	3.7
Commodity Operations	-216.1	19.5	-15.7	1.8
Credit to Private Sector	1978.9	992.3	22.3	10.0
Broad Money (M2)	-267.4	1514.4	-0.7	3.7

Source: SBP

## Monetary Aggregates

During H1 FY2026, Broad Money (M2) observed a growth of 3.7 percent, compared to contraction of 0.7 percent during the same period last year. Within M2, Net Foreign Assets (NFA) of the banking system increased by Rs. 107.9 billion, compared to an expansion of Rs. 667.3 billion during the corresponding period last year. Similarly, Net Domestic Assets (NDA) increased by Rs. 1406.5 billion, in contrast to a decline of Rs. 934.7 billion observed in the previous year. Within NDA, government borrowing for budgetary support showed a net retirement of Rs. 347.0 billion compared to Rs. 2215.4 billion in the same period last year. This trend reflects the government's continued efforts for fiscal consolidation.

## 6. Equity Market

The KSE-100 benchmark witnessed a strong growth during H1 FY2026. The index gained 48,427 points with a robust growth of 38.5 percent closing at a new high of 174,054, which reflects improved investor confidence and rising economic optimism. Amid cut in policy rate and falling profit rates, investors shifted from banks profits to higher and quicker returns that also

contributed to the PSX's bullish performance. Market capitalization increased by Rs. 4.5 trillion, reaching Rs. 19.7 trillion by December 2025.

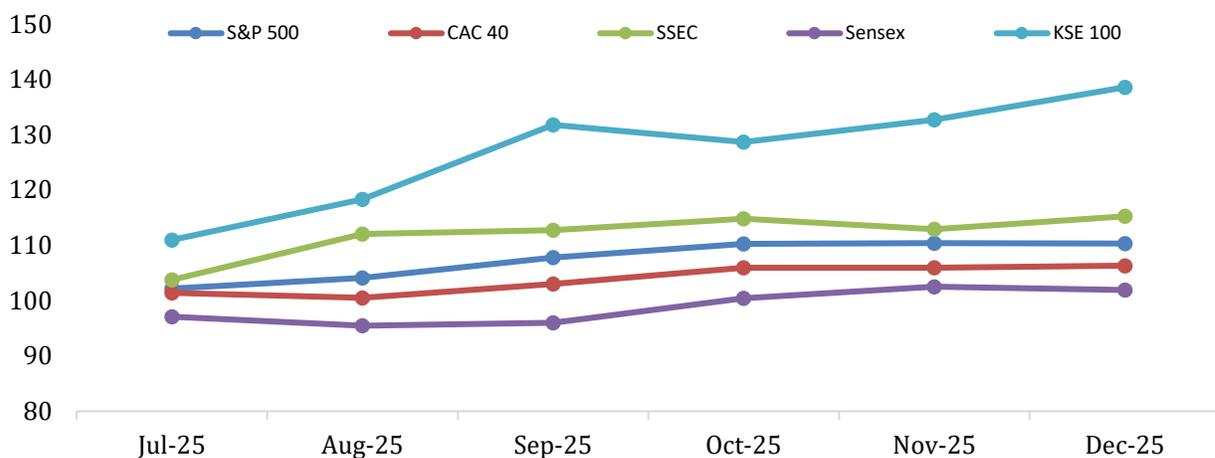
## Sectoral Performance

Tables 6.2 and 6.3 depict sector-wise increase and decrease in market capitalization. An increase was recorded in the market capitalization of commercial banks, oil & gas exploration companies, cement, fertilizer, food & personal care products, investment banks, automobile assemblers, technology & communications, pharmaceuticals and power generation. While decrease was observed in the market capitalization of tobacco, synthetic & rayon, glass & ceramics, textile weaving, vanaspati & allied industries and woolen.

## Trends in Global Equity Markets

The KSE-100 index outperformed peers, posting a strong bullish trend driven by sustained buying interest and positive market sentiment. Meanwhile, the S&P, CAC, SSEC, and Sensex moved within narrow ranges, reflecting limited volatility.

