MONTHLY

ECONOMIC UPDATE & OUTLOOK

SEPTEMBER 2025

GOVERNMENT OF PAKISTAN
FINANCE DIVISION
ECONOMIC ADVISER'S WING

ECONOMIC UPDATE

Pakistan's economy maintained its trajectory of stabilization and growth during the first two months of FY2026, with moderating inflation, strengthening large-scale manufacturing, and contained fiscal imbalances despite the severe floods since July 2025. The LSM sector recorded positive growth, led by textiles, automobiles, and cement, while CPI inflation eased in August 2025. Fiscal consolidation continued, supported by stronger revenue mobilization and prudent expenditure management, resulting in a primary surplus, while exports, remittances, and an adequate level of foreign exchange reserves provided cushion to external sector. Monetary conditions remained stable, and the stock market sustained its bullish momentum, reflecting investor confidence. Although flood-induced disruptions pose temporary risks to inflation, the overall outlook signals a stable macroeconomic environment, with supportive trends in industry, external inflows, and fiscal management expected to underpin sustainable growth going forward.

Uptake in Agricultural Financing and Inputs Despite Flood Damages.

Due to ongoing floods 2025, the agriculture sector is expected to suffer. The assessment of Kharif crops and livestock damages is in progress. The government has declared climate and agriculture emergencies nationwide to tackle escalating climatic challenges and support farmers impacted by the severe floods. During Jul-Aug FY2026, the agricultural credit disbursement has jumped 19.5 percent to Rs. 404.2 billion from Rs. 338.2 billion last year. Imports of agricultural machinery and implements increased 66.7 percent to $29.4 million in Jul-Aug FY2026. During Kharif 2025 (Apr-Aug), urea offtake remained at 2,676 thousand tonnes (12.4 % higher than Kharif 2024), whereas DAP offtake was 552 thousand tonnes (8.7 % higher than Kharif 2024).

LSM Sector's Growth is Trending Upward.

Large-Scale Manufacturing (LSM) registered a significant year-on-year (YoY) growth of 9.0 percent in July 2025 and 2.6 percent on month-on-month (MoM) basis. Overall, 16 out of 22 sectors recorded positive growth, including textiles, wearing apparel, coke & petroleum products, non-metallic mineral products, and pharmaceuticals. The automobile sector exhibited encouraging performance during Jul-Aug FY2026, supported by substantial increase in the production of cars (100.9%), trucks & buses (69.5%), and jeeps & pick-ups (50.1%). During Jul-Aug FY2026, cumulative cement dispatches reached 7.847 million tonnes, up 20.9 percent from the last year. Domestic dispatches totalled 6.090 million tonnes, a 14.2 percent YoY increase, while exports soared by 51.3 percent to 1.757 million tonnes.

CPI Inflation Moderates to 3.0 percent in August 2025.

CPI inflation during Jul-Aug FY2026 stood at 3.5 percent as compared to 10.4 percent last year. In August 2025, it recorded at 3.0 percent YoY compared to 4.1 percent in July and 9.6 percent in August 2024. MoM, it decreased by 0.6 percent in August 2025 as compared to an increase of 2.9 percent in the previous month and 0.4 percent in August 2024. YoY major contributing factors of inflation includes

Education (10.9%), Health (10.6%), Clothing & Footwear (8.1%), Restaurants & Hotels (7.2%), Housing, Water, Electricity, Gas & Fuels (3.6%), Furnishing & Household Equipment Maintenance (3.5%), Alcoholic Beverages & Tobacco (3.6%), Transport (2.5%), Non-Perishable Food (1.9%) and Communication (0.5%), while decline is observed in perishable food items (21.6%) and Recreation & Culture (2.3%). The Sensitive Price Indicator for the week ending September 25, 2025, decreased by 0.16 percent. During the week, out of 51 items, prices of 17 items increased, 11 items decreased and 23 items remained stable.

Continued Fiscal Discipline Further Improved Primary Balance.

Fiscal accounts strengthened in FY2025, with a marked improvement in fiscal discipline, as evidenced by an eight-year low fiscal deficit and a 24-year high primary surplus. Encouragingly, the effective expenditure management created space for higher development spending in FY2025. These consolidation gains have laid a stronger base for better fiscal management in FY2026. Furthermore, building on these gains, the government is committed to further improve the fiscal performance in FY2026 through effective resource mobilization and a prudent expenditure management strategy. In July FY2026, fiscal performance remained on track. Net federal revenues increased by 7.7 percent to Rs. 440.0 billion, supported by 23.9 percent growth in non-tax revenues and 14.8 percent in tax revenues. A notable increase in non-tax revenues during July FY2026 is largely attributed to higher receipts from petroleum levy, dividends, and defence. During Jul-Aug FY2026, FBR's net collection expanded by 14.1 percent to Rs. 1,661.5 billion. On the expenditure side, July FY2026 outlays grew by 28.8 percent to Rs. 990.1 billion. Consequently, the fiscal deficit was contained at 0.2 percent of GDP, while the primary surplus improved to Rs. 228.9 billion (0.2% of GDP) compared to Rs. 107.1 billion (0.1% of GDP) last year.

Exports and Remittances Continue to Support the External Account Position.

The current account posted a deficit of $624 million during Jul-Aug FY2026, increasing from $430 million recorded last year. Goods exports rose 10.2 percent to $5.3 billion, while imports increased 8.8 percent to $10.4 billion, resulting in a trade deficit of $5.1 billion compared to $4.8 billion last year.

Gains in key export were observed in knitwear (16.9%), garments (10.6%), and bedwear (12.0%). Increases in major imports were recorded in petroleum products (17.8%) and palm oil (29.1%), while petroleum crude decreased (6.1%). Service exports grew 11.5 percent to $1.4 billion; imports increased 13.4 percent to $2.1 billion, with a service trade deficit of $708 million against $604 million last year. IT exports increased by 18.3 percent to $691.7 million.

Remittances were up 7.0 percent to $6.4 billion, led by inflows from Saudi Arabia (24.6% share) and UAE (20.6%). Net FDI inflows recorded at $364.3 million. Main sources were China ($120 million) and Hong Kong ($60 million). Sector-wise, power ($156.9 million) and financial services ($110.2 million) attracted the most FDI. However, private and public FPI recorded net outflows of $74.8 million and $11.8 million, respectively. As of September 19, 2025, foreign exchange reserves stood at $19.8 billion, including $14.4 billion with SBP.

Monetary Indicators Show Easing Financial Conditions, whereas PSX Maintains Bullish Trend.

The Monetary Policy Committee (MPC), in its meeting on 15th September 2025, kept the policy rate unchanged at 11 percent. While inflation remains moderate and high-frequency indicators show improvement, the decision reflects caution over the evolving outlook amid ongoing floods. During 1st July-29th August FY2026, money supply (M2) contracted by 2.3 percent compared to 2.5 percent last year. Within M2, Net Foreign Assets increased by Rs. 34.6 billion, while Net Domestic Assets declined by Rs. 990.0 billion. The government retired Rs. 2,328.2 billion in budgetary borrowing compared to net borrowing of Rs. 733.3 billion last year, and the private sector retired Rs. 214.8 billion. Meanwhile, the Pakistan Stock Exchange sustained its bullish trend in August 2025. KSE-100 Index climbed 9,227 points during the month to close at 148,617, and market capitalization expanded by Rs. 952 billion to Rs. 17,655 billion.

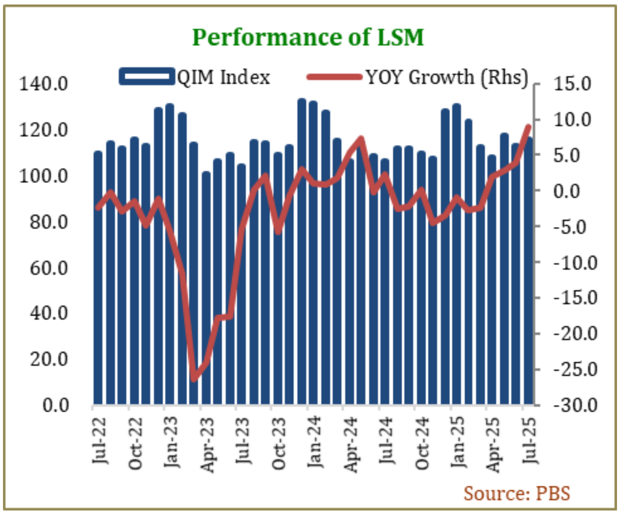
Emigration Slows Down While Human Development Initiatives Accelerate.

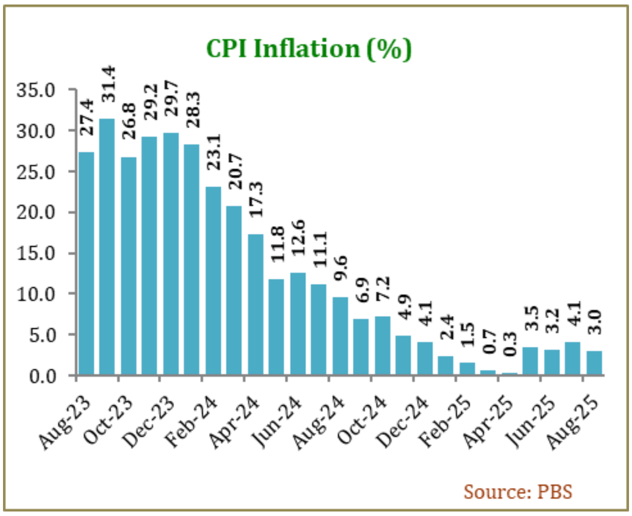
In August 2025, the Bureau of Emigration & Overseas Employment registered 51,444 workers, an 18.7 percent decrease from 63,285 in July, 2025. The Pakistan Poverty Alleviation Fund, in partnership with 26 organizations, disbursed 17,583 interest-free loans worth Rs. 899 million during August 2025. Since 2019, a total of Rs. 120.3 billion have been provided to the borrowers. Further, Benazir Income Support Programme (BISP) and Benazir Bhutto Shaheed Human Resource Research & Development Board signed an MoU to train 3,000 beneficiaries in market relevant trades, enhancing employability and sustainable livelihoods.

Economic Outlook

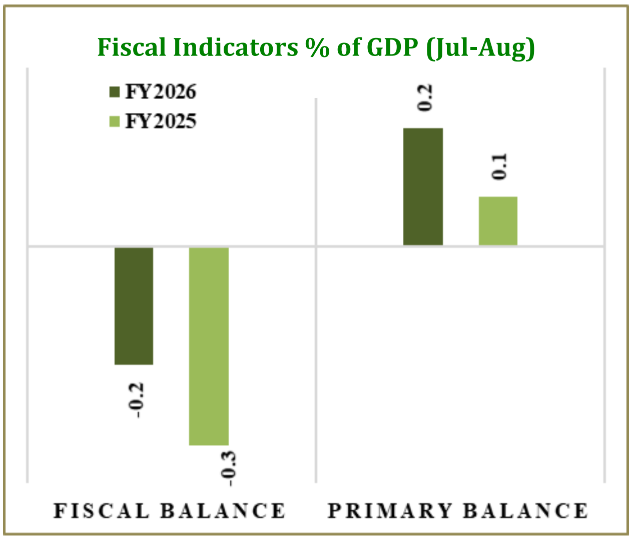
Despite the disruption caused by recent floods, economic activity has remained broadly stable. The rebound in large-scale manufacturing, supported by encouraging trends in cement dispatches, automobile production, and allied industries, indicates strengthening industrial momentum in the months ahead. The external sector is expected to remain stable, with the current account deficit projected to stay manageable despite higher import demand. Remittances continue to provide strong support, exports are showing early signs of recovery, and declining global commodity prices may help ease the import bill. Nevertheless, flood-related disruptions may exert pressure on food supply chains, leading to an uptick in prices. As a result, inflation is expected to rise temporarily but remain contained within the 3.5–4.5 percent range in September 2025.

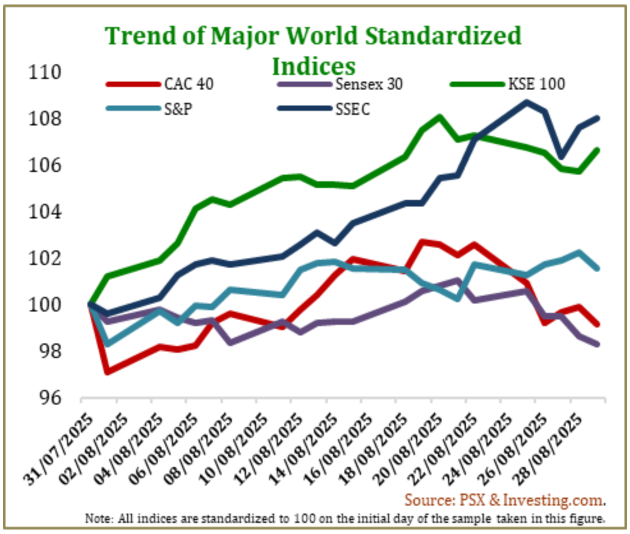
LSM signals upward momentum in key industries, whereas inflationary pressure eases.



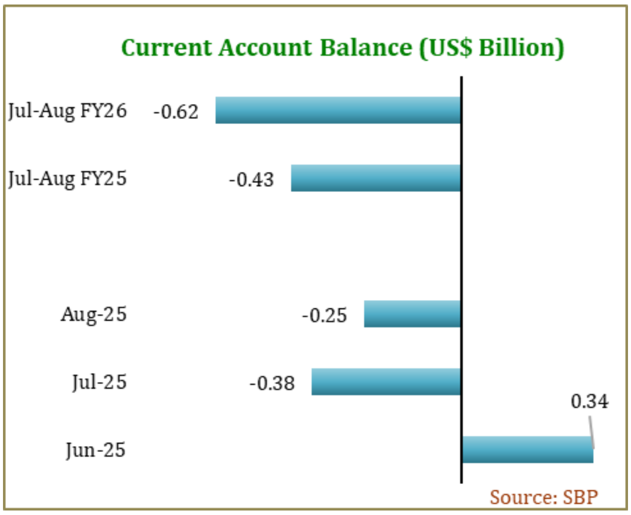


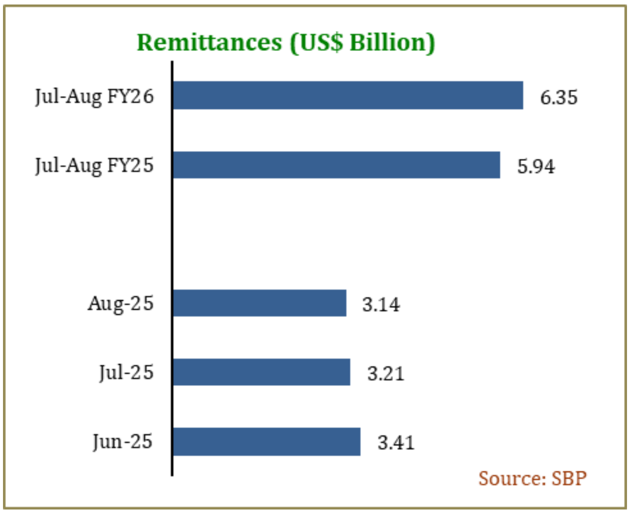
Fiscal Sector exhibited resilience with an improved primary surplus, while PSX maintained its bullish trajectory.





Increase in remittances and exports are supporting external account amid rising imports.





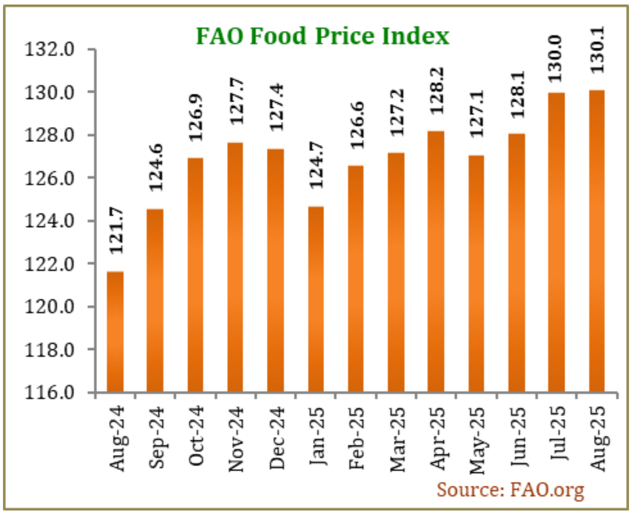
Global Economic Update and Outlook

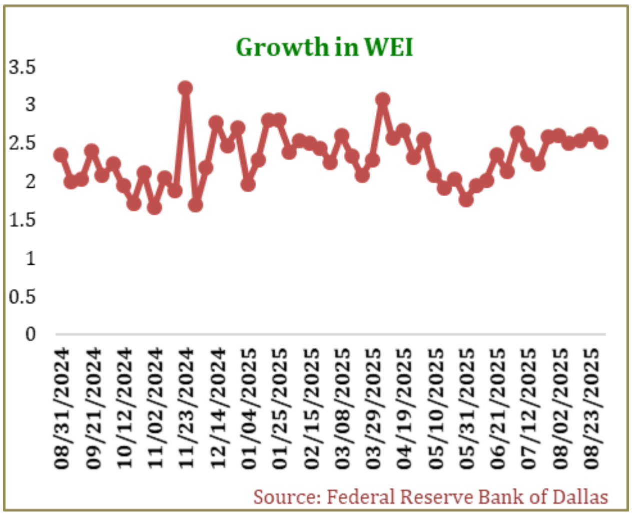
Global Economic Outlook (GEO) September 2025 Fitch Ratings, forecasted global growth to be 2.4 percent for 2025 and 2.3 percent for 2026. In August, the global economic expansion accelerated to the fastest pace in 14 months due to improved manufacturing output growth (due to high demand of new orders) accompanied by a further expansion of service activity at a solid pace. In particular, emerging markets started catch-up to developed economies and both saw the gap close between manufacturing and services output growth. The J.P. Morgan Global Composite PMI Output Index rose to 52.9 in August (up from 52.5 in July), the highest achieved since June 2024. It is broadly consistent with the global economy expanding at an annualized rate of 3.0 percent in August.

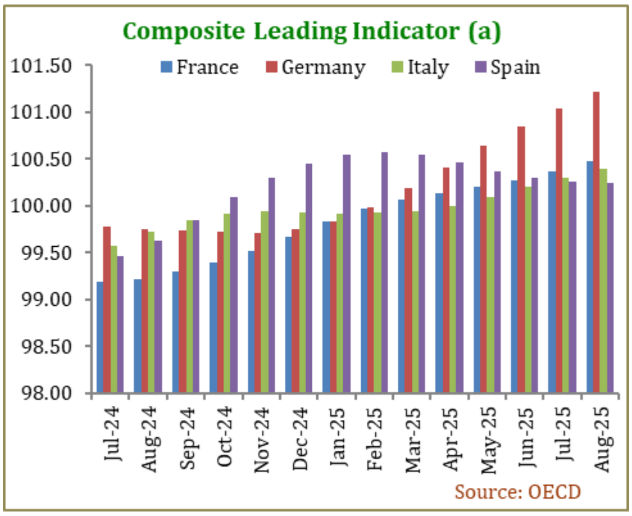
According to GEO, the U.S economic growth is projected at 1.6 percent. The Weekly Economic Index, signaling the overall level of real economic activity, stood at 2.3 percent for the week ended September 13 with a 13-week moving average of 2.4 percent. At the same time, tariff-induced price hikes are again apparent in the U.S economy, notably accelerating price inflation for core goods. Anticipating China's outlook, GEO predicted the economic growth to be 4.7 percent. After the U.S tariff in effect, so far China's export growth has held up well as depreciating nominal effective exchange rate and falling export prices have assisted the redirection of foreign sales. For Eurozone, the growth is expected to be 1.1 percent in 2025.

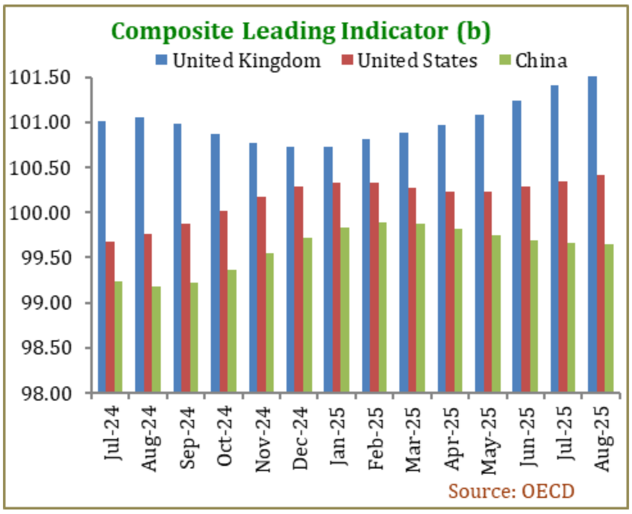
On the global trade front, the uncertainty over U.S tariff policy has been relatively reduced after latest round of widespread tariffs implemented, according to GEO. As per UNCTAD, the global economic uncertainty is more disruptive than trade policy shifts. Economic challenges, geopolitical tensions and trade policy uncertainty are increasing risks for trade dependent economies. The full impact of recent U.S trade policy shifts on global value chains is still unfolding, yet the vulnerabilities are clear, and economies more tightly woven into U.S value chains face the greatest exposure across upstream suppliers and downstream industries.

The global output price inflation remained elevated in August. At current levels, global consumer price inflation is projected to hover just under 4 percent in the coming months, which is well above central bank targets for major developed economies. Meanwhile, global commodity prices showed mixed trend in the month. The energy price index fell by 3.9 percent in August, driven by 8.8 percent drop in U.S natural gas and a 3.6 percent decline in crude oil prices. However, the non-energy price index edged up 0.7 percent. Beverages, fertilizer and precious metal prices edged up. On contrary, food and metal prices eased and raw material prices remained broadly unchanged. The FAO Food Price Index (FFPI) averaged 130.1 points in August 2025, unchanged from the revised July level. Declines in the cereal and dairy price indices were offset by increases in the indices for meat, sugar and vegetable oils. Overall, the FFPI was higher (8.4 points, 6.9%) compared to August last year but remained below (30.1 points, 18.8%) its peak reached in March 2022. The CLI position of Pakistan's main export markets such as US, UK, China and Euro area, all are moving either around or above their long- term potential levels, indicating uptick in export demand for Pakistan's products and commodities.






Composite Leading Indicator (a)
France
Germany
Italy
Spain
101.50
101.00
100.50
100.00
99.50
99.00
98.50
98.00
Jul-24
Aug-24
Sep-24
Oct-24
Nov-24
Dec-24
Jan-25
Feb-25
Mar-25
Apr-25
May-25
Jun-25
Jul-25
Aug-25
Source: OECD


Composite Leading Indicator (b)
United Kingdom
United States
China
101.50
101.00
100.50
100.00
99.50
99.00
98.50
98.00
Jul-24
Aug-24
Sep-24
Oct-24
Nov-24
Dec-24
Jan-25
Feb-25
Mar-25
Apr-25
May-25
Jun-25
Jul-25
Aug-25
Source: OECD

Economic Indicators

(29-09-2025)

External Sector

	FY2025	FY2025 (Jul-Aug)	FY2026 (Jul-Aug)	% Change	FY2025 (Aug)	FY2026 (Aug)	% Change
Remittances ($ billion)	38.299	5.936	6.352	↑ 7.0	2.942	3.137	↑6.6
Exports FOB ($ billion)	32.302	4.798	5.288	↑ 10.2	2.437	2.508	↑2.9
Imports FOB ($ billion)	59.088	9.558	10.401	↑ 8.8	4.709	4.984	↑5.8
Current Account Balance ($ million)	2,113	-430	-624	↓	-82	-245	↓
FDI ($ million)	2457.0	467.1	364.3	↑ 22.0	272.4	156.2	↓42.6
Portfolio Investment- ($ million)	-650.2	102.9	-86.6	↓	-65.8	-42	↑
Total Foreign Investment ($ million)	1,806.9	-570.0	-277.7	↓	206.6	114.2	↓44.7
Forex Reserves ($ billion)	19.3 (SBP: 14.5) (Banks: 4.8) (End June)	14.9 (SBP: 9.5) (Banks: 5.3) (On 20th Sep 2024)	19.8 (SBP: 14.4) (Banks: 5.4) (On 19th Sep 2025)				
Exchange rate (PKR/US$)	283.8 (End June)	277.7 (On 26th Sep 2024)	281.4 (On 26th Sep2025)				

Source: SBP

Fiscal (Rs. Billion)

	FY2025	FY2025 (Jul)	FY2026 (Jul)	% Change	FY2025 (Aug)	FY2026 (Aug)	% Change
FBR Revenue (Jul-Aug)	11,744	1,456.1	1,661.5	↑ 14.1	796.3	904.0	13.5
Non-Tax Revenue	5,274.6	168.0	208.2	↑ 23.9			
Fiscal Balance	-6,168.0	387.7	261.5	↓32.5			
Primary Balance	2,719.4	107.1	228.9	↑			

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	-353.7 (1st Jul to 13th Sep)	-170.0 (1st Jul to 12th Sep)	↑
Growth in M2 (percent)	13.7	-2.2 (1st Jul to 13th Sep)	-2.8 (1st Jul to 12th Sep)	
Policy Rate (percent)	11.0 (End June)	17.5 (13-Sep-2024)	11.0 (15-Sep-2025)	

Source: SBP

Real Sector

	FY2025	FY2025	FY2026
CPI (National) (percent)	4.5	9.6 (Aug) 10.4 (Jul-Aug)	3.0 (Aug) 3.5 (Jul-Aug)
Large Scale Manufacturing (LSM) (percent)(July)	-0.73	2.31 (Jul)	8.99 (Jul)

Source: PBS

Financial Sector

	FY2025	FY2025	FY2026	% Change
PSX Index*	125,627 (On 30th June 2025)	81,657 (On 26th Sep 2024)	162,257 (On 26th Sep 2025)	↑ 98.7
Market Capitalization (Rs. trillion)	15.24 (On 30th June 2025)	10.71 (On 26th Sep 2024)	19.04 (On 26th Sep 2025)	↑ 77.7
Market Capitalization ($ billion)	53.69 (On 30th June 2025)	38.58 (On 26th Sep 2024)	67.66 (On 26th Sep 2025)	↑ 75.3
Incorporation of Companies (Jul-Aug)	35,210	5,812	7,345	↑ 26.4

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP