



ECONOMIC UPDATE

Pakistan's economy has continued its recovery, with domestic economic activity broadly remaining on track during the first quarter of FY2026. The recent Staff-Level Agreement (SLA) with the IMF following a successful review underscores the government's strong policy performance, improved macroeconomic fundamentals, and steadfast reforms commitment.

Due to recent floods, there is risk of inflationary pressures. However, the government remains firmly committed to maintaining fiscal discipline, keeping inflation within the target and providing targeted social protection within a sound and forward-looking macroeconomic policy framework.

The positive developments are reflected in sharp decline in Pakistan's sovereign default risk with its Credit Default Swap probability declined by 2,200 basis points over the past 15 months. Moreover, Pakistan's Sustainable Financing Framework has earned an "Excellent" alignment score from Sustainable Fitch, certifying full compliance with global standards for green, social, and sustainable bonds and loans.

Climate Shocks Weigh on Agriculture, but Sector Shows Early Signs of Resilience.

According to a preliminary assessment the recent flood has caused Rs. 430 billion losses to the agriculture sector, damaging crops: rice, cotton, sugarcane, maize, fodder and, vegetables. Nevertheless, recent indicators suggest that recovery efforts are underway supported by increased agricultural credit, higher machinery imports, and improved

fertilizer offtake. During Jul-Aug FY2026, the agricultural credit disbursement jumped 19.5 percent to Rs. 404.2 billion from Rs. 338.2 billion last year. During FY2026 Jul-Sep, imports of agricultural machinery increased by 31.3 percent to \$39.3 million compared to \$29.9 million last year. During Kharif 2025 (Apr-Sep), urea offtake recorded at 3,105 thousand tonnes (13.1% higher than Kharif 2024) and DAP offtake was 650 thousand tonnes (1.2% higher than Kharif 2024).

LSM Registers Steady Growth Backed by Automobile and Construction Demand.

Large-Scale Manufacturing (LSM) registered a growth of 4.4 percent during Jul-Aug FY2026 with 12 sectors recording positive growth, including wearing apparel, non-metallic mineral products, food, electrical equipment, automobile and tobacco. In August 2025, LSM marginally grew by 0.5 percent on year-on-year (YoY) basis while on month-on-month (MoM) basis it declined by 2.7 percent. During Jul-Sep FY2026, the performance of automobile sector remained encouraging, supported by a substantial increase in the production of cars (74.0%), trucks & buses (105.2%), and jeeps & pick-ups (48.7%). Similarly, cumulative cement dispatches reached 12.2 million tonnes, up 16.2 percent in Q1-FY2026. Domestic dispatches were recorded at 9.6 million tonnes, (15.1 % increase), while exports rose by 20.8 percent to 2.6 million tonnes.

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Headline Inflation Edges up to 5.6 Percent in September 2025.

CPI inflation recorded at 5.6 percent (YoY) in September 2025 as compared to 3.0 percent in the previous month and 6.9 percent in September 2024. On MoM basis, it increased by 2.0 percent in Sep 2025 as compared to a decrease of 0.6 percent in the previous month and a decrease of 0.5 percent in Sep 2024. During Jul-Sep FY2026, it was recorded at 4.2 percent against 9.2 percent last year. Major contributing factors of YOY inflation includes Education (10.7%), Health (10.6%), Clothing &Footwear (8.0%), Non-Perishable Food (6.5%), Restaurants &Hotels (6.1%), Transport (4.2%), Furnishing &Household Equipment Maintenance (4.1%), Housing, Water, Electricity, Gas &Fuels (3.7%), Alcoholic Beverages &Tobacco (3.4%), and Communication (0.4%). Decline was observed in perishable food items (3.7%) and Recreation & Culture (2.7%). The Sensitive Price Indicator for the week ending October 23, 2025, increased by 0.22 percent. During the week, out of 51 items, prices of 20 items increased, 06 items decreased, and 25 items remained stable.

Effective Fiscal Management through Improved Revenues and Contained Expenditures.

During Jul-Aug FY2026, net federal revenues surged by 231.4 percent to Rs. 3,269.8 billion, compared to Rs. 986.7 billion in the same period last year. This remarkable improvement was driven by a 721.1 percent jump in non-tax revenues and a 14.1 percent rise in FBR tax collections.