**Figure 6.1: Trends of Major Stock Indices (Standardized)**



Note: All indices are standardized to 100 on the initial day of the sample taken in this figure

Source: PSX & Investing.com

Table 6.1: Stock Market Indicators

Sector/Industry	FY 2025	FY 2025 (Jul-Dec)	FY 2026 (Jul-Dec)	% Change
PSX Index	125,627	115,127	174,054	38.5
Market Capitalization (Rs. trillion)	15.2	14.5	19.7	29.2
Incorporation of Companies (Nos.)	35,210	16,844	21,671	28.7

*Source: PSX, PBS & SECP*

Table 6.2: Sectors with Increasing Trends w.r.t Market Capitalization (Rs. Billion)

Sector/Industry	30-06-2025	31-12-2025	% Growth
Commercial Banks	3,285.9	4,879.2	48.5
Oil & Gas Exploration Companies	2,331.8	2,882.1	23.6
Cement	1,365.3	1,819.1	33.2
Fertilizer	1,093.1	1,569.8	43.6
Food & Personal Care Products	1,321.4	1,455.3	10.1
Inv. Banks / Inv. Cos. / Securities Cos.	507.6	732.1	44.2
Automobile Assembler	572.9	694.6	21.2
Technology & Communication	432.4	682.7	57.9
Pharmaceuticals	577.0	625.9	8.5
Power Generation & Distribution	472.7	588.2	24.4

*Source: PSX*

Table 6.3: Sectors with Decreasing Trends w.r.t Market Capitalization (Rs. Billion)

Sector/Industry	30-06-2025	31-12-2025	% Growth
Tobacco	407.4	396.5	-2.7
Synthetic & Rayon	140.5	125.1	-11.0
Glass & Ceramics	113.9	102.5	-10.1
Textile Weaving	5.2	4.9	-5.5
Vanaspati & Allied Industries	7.1	3.8	-47.1
Woollen	0.8	0.6	-22.2

*Source: PSX*

## 7. Social Sector

The scope of the Benazir Income Support Programme (BISP) continues to expand reinforcing the government's commitment to protecting vulnerable segments of society. The

programme's transparency and effectiveness have been widely acknowledged by international development partners, including the World Bank and the Asian Development

Bank. Currently, 9.9 million deserving families are benefiting from BISP across the country.

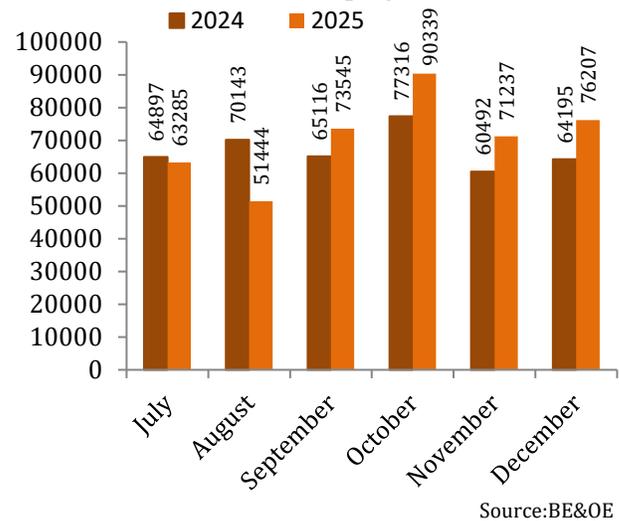
To further strengthen social safety nets, the Government of Pakistan has significantly increased funding for social welfare initiatives. An allocation of Rs. 716 billion has been earmarked for BISP, reflecting a 21.0 percent increase compared to the previous year. In addition, the BISP Educational Scholarship Programme is expected to support up to 12 million children during FY2025-26, underscoring the government's focus on human capital development and intergenerational poverty reduction. During Jul–Dec FY 2026, expenditures under BISP amounted to Rs. 328.7 billion, which this represents a 41.5 percent increase compared to the same period last year.

Complementing BISP, the Pakistan Poverty Alleviation Fund (PPAF) continues to play a critical role in community-based development and livelihood support. In collaboration with 24 partner organizations, PPAF disbursed Rs. 4.23 billion during H1 FY2026 being an important institutional mechanism for poverty reduction at the grassroots level.

### Labour Market & Overseas Employment

The Labour Force Survey (LFS) 2024-25 launched on November 2025 highlights significant changes in Pakistan's labour market, shaped by rapid demographic growth, structural shifts in the economy, and a gradual increase in labour force participation. While the expanding workforce reflects demographic momentum, it also continues to exert pressure on job creation and absorption capacity. According to the latest available LFS, the labour force grew from 71.8 million in 2020-21 to 83.1 million in 2024-25, intensifying strain on the labour market each year. As the number of new entrants outpaced job creation, the unemployment rate rose from

**Figure:7.1 Registered workers for overseas Employment**



6.3 percent to 7.1 percent over the same period. As the sectoral employment also shifted during this period. A structural shift in employment as the services sector became the largest employer, with its share rising from 37.2 percent to 41.2 percent, highlighting the growing role of services-led growth while share of workers in agriculture sector decreased from 37.4 percent to 33.1 percent in 2024-25. In addition, a key insight in the 2024-25 LFS is the inclusion of gig economy measurement. Around 2.9 percent of workers rely on gig work as their primary job, while 10.6 percent participate in gig work as a secondary activity.

Overseas employment helps ease domestic labour market pressures, supports household incomes, and strengthens remittance inflows. Recent trends indicate a continued rise in overseas employment. During H1 FY2026, the Bureau of Emigration and Overseas Employment (BE&OE) registered 426,057 workers for employment abroad, compared to 402,159 during the same period last year, reflecting an increase of 6.0 percent.

## Education & Health

The Household Integrated Economic Survey (HIES) 2024-25 launched on December 2025 marks a significant milestone in Pakistan's statistical system as the first fully digital survey at the provincial level. The Social Report of this survey highlights gradual but meaningful progress in Pakistan's social development, particularly in education, financial inclusion, and health outcomes. The education system has shown steady improvement, with the proportion of individuals aged 10 years and above who have ever attended school increasing from 61.0 percent to 67.0 percent, alongside a rise in the literacy rate from 60.0 percent to 63.0 percent. Although these gains remain modest, they reflect expanded access to education and growing awareness of its long-term benefits.

### Box 2: Pakistan's First-Ever Digital Economic Census

The Economic Census, conducted as part of Pakistan's 7th Population and Housing Census 2023, marked a historic milestone as Pakistan's first-ever digital census, providing the comprehensive and digitally integrated picture of economic activity across the country. By combining population, housing, and economic data, the census offers reliable evidence on the scale, structure, and distribution of businesses and household-based activities, forming a strong foundation for economic planning, employment analysis, and policy formulation. The key findings of this landmark digital initiative comprises of:

- Pakistan has an estimated 38.3 million structures, dominated by low-rise residential housing, with 30.4 million being normal residential buildings of

three or fewer floors, highlighting the prevalence of small homes across the country. Punjab leads with 22.1 million structures, followed by Sindh (7.7 million) and Khyber Pakhtunkhwa (5.7 million).

- Multi-story buildings remain rare and are largely concentrated in Sindh (74,882), while informal housing including jhuggis, tents, and caves is most common in Sindh (313,738) and Balochistan (98,723). Buildings under construction are mostly common in Punjab (528,470) followed by Khyber Pakhtunkhwa (186,798).
- Alongside this built environment, Pakistan hosts around 7 million economic establishments, primarily in wholesale and retail trade (2.9 million), followed by agriculture, forestry, and fishing (1.1 million), other services (945,013), and manufacturing (696,558).
- The economic landscape includes 2.7 million retail shops, 188,843 wholesale shops, 256,000 hotels, 242,616 schools, 11,568 colleges, 214 universities, 119,789 hospitals, 600,403 mosques, 19,645 banks, 23,119 factories, 29,836 public offices, and 643,501 shop-based production units, reflecting a predominantly small-scale, service-oriented economy embedded within a low-rise residential setting.

*Source: PBS.gov.pk*

### Box 3: Pakistan's First-ever Skills Impact Bond (PSIB) Launched

Pakistan's first-ever Skills Impact Bond (PSIB) worth Rs. 1 billion has been introduced on a results-based financing model. It links private investment to measurable outcomes such as job placement and sustained employment, aiming to improve youth employability and labour market relevance of skills training.

*Source: Finance.gov.pk*

### Box 4: Preliminary Assessment of 2025 Flood Damages on the Economy of Pakistan

Following the catastrophic floods of 2022, Pakistan has once again faced devastation as the 2025 monsoon unleashed the worst flooding in the nation's history. The 2025 floods, following intense heatwave, with rainfall surging up to 50% above monsoon averages (nearly doubling in some regions) the floods submerged vast areas across Punjab, Sindh, and Khyber Pakhtunkhwa, claiming lives, displacing communities and eroding livelihoods.

By the end of September 2025, the disaster caused 1,039 people dead and 1,067 injured, while more than 229,763 houses were damaged or destroyed. At least 6.5 million people across 70 districts were affected, including around 4.0 million temporarily displaced as waters receded and families assessed the wreckage.

*Source: MoPD&SI*

Parallel improvements are evident in health outcomes. The Infant Mortality Rate declined from 60 to 47 per 1,000 live births, while the Neonatal Mortality Rate fell from 41 to 35, indicating better maternal and child health conditions. Evidence from the survey underscores a strong link between maternal education and lower child mortality, as educated mothers are more likely to seek timely healthcare, adopt improved nutrition practices, and ensure better hygiene and immunization. Maternal health indicators also show encouraging trends, with 88.0 percent of women receiving pre-natal consultations, 86.0 percent vaccinated against tetanus, and 84.0 percent of births attended by skilled health professionals; however, post-natal overall reached at 44.0 percent. Overall, these trends highlight the critical interconnection between education and health outcomes and reinforce the need for sustained investment in education particularly female education as a foundation for improved public health and inclusive socio-economic development.

### Environment

Pakistan's recent social and economic assessments underscore the growing intersection of urbanization, climate change, and development challenges. To address rising pressures on cities and natural resources, the government has prioritized access to safe drinking water, efficient water use, and waste reduction. The Social Development Report 2024–25 highlights the substantial progress in basic services, with 97.0 percent of households now having access to an improved drinking water source. Access is slightly higher in urban areas, at 99.0 percent compared to rural areas, at 95.0 percent. Sanitation outcomes have also improved, as access to flush toilets increased from 80.0 percent to 89.0 percent, largely driven by gains in rural households. However, solid

waste management remains a persistent challenge, with open dumping still widespread due to limited municipal and private garbage collection services.

## 8. Global Economic Update and Outlook

The global economic growth appeared remarkably resilient, against heightened trade tensions and policy uncertainty in the second half of 2025, ending the year on a strong footing with growth of 3.3 percent. This resilience was underpinned by the stockpiling of traded goods, strong risk appetite, a surge in spending of artificial intelligence and adaption of supply chains. Yet the momentum of growth varied across countries. According to World Economic Outlook (WEO), January 2026, U.S economy decelerated at 2.1 percent in 2025 (from 2.8% in 2024) primarily due to the impacts of higher trade barriers. In contrast, growth in China remained at 5.0 percent in 2025, with weak domestic demand (especially in the housing sector), which is partly offset by resilient exports, stimulus measures by the government and enhanced bank lending for investment. Meanwhile, growth dynamics improved in advanced economies, with growth in both U.K and euro area accelerated to 1.4 percent in 2025 (up from 1.1% and 0.9%, respectively in 2024) driven largely by technology-related investment in the U.K and fiscal expansion led by Germany in the euro area.

Looking ahead, global growth is expected to remain steady at 3.3 percent (WEO) in 2026, with slow yet continued momentum in high technology sectors. At the same time, the tariff effect on growth is projected to fade over the course of the year, while elevated economic policy uncertainty is assumed to persist throughout 2026. Accordingly, U.S economy is projected to expand by 2.4 percent in 2026, supported by accommodative fiscal policy, a lower policy rate and moderate momentum in technology growth. China's growth is projected

to moderate to 4.5 percent in 2026, supported by lower U.S effective tariff rates on Chinese goods (following the year-long trade truce agreed in November 2025), alongside continued implementation of government stimulus measures. In euro area, growth is expected to remain modest at 1.3 percent in 2026.

Global inflation remained broadly stable at 4.1 percent (WEO) in 2025, with overall price pressures showing little change. While short-term inflation indicators edged up slightly across countries for both headline and core rates. However, on an annual basis, global inflation has stayed steady and slightly below expectations. In U.S, high living costs continued to weigh on households and manufacturers reported elevated input costs, indicating persistent price pressures. However, as the impact of higher tariffs gradually passes through, core inflation is projected to moderate toward the Federal Reserve target. In contrast, inflation in China is expected to rise gradually from currently low levels. In U.K inflation, which increased in 2025 partly due to one-off regulated price changes, is projected returning to target by the end of 2026. In the euro area, headline inflation is expected to hover around 2.0 percent. Overall global inflation is projected to continue its gradual decline, with headline inflation falling to 3.8 percent in 2026.

Global trade also remained relatively resilient in 2025, as strong growth in technology-related exports partly offset weaker momentum in other product categories. This was further supported by the front-loading of goods shipment in anticipation of higher U.S tariffs with firms accelerated exports ahead of expected policy changes (particularly from countries facing steeper duties in U.S market). Following a 90-day pause announced in April, the U.S reintroduced broad reciprocal tariffs in August 2025 and imposed additional country and sector-specific measures, while exempting

economies that had finalized trade agreements. As a result, these exemptions and trade agreements led effective U.S tariff rate to settled down to 18.5 percent (as per the WEO), as compared with the 24.4 percent initially projected in April 2025. Similarly, the corresponding effective tariff rate for the rest of the world settled at 3.5 percent, below the earlier April forecast of 4.1 percent. Consequently, trade policy uncertainty has subsided somewhat in the second half of 2025, from historical highs.

As the temporary surge from front loading gradually faded away, U.S imports slowed sharply with shipments from tariff affected countries contracted in the second half of the year, while imports from other countries generally increased. These adjustments also appeared unevenly across exporters. During the second half of the year, economies with more diversified export destinations generally recorded improvements in manufacturing PMI readings for new export orders. Whereas those with more concentrated export markets tended to experience declines, highlighting uneven adjustment across exporters. At the same time, services trade growth weakened notably, driven mainly by a sharp slowdown in travel services following the post-pandemic normalization of global tourism. Transport services also decelerated significantly. Looking ahead, global trade in goods and services is projected to slow down. According to the WEO, growth in global goods and services trade is expected to moderate from 4.1 percent in 2025 to 2.6 percent in 2026.

## 9. Economic Outlook

The economic outlook for Pakistan remains positive, underpinned by strengthening fundamentals and continued policy momentum. Inflation is expected to stabilize within the target

range of 5 to 7 percent, supported by prudent monetary policy, exchange rate stability, and contained commodity price pressures. Concerning agriculture sector, wheat and other Rabi crops have a positive production outlook, with improved sowing, input support, and post-flood yield recovery likely to push wheat output beyond the 29.7 million tonne target. Large-scale manufacturing is projected to maintain its upward trajectory, driven by ongoing structural reforms aimed at enhancing industrial competitiveness, and expanding private sector credit.

These improved agriculture and industrial prospects are likely to generate positive spillovers for the services sector, further reinforcing overall economic momentum and positioning Pakistan to achieve its FY2026 growth target.

On the external front, the current account is projected to remain in deficit but broadly contained, as the upturn in domestic activity becomes more visible in key export sectors such as the textiles, apparel and food processing. Workers' remittances will remain the primary stabilizer and are expected to sustain their upward trend, bolstered by Eid-related seasonality and continued improvements in formal transfer channels. Additionally, steady growth in services exports, particularly IT and telecommunications, will provide further support to the external account.

However, volatility in global commodity prices, trade fragmentation and geopolitical uncertainties may pose risks to this outlook. The accumulation of foreign exchange reserves provides an important buffer against such external shocks, reinforcing overall external sector resilience. Ongoing fiscal consolidation will create additional fiscal space for development spending.

# STATE OF PAKISTAN'S ECONOMY-HALF YEARLY REPORT

## Economic Indicators

(17-03-2026)

External Sector							
	FY2025	FY2025 (Jul-Dec)	FY2026 (Jul-Dec)	% Change	FY2025 (Dec)	FY2026 (Dec)	% Change
Remittances (\$ billion)	38.3	17.8	19.7	↑ 10.6	3.1	3.6	↑ 16.5
Exports FOB (\$ billion)	32.34	16.3	15.5	↓ 5.0	3.1	2.7	↓ 11.0
Imports FOB (\$ billion)	59.11	27.9	31.3	↑ 12.3	4.9	5.7	↑ 17.0
Current Account Balance (\$ million)	1,932	957	-1,174	↓	454	-244	↓
FDI (\$ million)	2489.7	1424.8	808.1	↓ 43.3	182.4	-134.7	↓
Portfolio Investment- (\$ million)	-650.2	-221.8	-225.1	↓	-65.5	-32.9	↑
Total Foreign Investment (\$ million)	1,839.5	1,343.1	207.4	↓	-48	-121.6	↓
	19.3	15.9	21.4				
Forex Reserves (\$ billion)	(SBP: 14.5) (Banks: 4.8) (End June)	(SBP: 11.8) (Banks: 4.1) (On 6 <sup>th</sup> Mar 2025)	(SBP: 16.3) (Banks: 5.1) (On 6 <sup>th</sup> Mar 2026)				
Exchange rate (PKR/US\$)	283.8 (End June)	280.2 (On 14 <sup>th</sup> Mar 2025)	279.3 (On 16 <sup>th</sup> Mar 2026)				

Source: SBP

Fiscal (Rs. Billion)				
	FY2025	H1 FY2025	H1 FY2026	% Change
Total Revenue	17,977.5	9,763.8	10,683.6	↑ 9.4
Total Expenditure	24,165.5	11,301.7	10,141.7	↓ 10.3
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	574.4 (1 <sup>st</sup> Jul to 5 <sup>th</sup> Mar)	887.5 (1 <sup>st</sup> Jul to 6 <sup>th</sup> Mar)	↑
Growth in M2 (percent)	13.7	0.11 (1 <sup>st</sup> Jul to 5 <sup>th</sup> Mar)	3.48 (1 <sup>st</sup> Jul to 6 <sup>th</sup> Mar)	
Policy Rate (percent)	11.0 (End June)	12.0 (10-Mar-2025)	10.5 (9-Mar-2026)	

Source: SBP

Real Sector				
	FY2025	FY2025	FY2026	% Change
CPI (National) (percent)	4.5	4.1 (Dec) 7.2 (Jul-Dec)	5.6 (Dec) 5.2 (Jul-Dec)	
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 30 <sup>th</sup> June 2025)	115,536 (On 14 <sup>th</sup> Mar 2025)	149,178 (On 16 <sup>th</sup> Mar 2026)	↑ 29.1
Market Capitalization (Rs trillion)	15.24 (On 30 <sup>th</sup> June 2025)	14.12 (On 14 <sup>th</sup> Mar 2025)	16.82 (On 16 <sup>th</sup> Mar 2026)	↑ 19.1
Market Capitalization (\$ billion)	53.69 (On 30 <sup>th</sup> June 2025)	50.41 (On 14 <sup>th</sup> Mar 2025)	60.24 (On 16 <sup>th</sup> Mar 2026)	↑ 19.5
Incorporation of Companies (Jul-Dec)	35,210	16,844	21,671	↑ 28.7

\*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP