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# Pakonomics

## May 2025


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# HIGHLIGHTS

The Federal Government ("FG") has announced the Federal Budget for the Fiscal Year 2025-26 ("FY26"). The FG has projected the FBR tax revenue target at PKR 14,131 billion in FY26; an almost a 19.0% growth from the provisional tax collection of PKR 11,900 billion in FY25.

For a concise comparison of estimates by Tola Associates and the Federal Government, along with an overview of key Tax measures, please refer to our main document, "Comments on Finance Act 2025-26" by clicking here.

The Monetary Policy Committee ("MPC") of the State Bank of Pakistan ("SBP"), in its meeting held on June 16, 2025, decided to maintain the policy rate at 11.0%. The Committee observed that the increase in headline inflation to 3.5% year-on-year ("Y-o-Y") in May was in line with expectations, whilst core inflation declined marginally.

In the inter-bank market, the value of the national currency stands at PKR 283.7/USD as of 27th May 2025. Over the past month, the USD to PKR parity rate has shown a slight declining trend, as the PKR has devalued.

According to the valuation of Tola Associates ("TA"), the value of PKR is 248.8/USD after incorporating the Current Account Deficit ("CAD") of the Jul-May period of FY25.

According to the Pakistan Bureau Statistics ("PBS"), Pakistan's LSM sector showed an expansion of 1.5% in April 2025 on a Year-on-Year ("Y-o-Y") basis vs. April 2024.


According to the SBP, Pakistan received a monthly remittance inflow of $3.69 billion in May 2025, recording an increase of 16.0% compared to $3.18 billion in April 2025 on a M-o-M basis.

As per the data published by the Federal Board of Revenue ("FBR"), the FBR collected PKR 10.21tr worth of tax revenue in the Jul-May of FY25 and has failed to achieve its ten-month target by PKR 1.03tr.

The Net foreign currency reserves held by the SBP stood at $9.06 billion as of 20th June 2025.

The Broad Money (M2) stock from 1st July 2024 to 13th June 2025 has contracted to a PKR 2,554 billion, compared to PKR 3,490 billion last year in the same period.

According to the PBS, the pace of Consumer Price Index ("CPI") inflation has clocked at 3.5% on a Y-o-Y basis in May 2025 vs. 11.8% same month last year.

Pakistan's net FDI has plunged by 7.6% or $164 million to $1,979 million provisionally during the Jul-May period of FY25, as compared to $2,142 million during the same month of FY24.

The total Net Foreign Investment surged by 14.4% or $229 million to $1,354 million on a Y-o-Y basis in Jul-May period of FY25 as against the amount of $1,583 million in the same period of FY24.

Pakistan reported a Current Account Surplus ("CAS") of $1,812 million during the Jul-May period of FY25, compared to a CAD of $1,572 million in the same period of FY24.

# ECONOMY AT A GLANCE

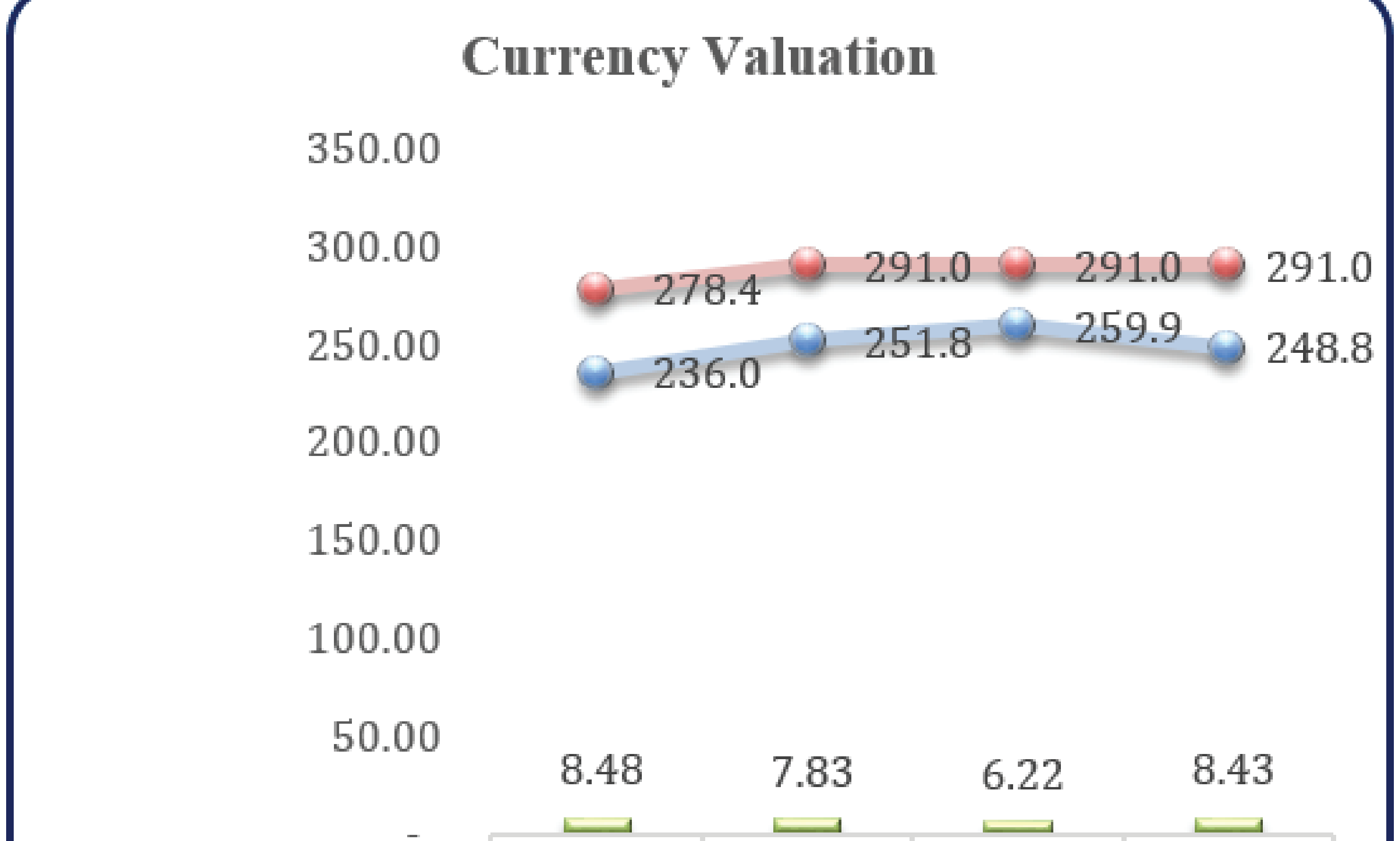
| Economic Indicators | Period | Status | Current Year | Last Year |
|---|---|---|---|---|
| LSM (Base Year 2015-16) | April | ↓ | 2.29 % | 5.34 % |
| Central Government Debt | April | ↑ | PKR 74,936 Billion | PKR 66,088 Billion |
| Credit to Private Sector | Jul – 13th June | ↑ | PKR 677 Billion | PKR 324 Billion |
| Worker's Remittances | May | ↑ | US $3,686 Million | US $3,242 Million |
| Currency in Circulation | Jul – 13th June | ↑ | PKR 1,762 Billion | PKR 152 Billion |
| Net Government Sector borrowing | Jul – 13th June | ↓ | PKR 2,917 Billion | PKR 6,610 Billion |
| National CPI (Base Year 2015-16) | May | ↓ | 3.5% | 11.8% |
| FBR Tax Collection | Jul-May | ↑ | PKR 10.21 Trillion | PKR 8.01 Trillion |
| Foreign Exchange Reserves with SBP | As of 20th June | ↑ | $9.1 Billion | $9.0 Billion |
| Foreign Direct Investments | Jul-May | ↓ | $1,979 Million | $2,142 Million |
| Trade Deficit in Goods | Jul-May | ↑ | US$ (23,986) Million | US$ (21,698) Million |
| Current Account (Deficit)/surplus | Jul-May | ↓ | $1,812 Million | $(1,572) Million |

# 1. VALUATION OF THE PAKISTANI RUPEE PARITY

According to the valuation of TA, the value of PKR is 248.8/USD after adjusting the Current Account Balance ("CAB") of the Jul-April period in FY25. The PKR value has been kept artificially undervalued at PKR 283.8/USD, as the present value of PKR currency would have been 248.8/USD.

The graph depicts four scenarios: **(a) First scenario provides PKR valuation as of June 30, 2024; (b) Second scenario illustrates the valuation of PKR based on the actual CAD, i.e $665 million in FY24; (c) The third scenario provides the PKR value based on the Government's CAD projection of 0.9% of GDP of FY 25; and (d) The last scenario calculates the PKR value based on the adjusted CA projection of the Government adjusted for the Jul-May FY25).** A 10-rupee depreciation results in a 2% increase in inflation, and vice versa. For the currency valuation on the basis of IMF's projected GDP

Please click here.




| | Scen. 1* | Scen. 2** | Scen. 3*** | Scen. 4**** |
|---|---|---|---|---|
| Added Inflation | 8.48 | 7.83 | 6.22 | 8.43 |
| Actual | 236.0 | 251.8 | 259.9 | 248.8 |
| SBP/Govt. Proj, | 278.4 | 291.0 | 291.0 | 291.0 |

**Actual CAD of FY24*
***If CAD restricted to FY24's level i.e 0.16% of GDP*
**** If CAD restricted to its targeted value of $3.707 billion. i.e $3.7 billion*
*****Actual CAD cumulated in the Projection (adjusted monthly basis)*

# 2. CURRENT ACCOUNT ("CA"):

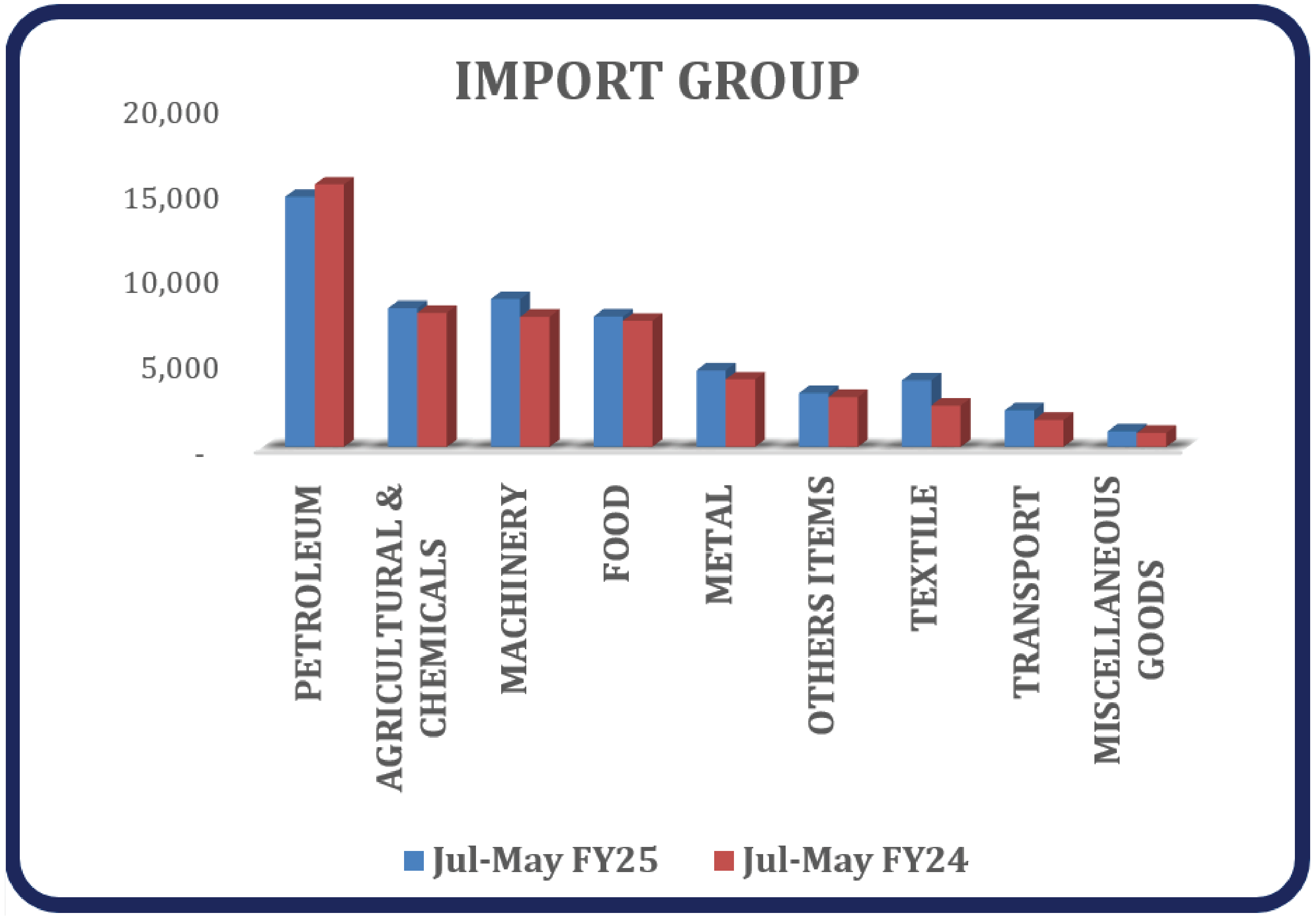
The CA stood at a $103 million deficit in the month of May 2025, a decrease of 319 times from a surplus of $47 million in the previous month of April 2025. On a cumulative basis, the CAD has declined to a current account surplus of $1,812 million which is a 187 times reduction compared to a CAD of $1,572 million during the Jul-May period of the previous FY24. This sustainable CAD in FY25 is attributed to huge remittance inflows.

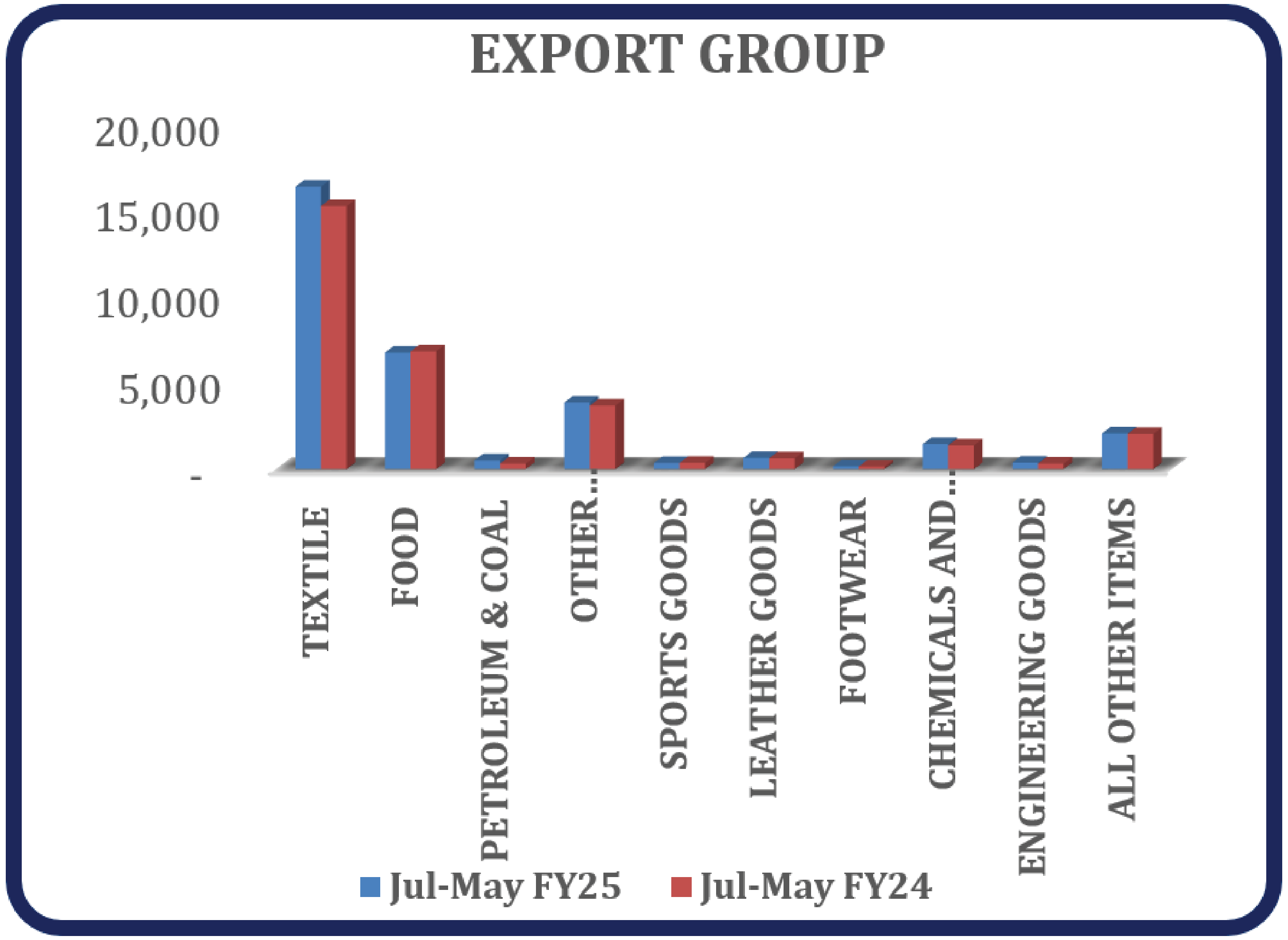
| | Month wise Comparison | | | Commulative Comparison | | |
|---|---|---|---|---|---|---|
| CAD | May-25 | April-25 | May-24 | Jul-May FY25 | Jul-May FY24 | Jul-June FY25 Proj. |
| **i. Balance of Trade in Goods** | **(3,048)** | **(2,629)** | **(2,007)** | **(19,982)** | **(24,394)** | **(24,941)** |
| Exports of Goods | 2,430 | 2,596 | 3,007 | 28,537 | 29,691 | 32,341 |
| Imports of Goods | 5,478 | 5,225 | 5,014 | 48,519 | 54,085 | 57,283 |
| **ii. Balance of Trade in Services** | **(172)** | **(187)** | **(231)** | **(2,633)** | **(2,668)** | **(2,738)** |
| Exports of Services | 716 | 715 | 705 | 7,046 | 7,648 | 8,169 |
| Imports of Services | 888 | 902 | 936 | 9,679 | 10,316 | 10,907 |
| **iii. Balance on Primary Income** | **(777)** | **(592)** | **(1,478)** | **(7,802)** | **(7,893)** | **(7,648)** |
| **iv. Balance on Secondary Income** | **3,894** | **3,455** | **3,481** | **28,845** | **36,767** | **31,620** |
| Secondary Income Credit | 3,934 | 3,491 | 3,523 | 29,279 | 37,323 | N/A |
| Worker Remittances | 3,686 | 3,177 | 3,242 | 27,093 | 34,891 | 30,278 |
| Secondary Income Debit | 40 | 36 | 42 | 434 | 556 | N/A |
| **CAD (i + ii + iii + iv)** | **(103)** | **47** | **315** | **(1,572)** | **1,812** | **(3,707)** |

***(Source: SBP)***

# 3.BALANCE OF TRADE IN GOODS

According to the PBS, Pakistan's trade deficit has increased by 25.3% to $2.6 billion in May of FY25, compared to $2.08 billion in the same month of FY24. Moreover, the exports decreased by 5.9% to $2.67 billion during the month of May 2025 of the ongoing FY compared to $2.84 billion in the same month of last FY. Further, the imports increased by 7.3% to $5.27 billion in May of FY25 compared to $4.92 billion in the same period of FY24. Additionally, on a M-o-M basis, exports increased by 22.9% compared to $2.17 billion in April 2025. Furthermore, the country's trade deficit decreased by 24.0% compared to $3.42 billion in April 2025 on a M-o-M basis. On a cumulative basis, exports surged to $29.56 billion in the Jul-May period of FY25 compared to almost $28.12 billion in the same period last year. Similarly, the trade deficit increased by almost 10.5% to almost $24 billion in the Jul-May period of FY25 compared to $21.70 billion in same period of FY24. The graph below illustrates the import and export data categorized by groups for FY25 and FY24 during the corresponding periods of Jul-May.



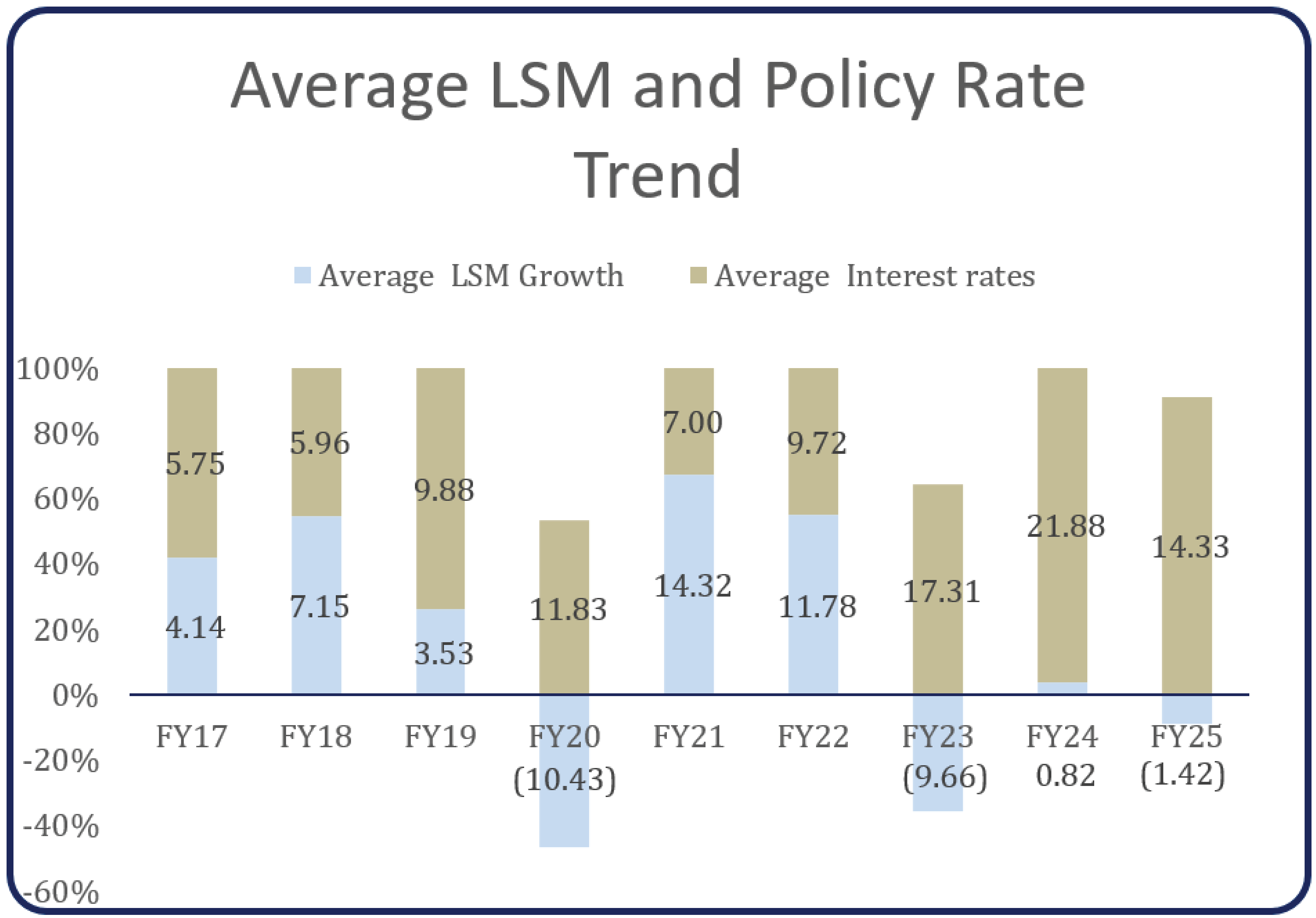
# 4. LARGE SCALE MANUFACTURING

According to the PBS, Pakistan's LSM sector showed an expansion of 2.3% in April 2025 on a Y-o-Y basis vs. April 2024. In contrast, on a M-o-M basis, the overall output growth decreased by 3.2%, compared to the month of March 2025. Additionally, the cumulative LSM growth exhibited a negative trend, with a 1.5% contraction in the Jul-April of FY25 vs. the same period of FY24. Sector-wise, important groups such as cotton yarn, cotton cloth, and garment sector showed a growth by 8.4%, 0.8% and 6.0% respectively, whilst the Cement industry showed a contraction of almost 5.6% in the Jul-April period of FY25.

| LSM (%) | Weight | April-25 | March-25 | April-24 | Jul-April FY25 |
|---|---|---|---|---|---|
| Textile | 18.2 | 7.91 | 5.15 | 3.38 | 2.99 |
| Food | 10.7 | 3.47 | 20.09 | 1.91 | (2.75) |
| Coke & Petroleum Products | 6.7 | 5.54 | 4.47 | 35.73 | 5.01 |
| Chemicals | 6.5 | (1.31) | (6.83) | (4.08) | (5.09) |
| Wearing Apparel | 6.1 | (8.55) | (0.41) | 17.57 | 6.01 |
| Pharmaceuticals | 5.2 | 7.49 | 4.75 | (3.31) | 2.81 |
| Non-Metallic Minerals Products | 5.0 | 1.91 | (5.10) | (1.02) | (9.49) |
| Beverages | 3.8 | 1.25 | 0.38 | (15.13) | 1.25 |
| Iron and Steel Products | 3.4 | (1.82) | (4.24) | (7.95) | (10.11) |
| Automobiles | 3.1 | 60.16 | 18.80 | 53.72 | 42.16 |
| Tobacco | 2.1 | 9.06 | (23.76) | 63.49 | 12.44 |
| Electrical Equipment | 2.0 | 2.59 | (9.21) | (12.02) | (14.27) |
| Paper & Board | 1.6 | 12.06 | 1.98 | 6.25 | 1.38 |
| Leather Products | 1.2h | 1.79 | 4.33 | 8.25 | 1.29 |
| Other Transport Equipment | 0.7 | 41.56 | 27.40 | 27.33 | 33.99 |
| LSM Growth for April 2025 (Y/Y) | | | | | 2.29 % |
| LSM Growth of April 2025 vs. March 2025 (M/M) | | | | | (3.20) % |
| LSM Growth Jul-April FY25 | | | | | (1.52) % |

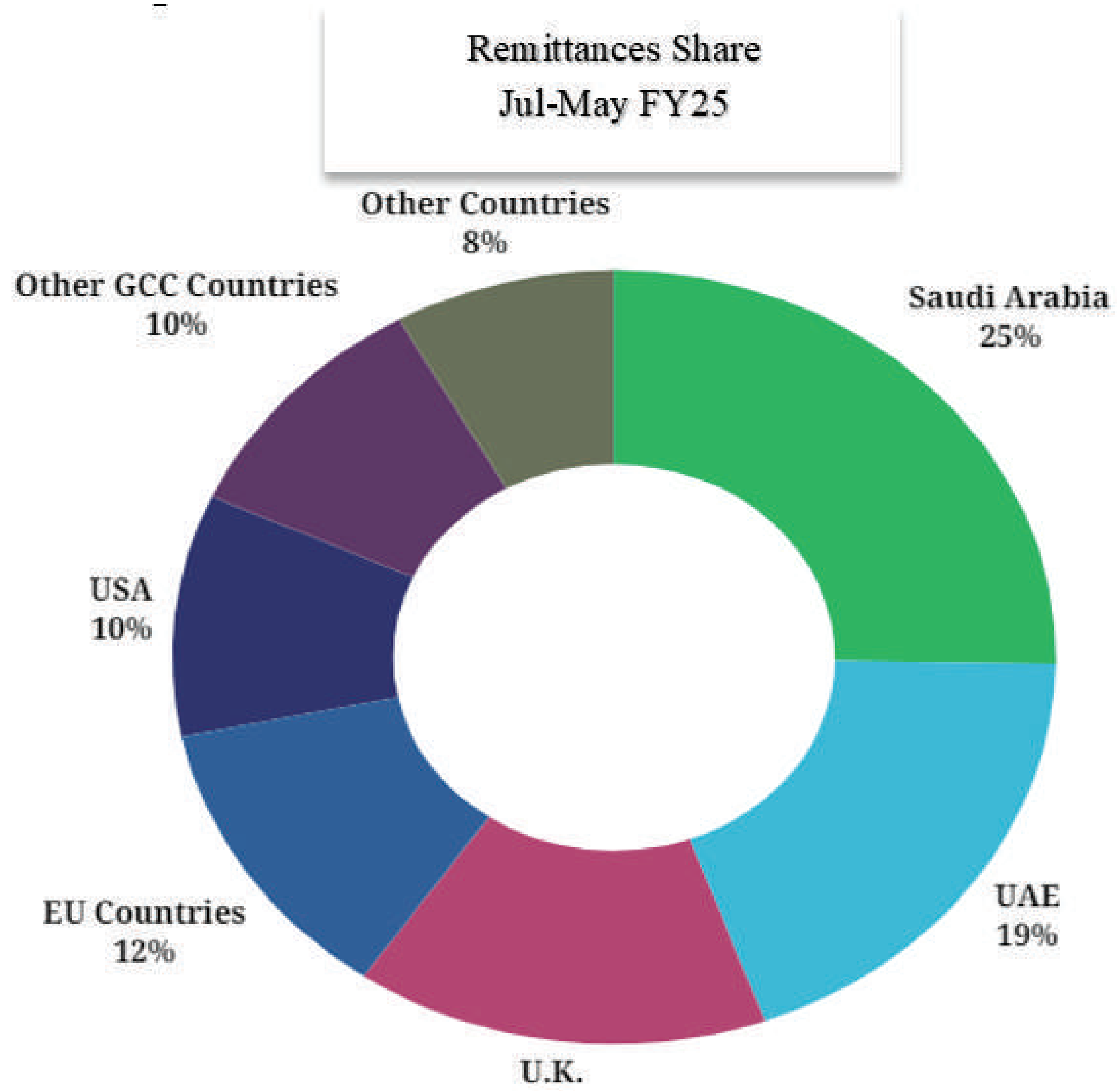
(Source: PBS)

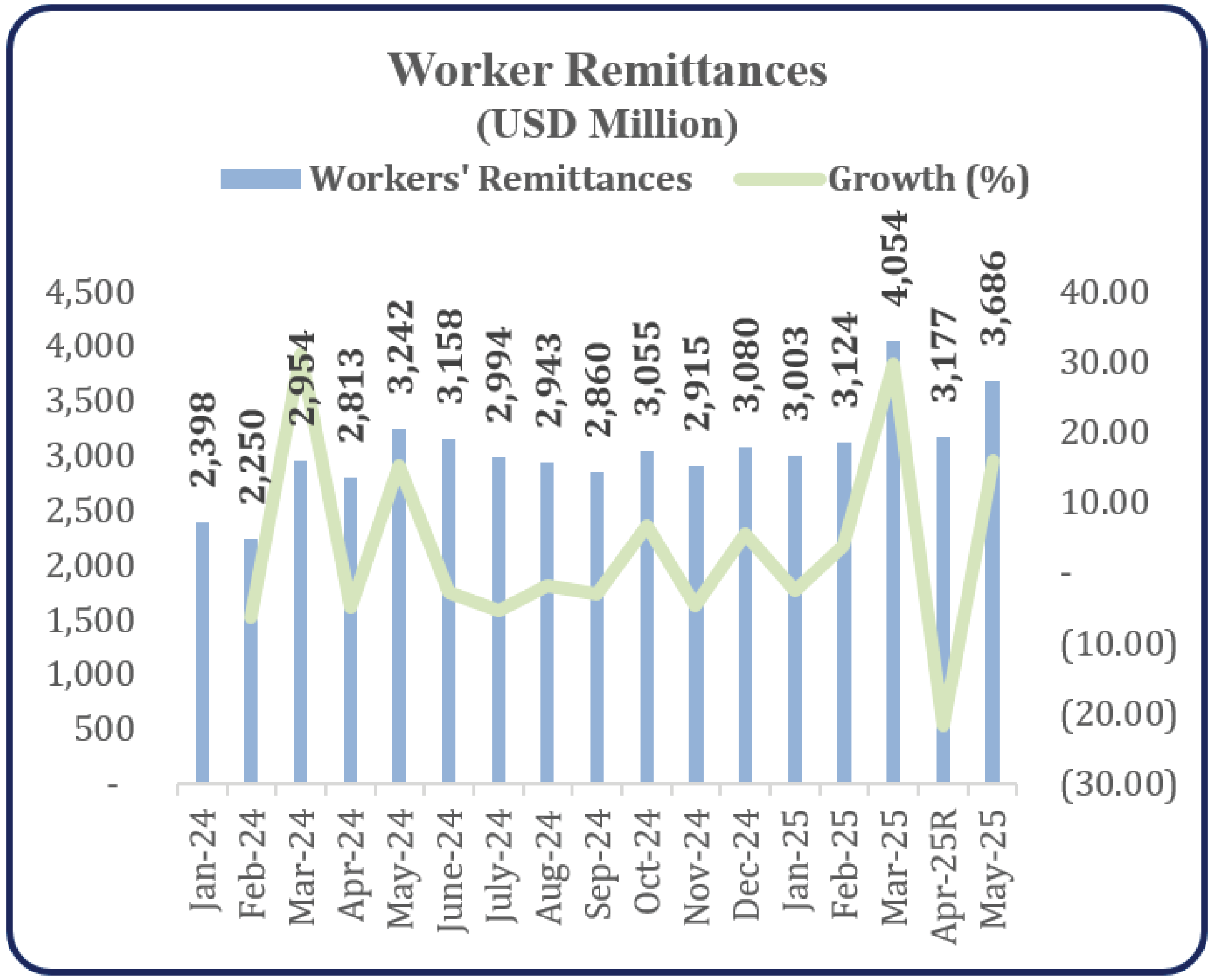
The adjacent graph illustrates the impact of different policy rates on LSM growth over the last decade. It highlights the critical role of competitive interest rates in driving industrial growth, as lower policy rates tend to encourage investment and expansion within the manufacturing sector.



# 5. WORKER'S REMITTANCES

As per the SBP, Pakistan received a monthly remittance inflow of $3.69 billion in May 2025, recording an increase of 16.0% compared to $3.18 billion in April 2025 on a M-o-M basis. Similarly, on a Y-o-Y comparison, the remittance inflows went up by 13.7% when compared to $3.24 billion received a year ago in the same month. Further, on a cumulative basis, remittances increased by almost 29.0% to $34.89 billion in the Jul-May period of FY25, when compared with $27.09 billion for the same period last year.



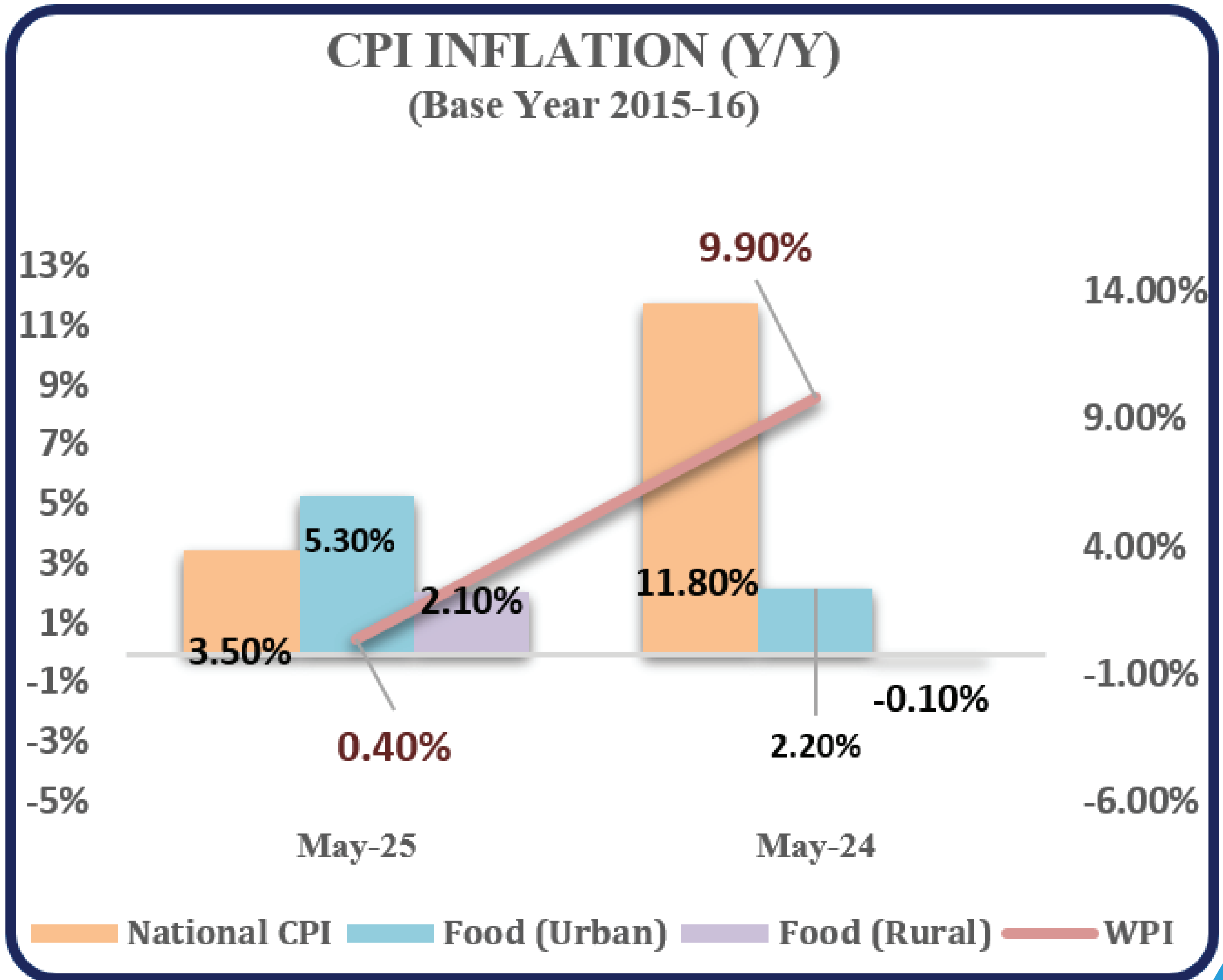



# 6. CONSUMER PRICE INDEX INFLATION

The monthly rate of inflation clocked at 3.5% in May 2025 on a Y-o-Y basis in Pakistan, marking the highest inflation rate in nearly 4 months. In the previous month (April 2025), the CPI recorded at 0.3% on Y-o-Y basis. As the high base effect phases out in May, the likelihood of rising inflation in the coming months increases. Additionally, the food inflation rate in urban and rural areas increased to 5.3% and 2.1%, respectively, in May 2025. Furthermore, the average inflation in Jul-May period of FY25 amounted to 4.6%. In addition to that, the Wholesale Price Index ("WPI") stood at 0.4% on a Y-o-Y basis, which was recorded at -2.2% in the previous month. On a monthly basis, the National CPI has recorded an deflation of 0.2%. Similarly, the Food inflation rates in urban areas increased by 0.6%, and rural areas decreased by 1.0%, respectively, compared to April 2025. In May 2025, the Core inflation, which is calculated by excluding energy and food items, rose by 7.3% and 8.8% in urban and rural areas on a Y-o-Y basis, respectively.

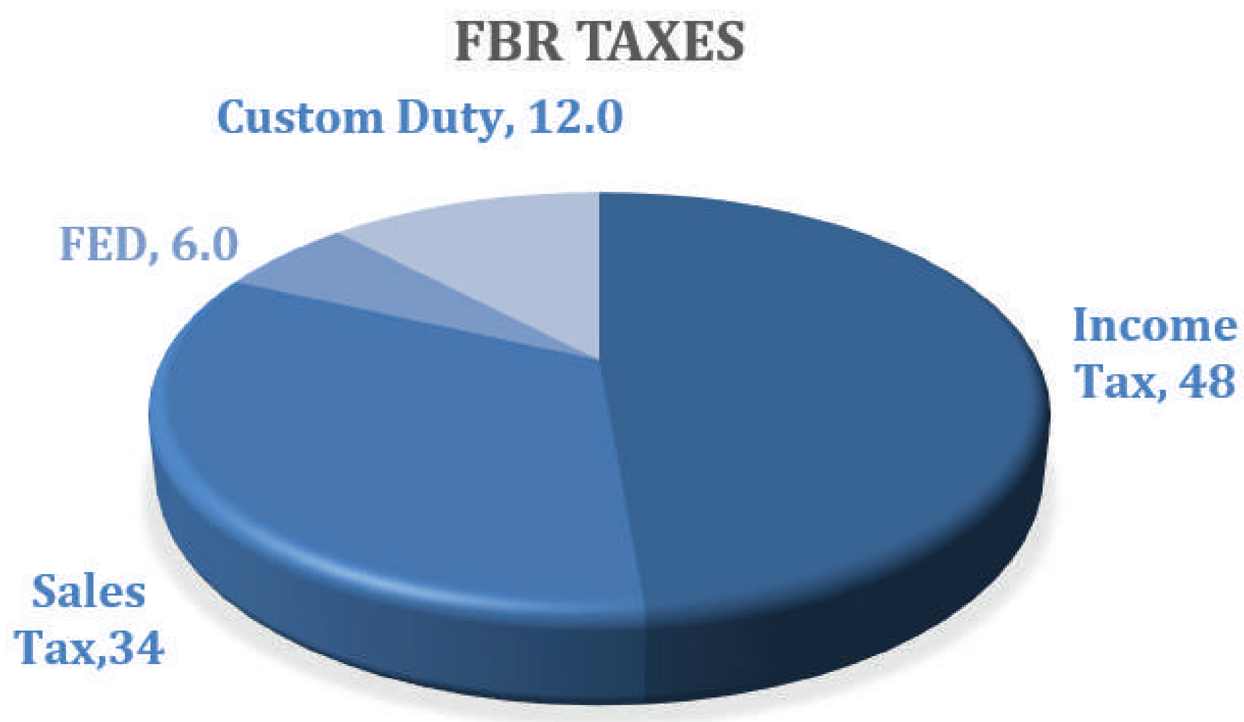

| Group | Weight (%) | % Change over | |
|---|---|---|---|
| | | April-25 | May-24 |
| Food | 34.58 | (0.18) | 3.07 |
| Non-perishable | 29.60 | (0.06) | 5.01 |
| Perishable | 4.99 | (1.04) | (9.21) |
| Utility | 23.63 | (1.23) | (2.52) |
| Health | 2.79 | 0.38 | 12.75 |
| Transport | 5.91 | (0.18) | (2.50) |
| Education | 3.79 | 0.68 | 10.10 |
| Restaurants & Hotels | 6.92 | 0.19 | 7.39 |

(Source: PBS)

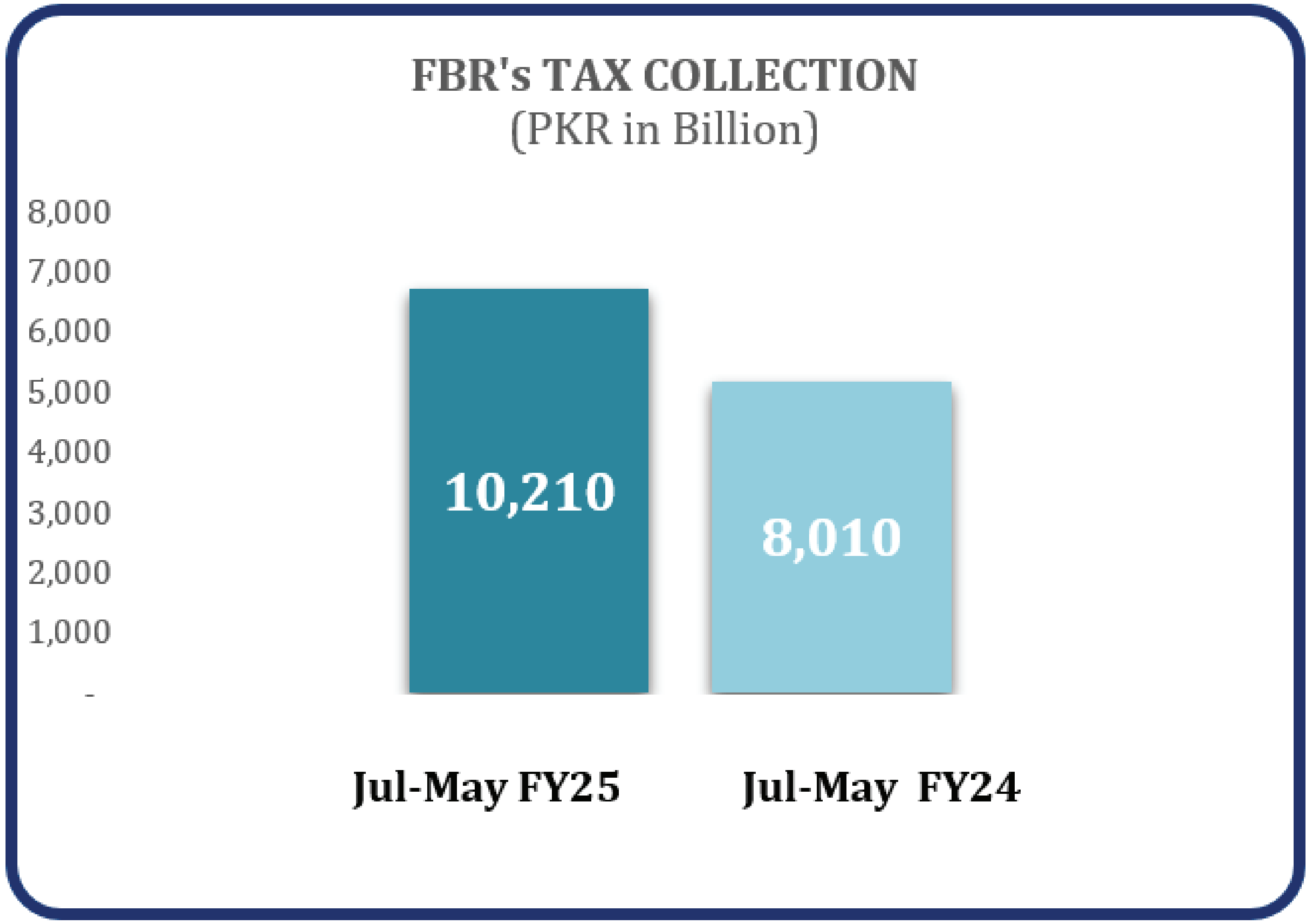


# 7. FBR TAX REVENUE COLLECTION

As per the data published by the FBR, the FBR collected PKR 10.21 trillion worth of tax revenue in the Jul-May period of FY25 and failed to achieve its target by PKR 1.03 trillion. For the Jul-May period, the FBR missed its targets for Sales tax, Federal excise duty, and Customs duty but again exceeded the income tax target on the back of over burdening the salaried class., according to Shahbaz Rana's article in The Express Tribune titled '*Tax shortfall exceeds Rs1 trillion*'.

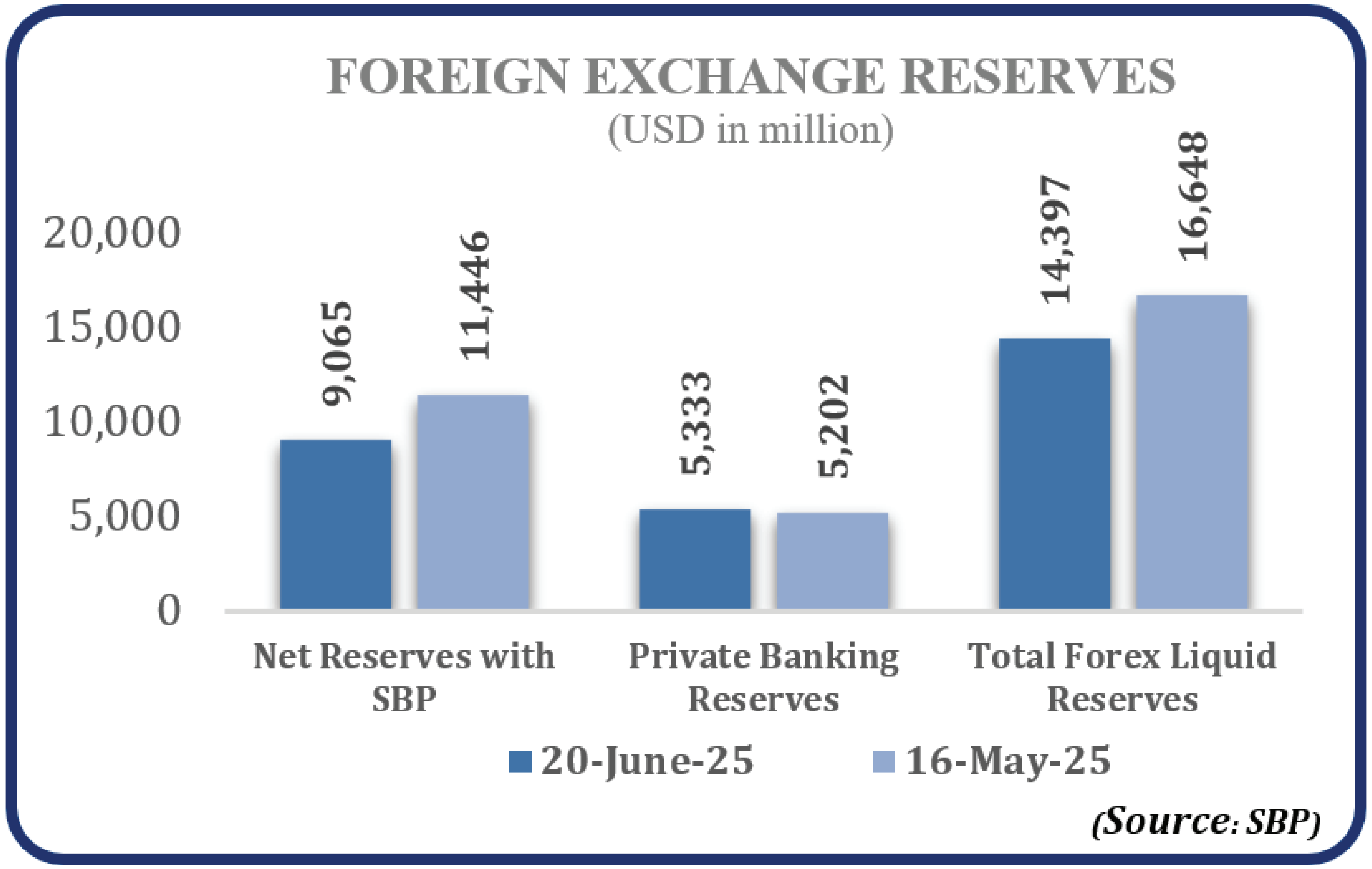



*(Source: Express Tribune)*



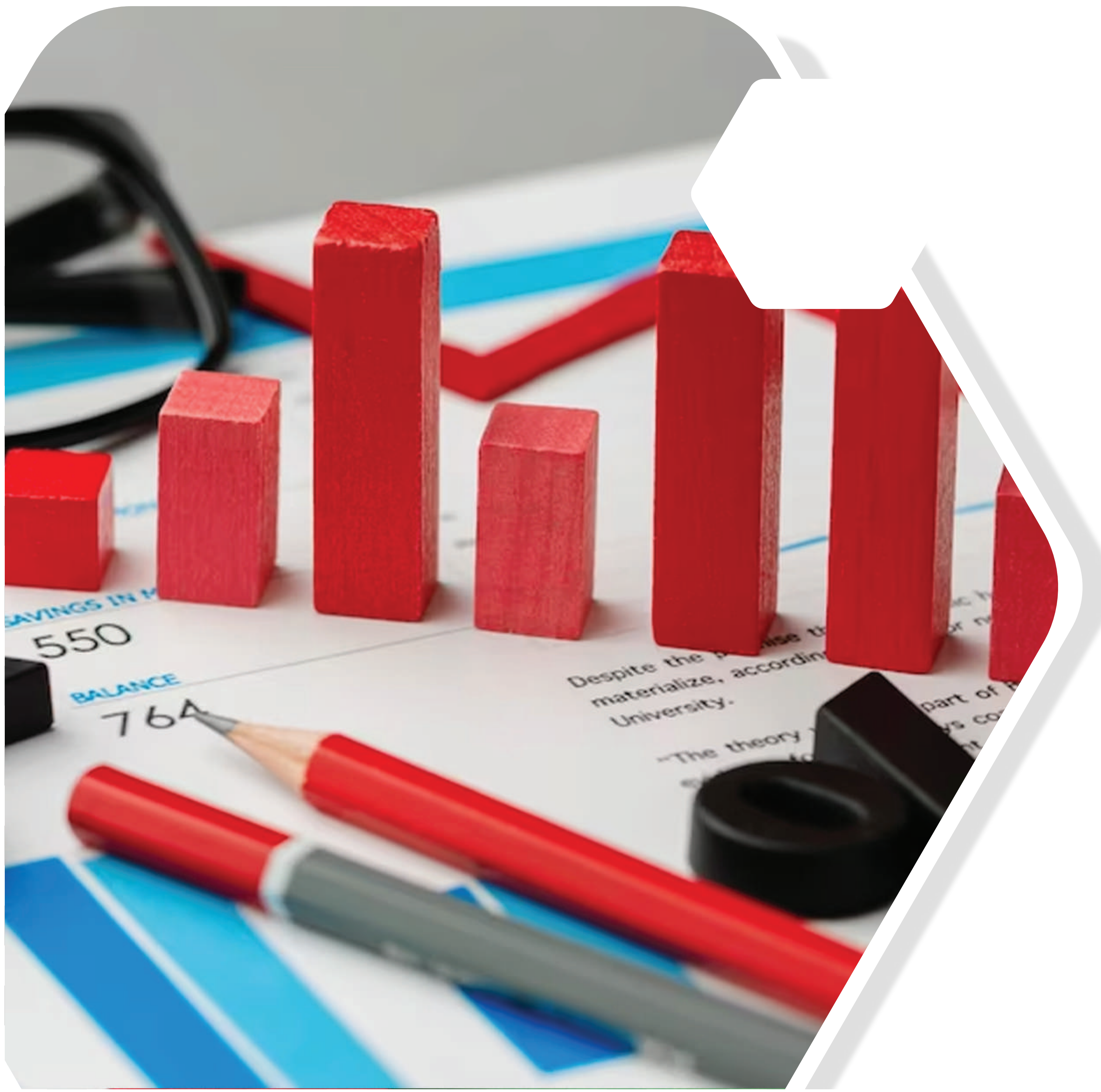
# 8. FOREIGN EXCHANGE RESERVES

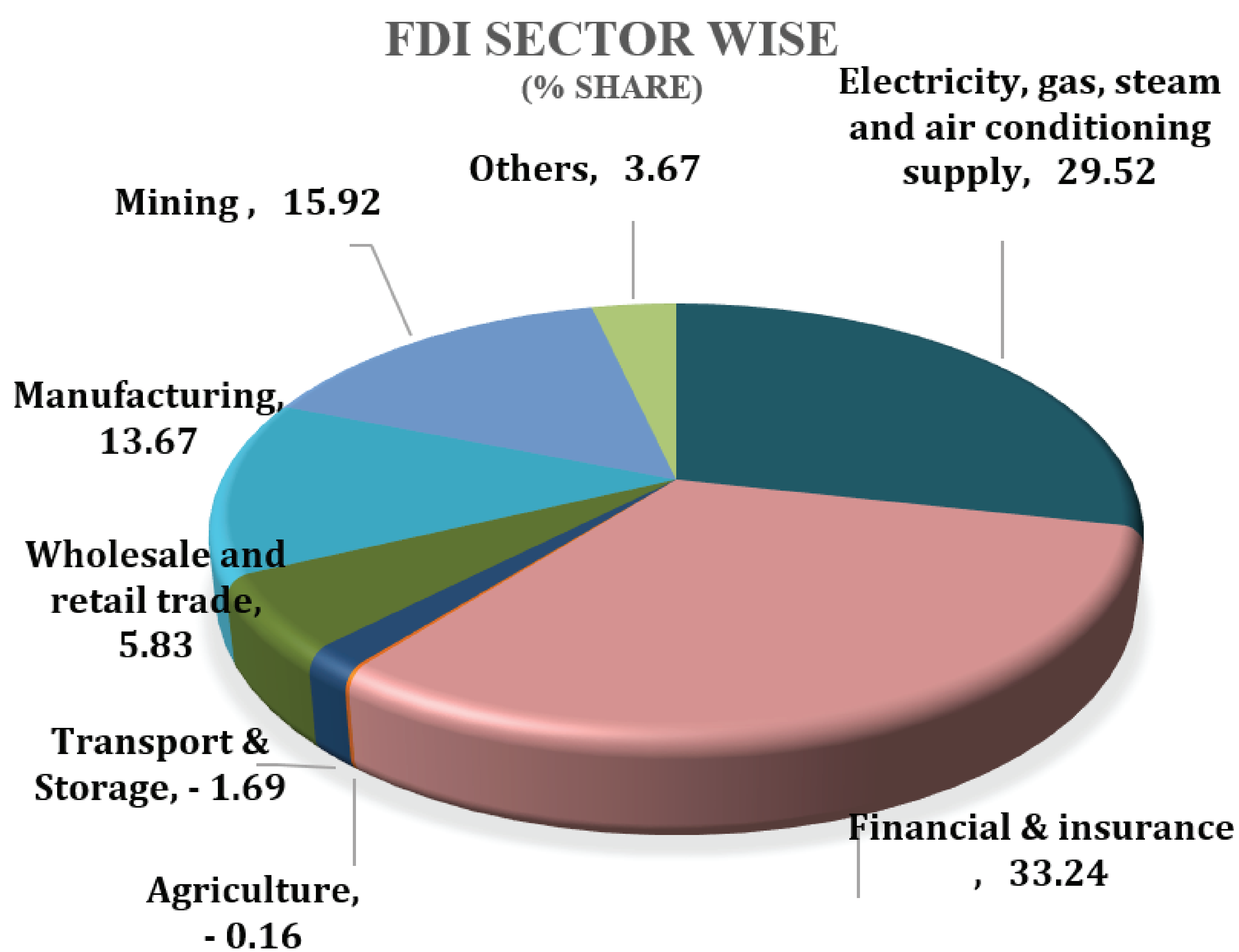
The Net foreign exchange reserves of the SBP stood at $9.06 billion as of June 20th, 2025, representing a decrease of 22.8%, or $2.66 billion, compared to last week's reserves of $11.72 billion on June 13th, 2025 amidst debt repayments by SBP. Moreover, when compared to the reserves of the previous month (which were $11.45 billion on May 16th, 2025), the Net reserves have gone down by 20.8% or $2.38 billion.



# 9. FOREIGN DIRECT INVESTMENT

Pakistan's net FDI has plunged by 7.6% or $164 million to $1,979 million provisionally during the Jul-May period of FY25, as compared to $2,142 million during the same month of FY24. Whereas, the total Net Foreign Investment surged by 14.4% or $229 million to $1,354 million on a Y-o-Y basis in Jul-May period of FY25 as against the amount of $1,583 million in the same period of FY24. This Pie chart shows the percentage share of net inflows in different sectors of the Economy in the Jul-May period of FY25.





# 10.DEBT PROFILE

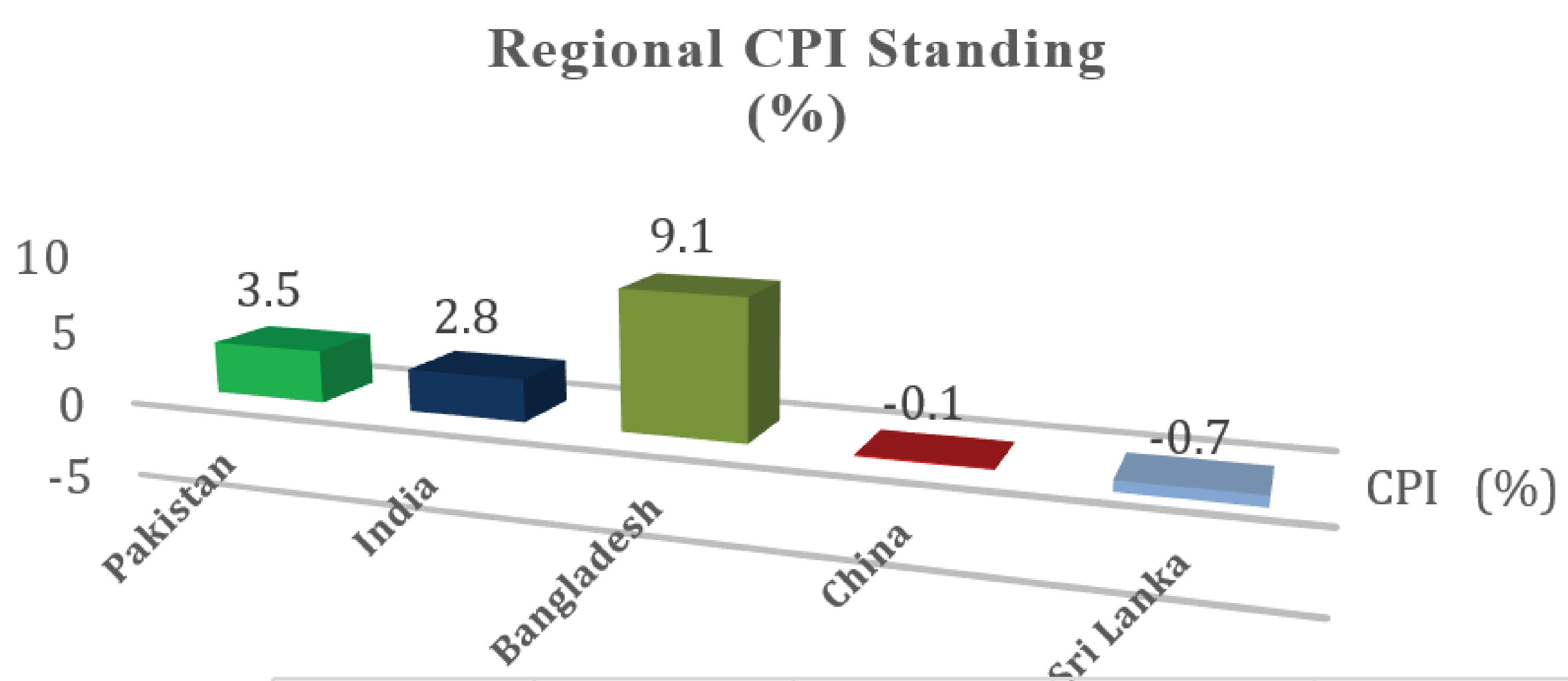
The total central Government debt, comprising of the Government's domestic debt and external debt, has surged to PKR 74.9 trillion in April 2025, marking a substantial increase of 13.4% compared to the same month of the previous Fiscal Year. These figures underscore the significant escalation in the country's debt burden, signaling challenges in debt management and fiscal sustainability.

| Pakistan's Total Debt & Liabilities | | | |
|---|---|---|---|
| (PKR in billion) | April-25 | April-24 | % change |
| Domestic Debt | 52,523 | 44,486 | 18.07 |
| % of GDP | **45.79** | **42.31** | |
| External Debt | 22,413 | 21,602 | 3.75 |
| % of GDP | **19.54** | **20.55** | |
| Gross Public Debt | 74,936 | 66,088 | 13.39 |
| % of GDP | **65.34** | **62.86** | |
| Nominal GDP | 114,694 | 105,143 | 9.08 |

(Source: SBP & MOF)

# 11.REGIONAL ANALYSIS

Compared to other countries in the region, the Pakistani economy has experienced a slight decline against the USD over the past month. Additionally, the high base effect has eliminated, and the inflation rate has risen to 3.5% during May 2025. Further, the inflation in Bangladesh has been steady at 9.1%. In Sri Lanka, the CPI has dipped to a deflation rate of 0.7%, as the rate of deflation decreased from -2.0% when compared to last month, influenced by the statistical base effect and weak aggregate demand in the Sri Lankan economy. Meanwhile, India's inflation has dropped down to 2.8% from 3.2%, primarily driven by declining prices of food articles and food products. Additionally, China has again experienced a decrease in prices following months of low inflation, with deflation recorded at 0.1% in May 2025.




| | Pakistan | India | Bangladesh | China | Sri Lanka |
|---|---|---|---|---|---|
| CPI (%) | 3.5 | 2.8 | 9.1 | -0.1 | -0.7 |

| Country | Local Currency Units per USD (As of 27th June) | Currency Appreciation (Depreciation) % Change Y-o-Y |
|---|---|---|
| Pakistan | 283.7 | (1.94) |
| India | 85.8 | (2.76) |
| Bangladesh | 122.3 | (4.05) |
| China | 7.2 | 1.86 |
| Sri Lanka | 299.9 | 2.00 |

(Source: Trading Economics)

# OUTLOOK

Fixing the economy in upcoming FY26 requires a recipe that may contain several ingredients in order to achieve sustainable economic growth. First and foremost, the Economic growth should be Export-led, unlike the recent past, i.e. FY22 when the economic Growth was Import-oriented. As a consequence of the import led growth in FY 22, Pakistan spiraled into external and fiscal imbalances. Therefore, Pakistan had the highest inflation and an economic nosedive in FY23. These decisions made the cost of living miserable due to elevated inflation. To ensure sustainable Growth, it is imperative to pursue export-led growth, which has three vectors; (i) the Agricultural sector; (ii) the Manufacturing sector; and (iii) the IT industry. Along with this, Public Financial Management has an important role to play. It involves expenditure control and revenue enhancement. Fiscal management has a big role in this course correction. Thereby, the policies should be designed in such a way that leads toward Growth with stability.

Pakistan's economic outlook reflects cautious optimism, as inflation experienced a hike in May 2025, from dropping to 0.3% in April 2025 to 3.5% in May 2025. Moreover, the inflation outlook remains vulnerable to several risks, including additional fiscal measures to address revenue shortfalls, a potential resurgence in food inflation, increment in petroleum levy and rising global commodity prices. Despite these challenges and the anticipated phasing out of the favorable base effect, the Monetary Policy Committee assessed that the current monetary policy stance is appropriate for stabilizing inflation within the target range.


# DISCLAIMER