The surge in non-tax revenues was mainly led by higher State Bank of Pakistan profits, supplemented by increased receipts from dividends, defence receipts, Windfall Levy against crude oil, the Gas Infrastructure Development Cess, and the petroleum levy. During Jul-Sep FY2026, FBR's tax collection rose to Rs. 2,884.4 billion, up 12.5 percent.

On the expenditure side, total outlays increased modestly by 7.6 percent to Rs. 1,760.6 billion, reflecting prudent fiscal management. Consequently, the federal fiscal balance recorded a surplus of Rs. 1,509.2 billion, compared to a deficit of Rs. 648.8 billion last year. The primary balance also improved sharply, posting a surplus of Rs. 2,938.9 billion, up from Rs. 49.4 billion in the corresponding period.

Exports and Remittance Inflows Sustain the External Account Position.

The current account recorded a deficit of \$594 million, during Jul-Sep FY2026, compared to \$502 million last year. However, in September FY2026, the current account turned to a surplus of \$110 million. Goods exports rose 6.5 percent to \$7.9 billion, while imports increased 8.3 percent to \$15.4 billion, resulting in a trade deficit of \$7.5 billion during Jul-Sep FY2026 compared to \$6.8 billion last year.

Key gains of exports were observed in knitwear (12.2%), garments (6.1%), and bedwear (7.3%). Imports increases were recorded in petroleum products (3.1%) and palm oil (34.1%), while petroleum crude decreased (0.2%). Service exports grew by 14.8 percent to \$2.2 billion; imports increased 11.2 percent to \$3.1 billion, with a service trade deficit of \$931 million against \$900 million last year. IT exports increased by 20.4 percent to \$1.1 billion.

Remittances were up 8.4 percent to \$9.5 billion during Jul-Sep FY2026, led by inflows from Saudi Arabia (24.2% share) and UAE (20.8%). Net FDI inflows declined, recording at \$568.8 million. Main sources remained China (\$188.6 million) and Hong Kong (\$96.0 million). Sector-wise, power (\$244.3 million) and financial services (\$180.2 million) attracted the most FDI. Private and public FPI recorded net outflows of \$121.5 million and \$511.8 million, respectively. As of October 17, 2025, foreign exchange reserves stood at \$19.9 billion, including \$14.5 billion with SBP.

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Monetary Indicators Remained Conducive for Contained Inflation; Bullish Rally Propels PSX to Record Levels.

During the period 01st July–03rd October, FY2026 money supply (M2) showed negative growth of 2.6 percent as compared to negative growth of 1.9 percent last year. Within M2, Net Foreign Assets (NFA) of the banking system increased by Rs. 173.8 billion as compared to an increase of Rs. 188.6 billion last year. Whereas Net Domestic Assets (NDA) of the banking system decreased by Rs. 1245.5 billion as compared to a decrease of Rs. 863.9 billion last year. Under the borrowing for budgetary support, government has retired Rs.2039.6 billion against the retirement of Rs. 1282.0 billion last year. Private sector has retired Rs 18.6 billion as compared to retiring of Rs. 297.0 billion last year. In the capital market, the Pakistan Stock Exchange (PSX) continued its bullish momentum in September 2025, with

the KSE-100 Index climbing 16,875 points to close at 165,493. The Market capitalization expanded by Rs.1,608 billion, reaching Rs. 19,264 billion by month-end. As of October 22,2025, the KSE-100 Index stood at 166,553 points, with total market capitalization recorded at Rs. 19,212 billion.

Sustained Momentum in Overseas Employment.

In September 2025, the Bureau of Emigration & Overseas Employment registered 73,545 workers, a 43 percent increase from 51,444 in August 2025. The Pakistan Poverty Alleviation Fund, in partnership with 26 organizations, disbursed 5,370 interest-free loans worth Rs. 322.6 million during September 2025. Since 2019, a total of Rs. 120.7 billion has been provided to the borrowers. During Jul-Aug FY2026, Rs. 14.63 billion was spent under the BISP, representing a 60.0 percent decrease compared to last year.

Economic Outlook

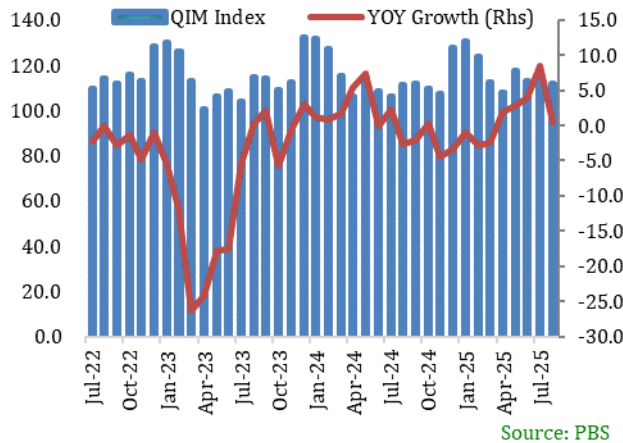
Pakistan's economy has maintained its recovery path despite flood-related disruptions. Industrial activity remains resilient, supported by a rebound in large-scale manufacturing particularly in cement, automobiles, and allied sectors while exports and remittances are showing steady improvement. The external sector remains stable, with a current account surplus recorded in September 2025, amid robust remittance inflows. Inflation, though temporarily affected by food-supply pressures, is expected to remain contained within target. The successful IMF review under the Extended Fund Facility (EFF) and the Resilience and Sustainability Facility (RSF)

reaffirms confidence in Pakistan's reform trajectory and prudent macroeconomic management. Upgrades by global rating agencies Fitch, S&P, and Moody's are reflection of renewed investor confidence. Continued progress in privatization, digital governance, and CPEC Phase 2.0 joint ventures underscores the government's commitment to fiscal consolidation, structural transformation, and sustainable, inclusive growth. Meanwhile, flood-related supply disruptions and temporary border closures have put upward pressure on prices of a few essential commodities. Inflation is expected to remain in the range of 5-6 percent in October 2025.

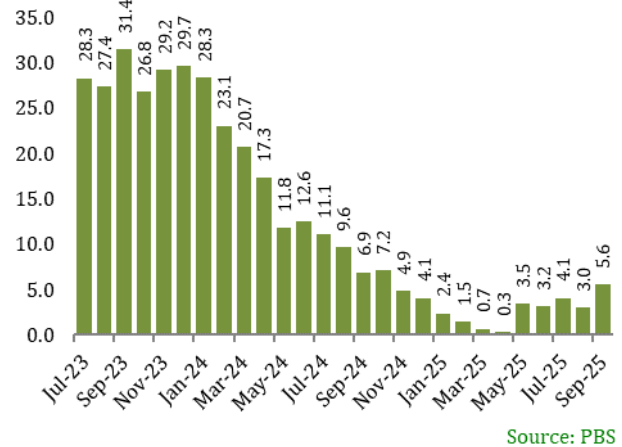
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LSM signals marginal growth in industrial sector while inflationary pressure rises moderately.

Performance of LSM

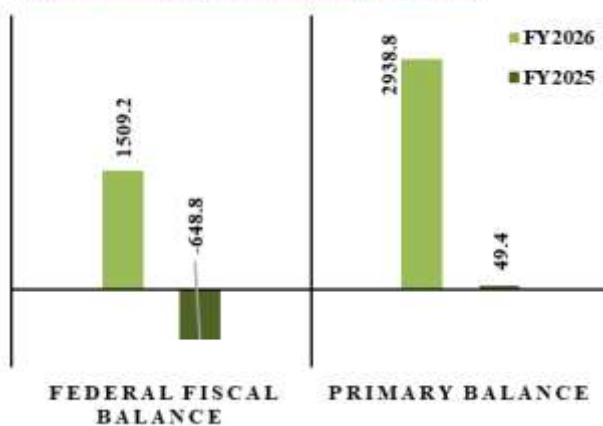


CPI Inflation (%)

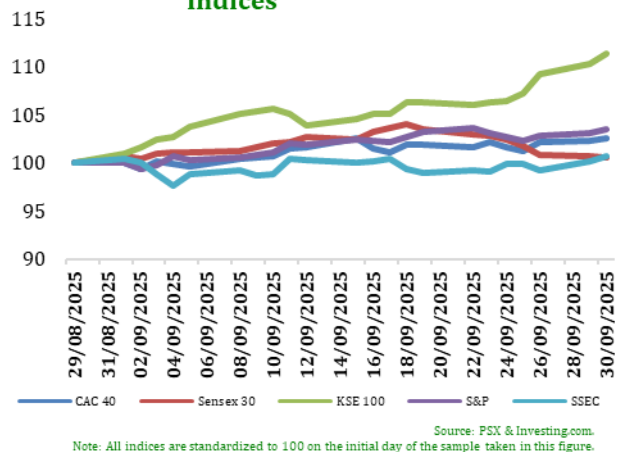


Fiscal sustainability maintained backed by revenue expansion and contained outlays while Pakistan stock market extends bullish streak.

Fiscal Indicators Rs Billion (Jul - Aug)

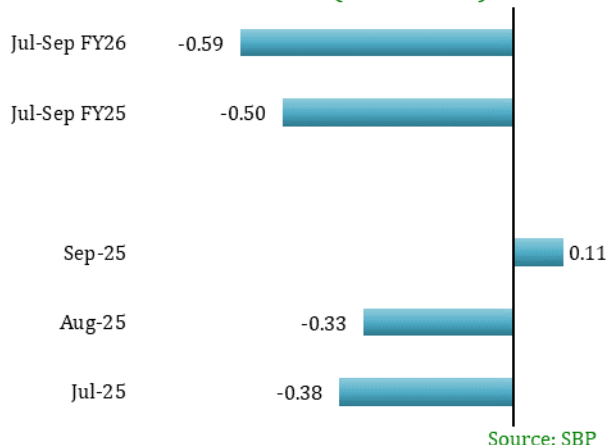


Trend of Major World Standardized Indices

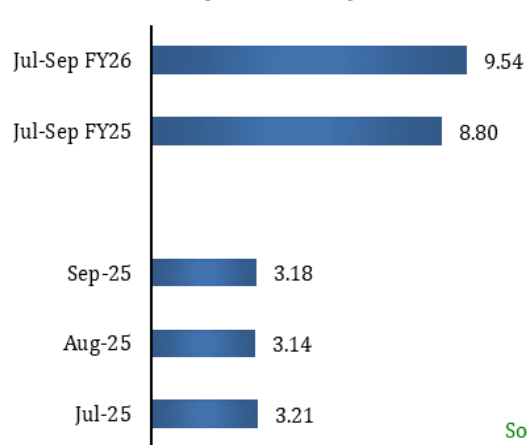


Remittances and exports are supporting the external account despite increasing imports.

Current Account Balance (US\$ Billion)



Remittances (US\$ Billion)



Global Economic Update and Outlook

According to World Economic Outlook (WEO) October 2025, global growth is projected at 3.2 percent in 2025 and 3.1 percent in 2026. Advanced economies are expected to grow by 1.6 percent in both years, with U.S slowing to 2.0 percent in 2025 and steady at 2.1 percent in 2026, U.K at 1.3 percent across both years, China at 4.8 percent and 4.2 percent, and Euro Area to pick up modestly to 1.2 percent in 2025 and 1.1 percent in 2026, respectively. The global outlook remains tilted to downward risks, as policy uncertainty may curb consumption and investment. Rising protectionism (including non-tariff barriers) could disrupt supply chains and weigh on productivity, while restrictive immigration policies may worsen labor shortages in aging economies thereby slowing growth. Fiscal and financial vulnerabilities could deepen amid higher borrowing costs and rollover sovereign risks. Potential commodity price spikes from climate or geopolitical shocks pose further risks, particularly for low-income and import-dependent economies. On the upside, trade negotiations breakthroughs could lower tariffs and uncertainty, while renewed reforms efforts could boost medium-term growth.

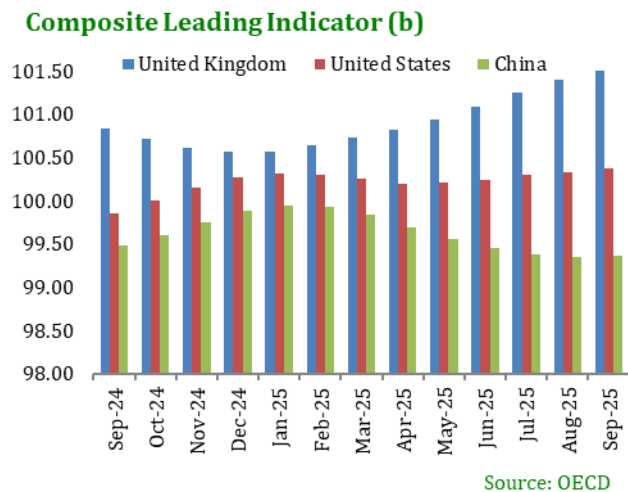
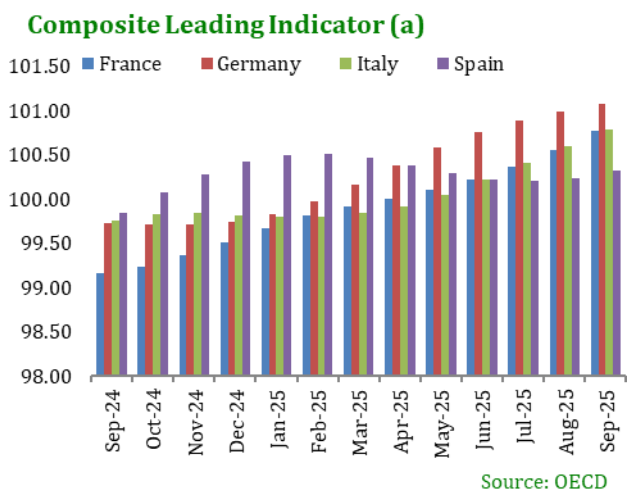
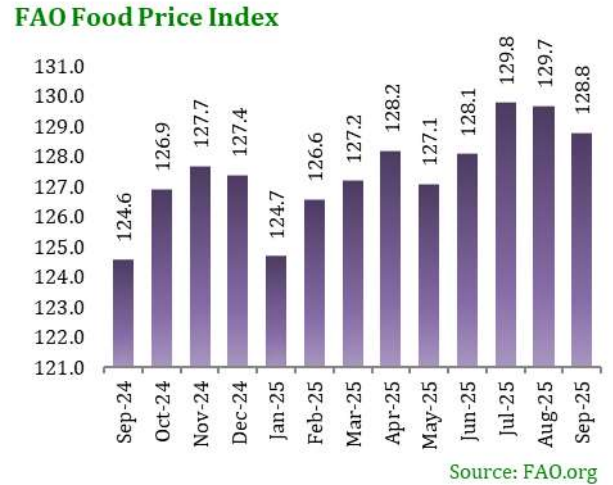
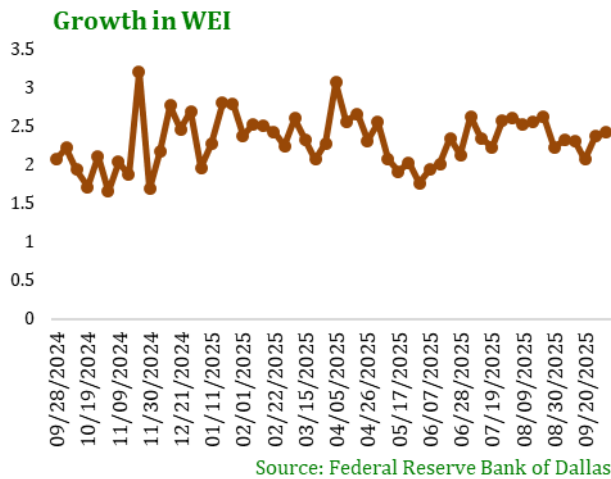
The J.P. Morgan Global PMI Composite Output Index posted 52.4 in September (down from 52.9 in August). It is broadly consistent with the global economy expanding at an annualized rate of 2.7 percent in September. At the same time, business sentiment improved at global level but employment remained stalled.

Concerning global headline inflation, WEO projected inflation to be 4.2 percent in 2025 and 3.7 percent in 2026. Particularly in

September, prices across global commodity market have shown divergent trends. The energy price index fell by 0.5 percent, driven by a 5.2 percent drop in Australian coal prices, which was partially offset by a 2.2 percent rise in U.S natural gas prices. On contrary, the non-energy price index rose by nearly 1.0 percent due to increase in food (0.4%) and raw materials (0.5%) prices. Metal prices edged up by 2.9 percent and precious metals by 9.3 percent while fertilizer prices on global level fell and beverages largely remained unchanged. The FAO Food Price Index (FFPI) averaged 128.8 points in September 2025, down slightly from its revised August level of 129.7 points. Declines in the cereal, dairy, sugar and vegetable oil indices outweighed an increase in the meat index. Overall, the FFPI was higher (4.2 points, 3.4%) than in September last year but remained below (31.4 points, 19.6%) its peak in March 2022.

The Federal Reserve cut the federal funds rate by 25bps in September 2025, bringing it to the 4.00-4.25 percent range. The Weekly Economic Index stood at 2.51 percent for the week ending October 11 with a 13-week moving average of 2.42 percent. Similarly, economic activity in Pakistan's major export markets show continued momentum. The Composite Leading Indicator position of U.S, U.K, China and Euro Area has further strengthened compared to the last month, with all moving above or near their long-term potential levels, signaling improved export prospects for Pakistan.

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Economic Indicators

(27-10-2025)

External Sector							
	FY2025	FY2025 (Jul-Sep)	FY2026 (Jul-Sep)	% Change	FY2025 (Sep)	FY2026 (Sep)	% Change
Remittances (\$ billion)	38.299	8.796	9.536	↑ 8.4	2.859	3.183	↑11.3
Exports FOB (\$ billion)	32.40	7.4	7.9	↑ 6.5	2.62	2.63	↑0.8
Imports FOB (\$ billion)	59.111	14.3	15.4	↑ 8.3	4.7	5.0	↑6.9
Current Account Balance (\$ million)	1,932	-502	-594	↓	-52	110	↑
FDI (\$ million)	2489.7	864.6	568.8	↓34.2	417.4	185.6	↓55.5
Portfolio Investment- (\$ million)	-650.2	132.5	-633.3	↓	29.5	-546.7	↓
Total Foreign Investment (\$ million)	1,839.5	997.0	-64.5	↓	446.9	-361.1	↓64.5
Forex Reserves (\$ billion)	19.3	16.0	19.9				
	(SBP: 14.5)	(SBP: 11.0)	(SBP: 14.5)				
	(Banks: 4.8)	(Banks: 5.0)	(Banks: 5.4)				
Exchange rate (PKR/US\$)	283.8	277.7	281.0				
	(End June)	(On 24 th Oct 2024)	(On 24 th Oct 2025)				

Source: SBP

Fiscal (Rs. Billion)							
	FY2025	FY2025 (Jul-Aug)	FY2026 (Jul-Aug)	% Change	FY2025 (Sep)	FY2026 (Sep)	% Change
FBR Revenue (Jul-Sep)	11,744	2,562.9	2,884.4	↑ 12.5	1106.8	1122.9	10.5
Non-Tax Revenue	5,056.4	341.5	2,804.1	↑721.1			
Fiscal Balance	-6,168.0	-841.4	2,123.8	↑			
Primary Balance	2,719.4	49.4	2,938.9	↑			

Source: FBR & Budget Wing

Monetary Sector				
	FY2025	FY2025	FY2026	
Agriculture Credit (Jul-Aug)	2,577.3	338.2	404.2	↑ 19.5
Credit to private sector (Flows)	1,081.6	-260.6 (1 st Jul to 11 th Oct)	121.8 (1 st Jul to 12 th Oct)	↑
Growth in M2 (percent)	13.7	-1.80 (1 st Jul to 11 th Oct)	-2.96 (1 st Jul to 12 th Oct)	
Policy Rate (percent)	11.0 (End June)	17.5 (13 th -Sep-2024)	11.0 (15 th -Sep-2025)	

Source: SBP

Real Sector			
	FY2025	FY2025	FY2026
CPI (National) (percent)	4.5	6.9 (Sep)	5.6 (Sep)
		9.2 (Jul-Sep)	4.2 (Jul-Sep)
Large Scale Manufacturing (LSM) (percent) (Jul-Aug)	-0.69	-0.24 (Jul-Aug)	4.44 (Jul-Aug)

Source: PBS

Financial Sector				
	FY2025	FY2025	FY2026	% Change
PSX Index*	125,627 (On 30 th June 2025)	88,946 (On 24 th Oct 2024)	163,304 (On 24 th Oct 2025)	↑ 83.6
Market Capitalization (Rs trillion)	15.24 (On 30 th June 2025)	11.6 (On 24 th Oct 2024)	18.8 (On 24 th Oct 2025)	↑ 62.1
Market Capitalization (\$ billion)	53.69 (On 30 th June 2025)	41.77 (On 24 th Oct 2024)	66.90 (On 24 th Oct 2025)	↑ 60.2
Incorporation of Companies (Jul-Sep)	35,210	8,436	11,250	↑ 33.4

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP