MONTHLY
ECONOMIC
UPDATE & OUTLOOK
JANUARY 2026

GOVERNMENT OF PAKISTAN
FINANCE DIVISION
ECONOMIC ADVISER'S WING

ECONOMIC UPDATE

Pakistan's economy has completed first half of FY2026 with continued macroeconomic stability, reflected in contained inflation, rebound LSM growth and strengthened foreign exchange reserves with stable exchange rate. The sustained growth momentum has been complemented with fiscal discipline resulted in fiscal and primary surpluses. LSM has gained momentum, signaling improved growth prospects for the remaining period of the fiscal year. Remittances remained robust, supporting the external account. In parallel, the Pakistan Stock Market has maintained a strong rally, ranking among the world's top-performing markets and reflecting improved investor sentiment. Building on these gains, the government has launched Economic Governance Reforms aimed at embedding stability into institutions and enabling sustainable private sector led growth.

The Agriculture Sector Remained Resilient, Driven by Better Input Demand.

The agriculture sector posted growth of 2.9 percent in Q1 of FY2026, showing a significant improvement from 1.0 percent during the same period last year. The important crops (excluding Wheat being Rabi crop) recorded a contraction of 0.7 percent as compared to a contraction of 13.1 percent during Q1 last year, mainly due to reduced cotton production (-1.2%). Other crops also witnessed a contraction of 6.4 percent as compared to 19.3 percent contraction in Q1 last year driven by lower green fodder production (-14.4%) and increase in input (fertilizer 13.0%). Livestock grew strongly by 6.3 percent (vs. 2.0% in Q1 last year) supported by decrease in value of inputs (green fodder (-14.4%)). Forestry and Fishing recorded steady growth of 2.1 percent and 0.9 percent, respectively by retaining their normal growth tendency. On input side, agricultural credit disbursement increased by 11.4 percent to Rs. 1,411.6 billion during Jul-Dec FY2026 from Rs. 1,266.7 billion last year. Moreover, the imports of agricultural machinery & implements increased by 21.6 percent to $65.8 million during Jul-Dec FY2026 from $54.1 million last year. During 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).

Large Scale Manufacturing (LSM) is on a Sustained Recovery Trajectory.

LSM registered a growth of 6.0 percent with QIM index reaching its highest during Jul-Nov FY2026 since FY2016. During the period, 16 sectors recorded positive growth, including textile, wearing apparel, non-metallic mineral products, food, beverages, coke & petroleum products, electrical equipment, automobile and tobacco. In November 2025, LSM grew by 10.4 percent on year-on-year (YoY) basis and by 0.2 percent on month-on-month (MoM) basis. Automobile, coke & petroleum products and wearing apparel remained the major contributing factors to overall growth with contribution of 1.8 percent, 1.3 percent, and 1.2 percent respectively. During Jul-Dec FY2026, the performance of automobile sector remained encouraging, supported by a substantial rise in production of cars by 56.1

percent, trucks & buses by 89.4 percent and jeeps & pick-ups by 36.9 percent. Similarly, cumulative cement dispatches reached 25.8 million tonnes, up 9.7 percent in Jul-Dec FY2026. Domestic dispatches totalled 21.1 million tonnes, 13.1 percent YoY increase, while exports declined by 3.7 percent to 4.6 million tonnes.

Inflation is Gradually Declining.

CPI inflation recorded at 5.6 percent on YoY basis in December 2025 as compared to 6.1 percent in the previous month and 4.1 percent in December 2024. On average, inflation during Jul-Dec FY2026 stood at 5.2 percent as against 7.2 percent during the same period last year. YoY major contributing factors of inflation include Education (9.9%), Health (7.7%), Non-Perishable food items (7.5%), Housing, Water, Electricity, Gas & Fuels (6.9%), Clothing & Footwear (6.2%), Restaurants & Hotels (5.6%), Transport (4.9%), Alcoholic Beverages & Tobacco (3.9%), Furnishing & Household Equipment Maintenance (3.4%) and Communication (0.6%). However, decline is observed in Perishable Food (20.1%) and Recreation & Culture (4.3%). The Sensitive Price Indicator for the week ending January 22, 2026, declined by 0.48 percent. During the week, out of 51 items, prices of 12 items increased, 11 items decreased and 28 items remained stable.

Fiscal Performance is on Track.

The government has achieved a fiscal surplus during Jul-Nov FY2026 also owing to a growth in revenue and a considerable reduction in mark-up payments. Gross federal revenue receipts recorded a growth of 7.8 percent during the reference period, contributed by growth in both FBR's taxes and non-tax revenue by 10.2 percent and 4.8 percent, respectively. Total expenditure declined by 6.2 percent due to 6.4 percent reduction in current expenditure as mark-up payments declined by 21.3 percent. Development expenditure, on the other hand, posted an increase of 1.5 percent. The government achieved a consolidated fiscal surplus of 0.8 percent of GDP during the period under review as compared to a deficit of 0.04 percent during the same period of last year. Similarly, a primary surplus of 2.8 percent was recorded as compared to a surplus of 2.9 percent during the corresponding period last year. During Jul-Dec FY2026, FBR's tax revenue grew by 9.5 percent, reaching Rs. 6,161 billion, contributed by a growth in the direct taxes (8.9%), sales tax (10%), federal excise duty (15.6%) and customs duty (7.4%).

Pickup in Economic Activity is Increasing Import Demand, Remittances Inflow Remain Key in Supporting the External Account.

The current account posted a deficit of $1.2 billion during Jul-Dec FY2026, compared to a surplus of $0.96 billion recorded last year. Goods & services export recorded at $20.3 billion compared to $20.4 billion last year in which goods export stood at $15.5 billion. Services export were primarily driven by IT services that increased by 19.8 percent to $2.2 billion. Goods & services import recorded at $37.8 billion compared to $33.5 billion last year, including goods imports of $31.3 billion. Trade deficit of goods & services increased to $17.6 billion from $13.1 billion last year.

According to PBS data, gains in key exports were observed in knitwear (4.1%), garments (4.9%) and bedwear (1.9%). Increase in major import items was recorded in petroleum products (5.1%), petroleum crude (11.2%) and palm oil (28.8%).

Remittances were up 10.6 percent to $19.7 billion, led by inflows from Saudi Arabia (23.9% share) and UAE (20.7%). Net FDI inflows declined, recording at $808.1 million. Main sources of net inflows were China ($422.9 million) and Hong Kong ($163.8 million). Sector-wise, power ($470.9 million) and financial services ($401.5 million) attracted the most FDI, while communications recorded an outflow ($411.4 million). Private & public FPI recorded net outflows of $225.1 million and $375.5 million, respectively. As of

January 16, 2026, foreign exchange reserves stood at $21.3 billion, including $16.1 billion with SBP.

Current Monetary and Capital Market Indicators show an Improvement in Business Environment.

During Jul-Dec FY2026, money supply (M2) shows a growth of 3.7 percent as compared to a contraction of 0.7 percent during the corresponding period of last year. Within M2, Net Foreign Assets (NFA) of the banking system increased by Rs. 107.9 billion as compared an increase of Rs. 667.3 billion in last year. Whereas, Net Domestic Assets (NDA) of the banking sector increased by Rs. 1,406.5 billion as compared a decrease of Rs. 934.7 billion last year. Under the borrowing for budgetary support, the government retired Rs. 347.0 billion as compared to the retirement of Rs. 2,215.4 billion last year. Private Sector borrowed Rs. 992.3 billion as compared to a borrowing of Rs. 1,978.9 billion last year. During H1-FY2025, private sector credit was higher due to ADR criteria while during current fiscal year, demand for fixed investment loans by businesses increased to Rs. 257 billion, which bodes well for sustaining LSM growth in coming months. December 2025 witnessed a strong recovery at the Pakistan Stock Exchange (PSX). The KSE-100 Index gained 7,376 points, closing at 174,054, reflecting improved investor confidence and renewed buying interest. Market capitalization increased by Rs. 823 billion, reaching Rs. 19,690 billion by end of December 2025. As of 26th January 2026, the KSE-100 Index stood at 188,587 points, with total market capitalization recorded at Rs. 21,161.7 billion.

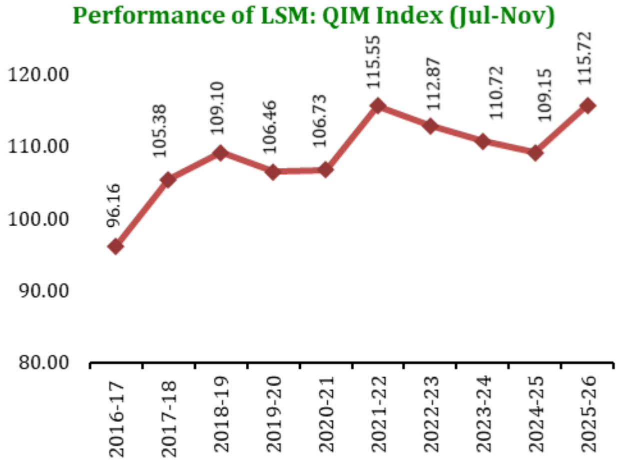
Employment Abroad and Interest-Free Lending Remain Key Pillars of Income Support and Social Resilience.

In December 2025, the Bureau of Emigration & Overseas Employment registered 76,207 workers, 18.7 percent increase from 64,195 in December, 2024. In CY2025, the Bureau of Emigration & Overseas Employment registered 762,499 workers, representing a 5.1 percent increase over 725,672 workers registered in 2024. The Pakistan Poverty Alleviation Fund, in partnership with 26 organizations, disbursed 21,050 interest-free loans worth Rs. 1,360 million during December 2025. Since 2019, a total of Rs. 122.8 billion have been provided to the borrowers. During Jul-Nov FY2026, Rs. 144.9 billion were spent under BISP, as compared to Rs.156.7 billion last year.

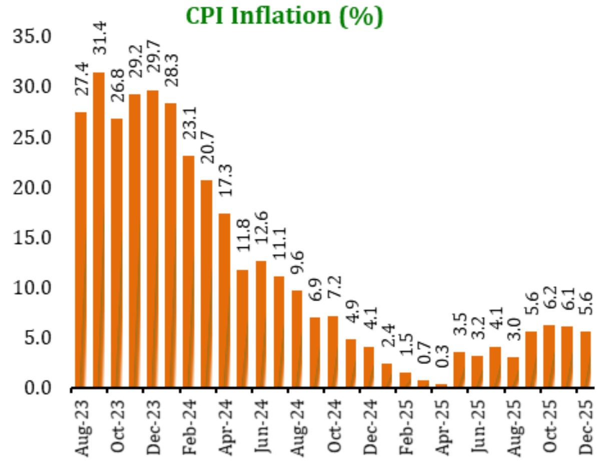
ECONOMIC OUTLOOK

Pakistan’s economy is well positioned to sustain its growth momentum in FY2026, supported by the encouraging performance of LSM and other high-frequency indicators. This positive trajectory reflects the impact of prudent policies, ongoing structural reforms, and easing of monetary conditions due to subsiding inflationary pressures. Inflation is expected to remain within the range of 5.0-6.0 percent in January. On the external front, the current account is projected to remain in a deficit; however, robust remittance inflows and steady performance in IT and services exports are likely to cushion external pressures. The improved fiscal management is also expected to continue supporting the macroeconomic stability.

Recovery is underway in the large-scale manufacturing sector. Concurrently, inflation continued to cool down

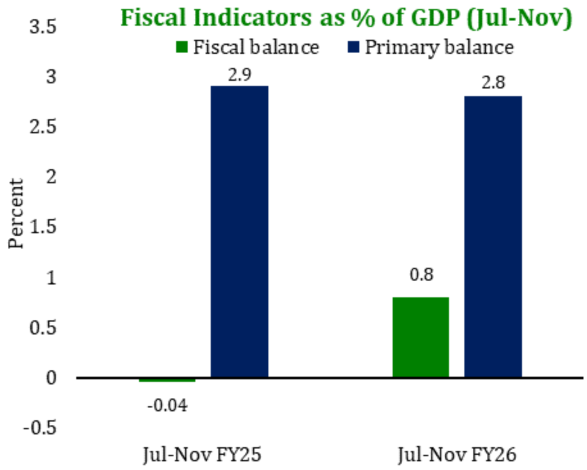


Source: PBS

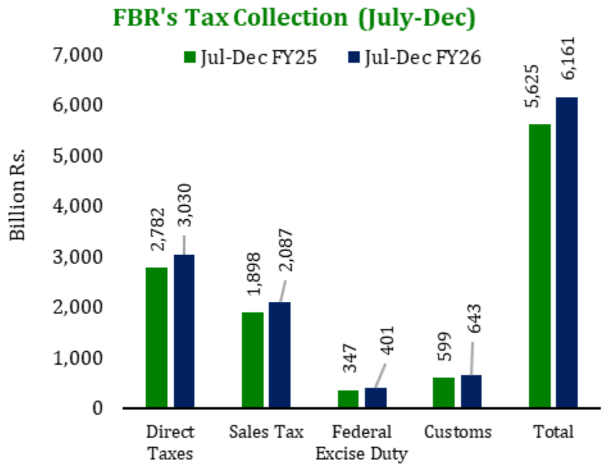


Source: PBS

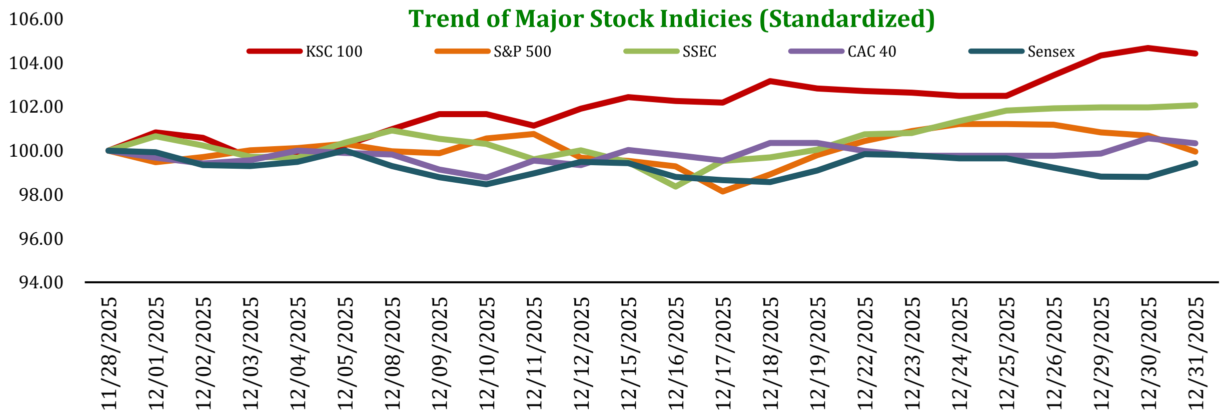
Sound public financial management kept fiscal performance on track. While stock market remained on strong footing.



Source: Budget Wing Finance Division



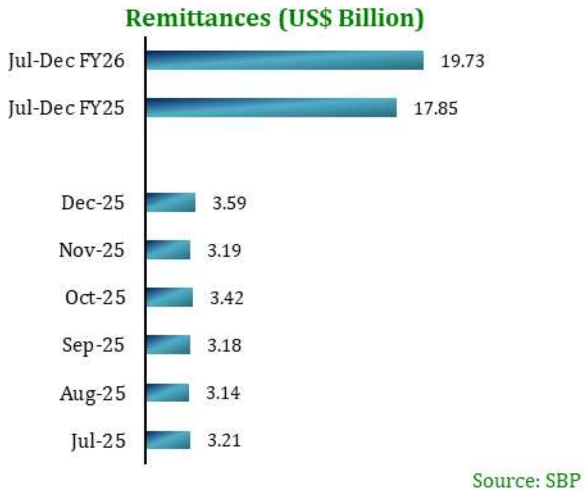
Source: FBR

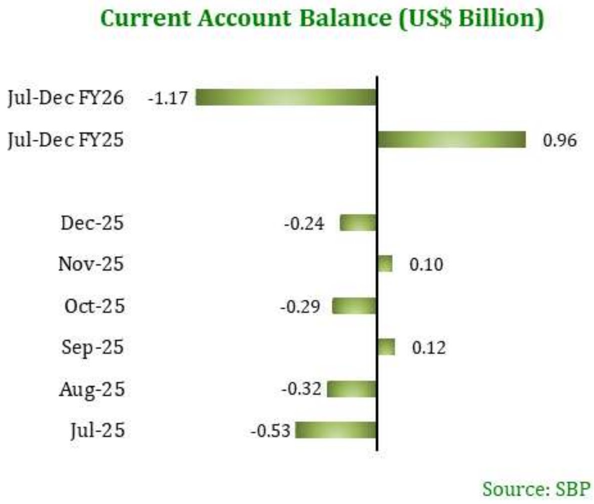


Source: PSX & Investing.com

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

Remittances continue to play a key role in supporting the external account position amid increasing imports.





GLOBAL ECONOMIC UPDATE AND OUTLOOK

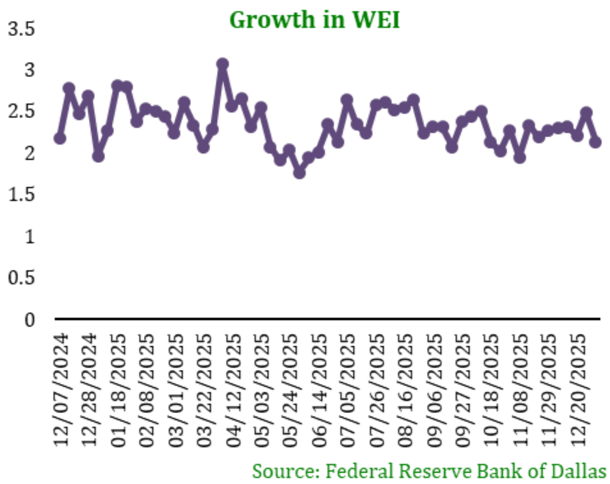
According to World Economic Outlook (WEO), January 2026 by IMF, global growth has estimated at 3.3 percent in 2025 and expected to remain steady at 3.3 percent in 2026 and 3.2 percent in 2027. Meanwhile Global Economic Prospects (GEP), January 2026 by World Bank, anticipated a slower growth pace from 2.7 percent in 2025 to 2.6 percent in 2026 and then recover back to 2.7 percent in 2027. These growth prospects stems from weaker trade activity, with firms scaling back inventory accumulation and tariff effects becoming more pronounced. The recent monthly data also reinforces this outlook; in December 2025, the global economic expansion slowed, with the J.P. Morgan Global PMI Composite Output Index declined to 52.0 (from 52.7 in November), marking its lowest level in the six months. Further, the global purchasing activity and inventory levels among goods producers also declined, reflecting subdued conditions and weakened demand expectations.

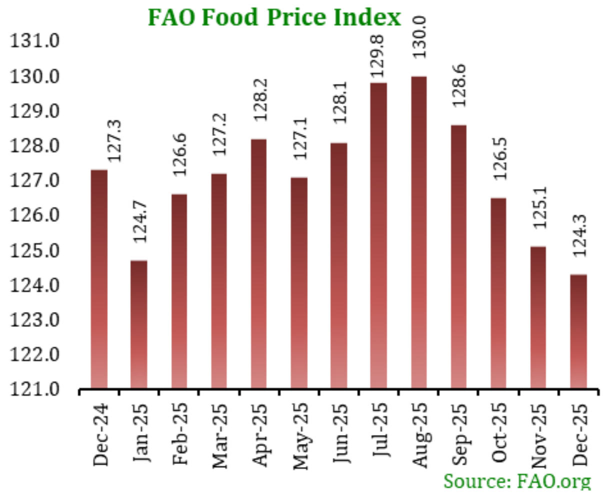
Additionally, divergence in projected growth across economies prevailed. For instance, U.S growth is projected at 2.4 percent (WEO) and 2.2 percent (GEP) in 2026, moderating to 2.0 percent (WEO) and 1.9 percent (GEP) in 2027. Further, for the Euro Area, the growth is projected at 1.3 percent (WEO) and 0.9 percent (GEP) in 2026, rising to 1.4 percent (WEO) and 1.2 percent (GEP) in 2027. China at 4.5 percent (WEO) and 4.4 percent (GEP) in 2026, softening to 4.0 percent (WEO) and 4.2 percent (GEP) in 2027, due to structural constraints resulting from slowing productivity, high debt, and an aging population.

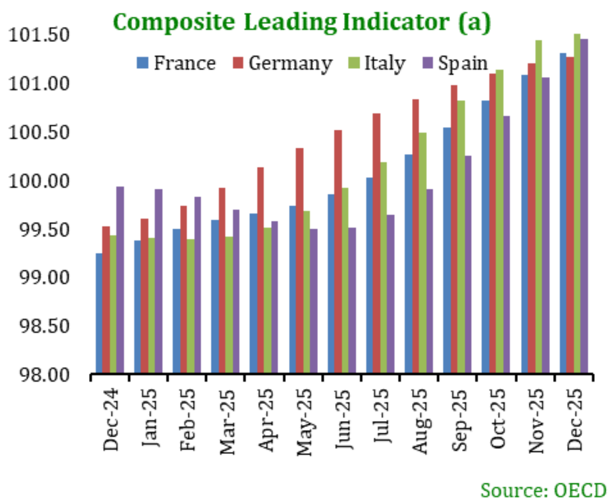
Further, risks to the global outlook remain tilted to the downside. As per WEO, the downside risks include potential reassessments of AI-driven productivity gains, financial market corrections, possible flare up trade and geopolitical tensions, domestic political uncertainties, and pressures from high fiscal deficits and public debt. However, on the upside, faster AI adoption and easing trade tensions could boost productivity, business dynamism and sustainable growth. Trade dynamics continue to play a central role in shaping the global outlook. The world trade volume is forecasted to expand at 2.6 percent (WEO) & 2.2 percent (GEP) in 2026 and 3.1 percent (WEO) & 2.7 percent (GEP) in 2027, reflecting gradual stabilization as businesses adapt to new tariff structures and evolving global demand patterns.

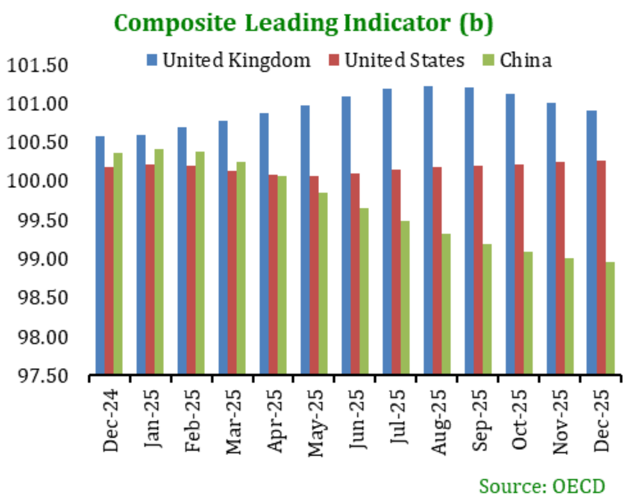
Concerning inflation, the FAO Food Price Index (FFPI) averaged 124.3 points in December 2025 (down 0.8 points from November) as declines in dairy products, meat, and vegetable oils more than offset increases in cereals and sugar. The index stood 2.3 percent below its last year's level and 22.4 percent below its March 2022 peak. For 2025 as a whole, the index averaged 127.2 points (4.3 percent higher than the 2024 average). In commodity markets, the energy price index declined by 1.3 percent in December, while the non-energy price index rose by 1.3 percent. The food prices broadly remain unchanged (at 0.5%), beverages declined (3.8%), raw materials edged up (around 1%), metals & precious metal rose (5.7% and 8.4%, respectively), and fertilizer prices fell (5.5%).

The forward-looking indicators remain supportive; the U.S Weekly Economic Index stands at 2.3 percent for the week ended January 17, with the 13-week moving average at 2.2 percent. Meanwhile, the Composite Leading Index of Pakistan's key export markets continued to remains at or above the potential level of 100, suggesting a relatively favorable external environment and a meaningful contribution to our export outlook.









Economic Indicators

(27-01-2026)

External Sector							
	FY2025	FY2025 (Jul-Dec)	FY2026 (Jul-Dec)	% Change	FY2025 (Dec)	FY2026 (Dec)	% Change
Remittances ($ billion)	38.299	17.846	19.733	↑ 10.6	3.080	3.589	↑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	↓
Forex Reserves ($ billion)	19.3 (SBP: 14.5) (Banks: 4.8) (End June)	16.2 (SBP: 11.4) (Banks: 4.7) (On 10th Jan 2025)	21.3 (SBP: 16.1) (Banks: 5.2) (On 16th Jan 2026)				
Exchange rate (PKR/US$)	283.8 (End June)	278.7 (On 24th Jan 2025)	279.9 (On 26th Jan 2026)				

Source: SBP

Fiscal (Rs. Billion)							
	FY2025	FY2025 (Jul-Nov)	FY2026 (Jul-Nov)	% Change	FY2025 (Dec)	FY2026 (Dec)	% Change
FBR Revenue (Jul-Dec)	11,744	5,624.9	6,160.8	↑ 9.5	1,329.9	1,427.2	7.3
Non-Tax Revenue	5,274.6	3,417.7	3,581.7	↑4.8			
Fiscal Balance	-6,168.0	-43.5	981.5	↑			
Primary Balance	2,719.4	3,349.7	3,651.8	↑			

Source: FBR & Budget Wing

Monetary Sector				
	FY2025	FY2025	FY2026	
Agriculture Credit (Jul-Dec)	2,577.3	1,266.7	1,411.6	↑11.4
Credit to private sector (Flows)	1,081.6	1,520.6 (1st Jul to 10th Jan)	578.4 (1st Jul to 09th Jan)	↓
Growth in M2 (percent)	13.7	-1.88 (1st Jul to 10th Jan)	0.40 (1st Jul to 09th Jan)	
Policy Rate (percent)	11.0 (End June)	13.0 (17-Dec-2024)	10.5 (16-Dec-2025)	

Source: SBP

Real Sector			
	FY2025	FY2025	FY2026
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	-1.41 (Jul-Nov)	6.01 (Jul-Nov)

Source: PBS

Financial Sector				
	FY2025	FY2025	FY2026	% Change
PSX Index*	125,627 (On 30th June 2025)	114,880 (On 24th Jan 2025)	188,587 (On 26th Jan 2026)	↑ 64.2
Market Capitalization (Rs trillion)	15.24 (On 30th June 2025)	14.12 (On 24th Jan 2025)	21.16 (On 26th Jan 2026)	↑ 49.9
Market Capitalization ($ billion)	53.69 (On 30th June 2025)	50.64 (On 24th Jan 2025)	75.60 (On 26th Jan 2026)	↑ 49.3
Incorporation of Companies (Jul-Dec)	35,210	16,844	21,671	↑ 28.7

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP