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HIGHLIGHTS

The State bank of Pakistan ("SBP") has maintained the policy rate at 11.0%, for two consecutive MPC meetings. Despite inflation remaining stable at or below 3.5% over the past three months. However, the MPC's decision to maintain the policy rate at such a high level despite a reasonable inflation reading is imprudent.

According to the valuation of Tola Associates ("TA"), the value of PKR is 253.7/USD after incorporating the Current Account Balance ("CAB") of the July month of Fiscal Year 2025-26 ("FY26").

In the inter-bank market, the value of the national currency stands at PKR 281.9/USD as of 27th August 2025. Over the past week, the USD to PKR parity rate has shown a slight improvement, as the USD has devalued.

According to the Pakistan Bureau Statistics ("PBS"), Pakistan's LSM sector showed an expansion of 4.14% in June 2025 on a Year-on-Year ("Y-o-Y") basis vs. June 2024.

According to the SBP, Pakistan received a monthly remittance inflow of $3.21 billion in July 2025, recording an decrease of 5.64% compared to $3.41 billion in June 2025 on a M-o-M basis.

The Net foreign currency reserves held by the SBP stood at $14.27 billion as of 15th Aug 2025.

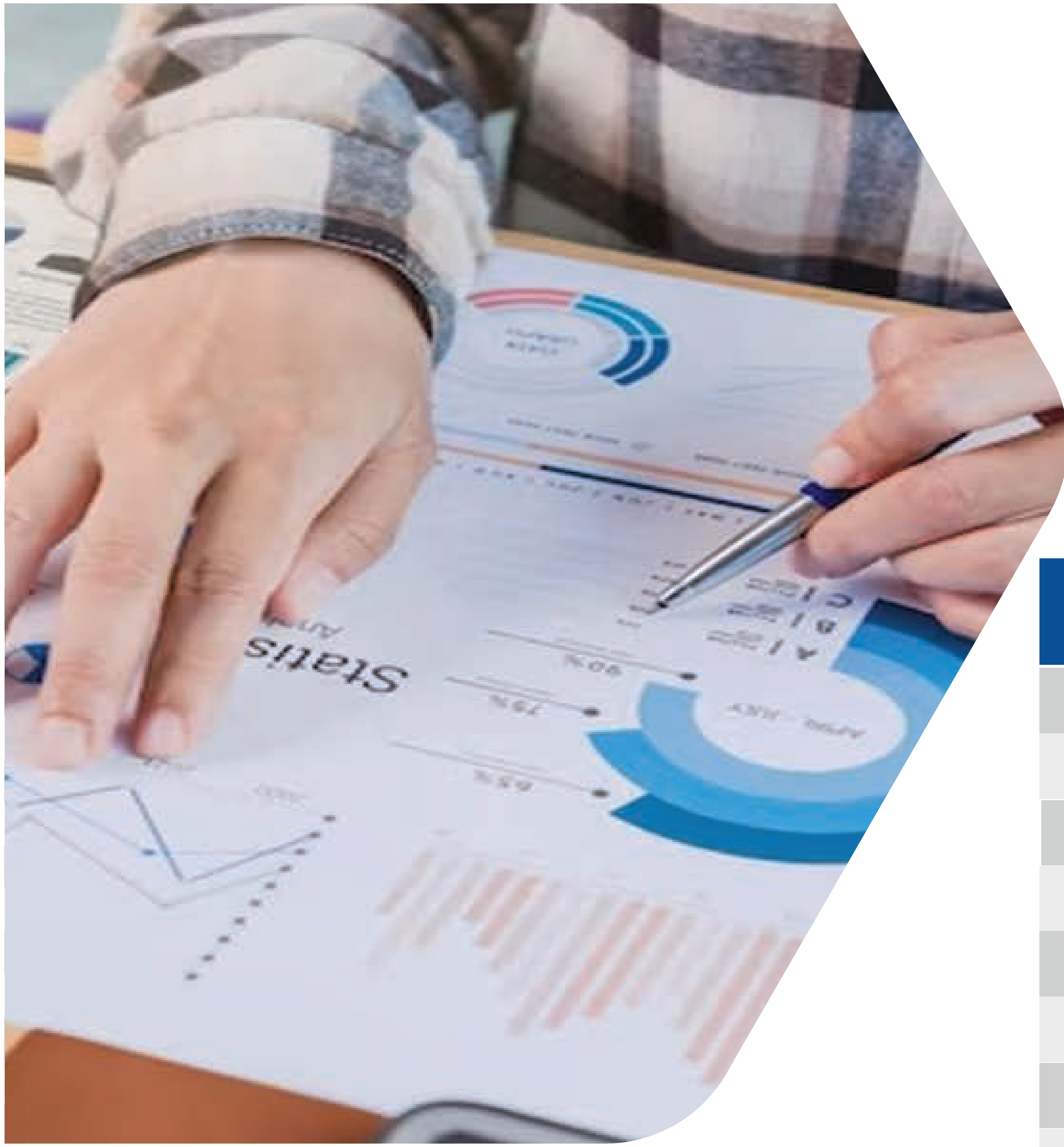
The Currency in circulation stock from 1st July 2025 to 14th Aug 2025 has expanded by PKR 152 billion, compared to a contraction of PKR 26 billion during the same period last year.

According to the PBS, the pace of Consumer Price Index ("CPI") inflation has clocked at 4.1% on a Y-o-Y basis in July 2025 vs. 11.1% same month last year.

Pakistan's net FDI has surged by 7.0% or $13.4 million to $208 million provisionally during the July period of FY26, as compared to $195 million during the same period of FY25.

The total Net Foreign Investment plunged by 55.0% or $200 million to $164 million on a Y-o-Y basis in July period of FY26 as against the amount of $363 million in the same period of FY25.

Pakistan reported a Current Account Deficit ("CAD") of $254 million during the July month of FY26, compared to a Current Account Deficit of $348 million in the same period of FY25.



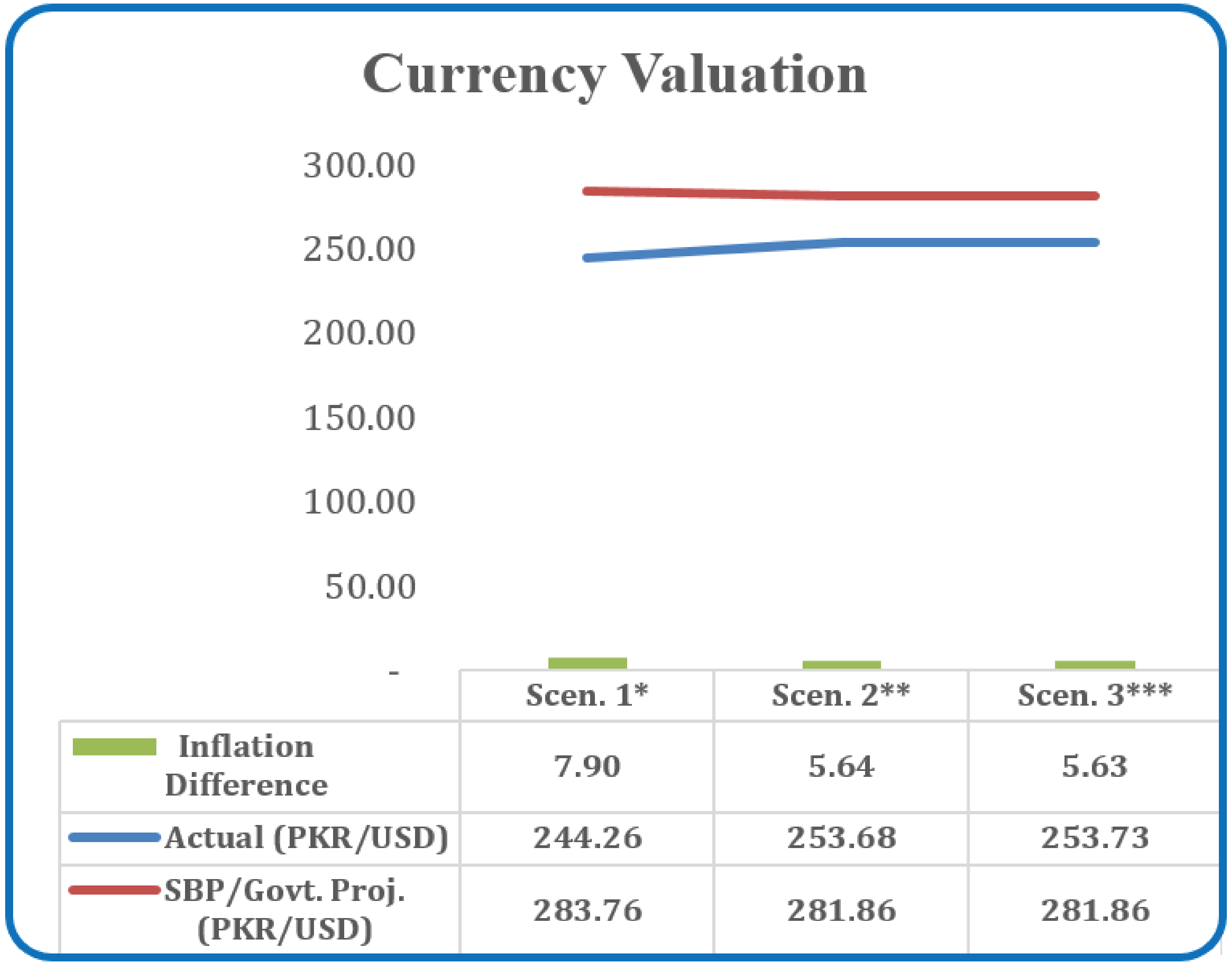
ECONOMY AT A GLANCE

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	June	↑	4.14 %	7.39 %
Central Government Debt	May	↑	PKR 76,045 Billion	PKR 67,337 Billion
Credit to Private Sector	Jul – 15th Aug	↑	PKR (233) Billion	PKR (317) Billion
Worker's Remittances	July	↑	US $3,214 Million	US $2,994 Million
Broad Money (M2)	Jul – 15th Aug	↓	PKR (1,349) Billion	PKR (1,240) Billion
Net Government Sector borrowing	Jul – 15th Aug	↓	PKR (85) Billion	PKR 155 Billion
National CPI (Base Year 2015-16)	July	↓	4.1%	11.1%
FBR Tax Collection	July	↑	PKR 755 Billion	PKR 659 Billion
Foreign Exchange Reserves with SBP	As of 15th Aug	↑	$14.27 Billion	$9.29 Billion
Foreign Direct Investments	July	↑	$208 Million	$195 Million
Trade Deficit in Goods	July	↑	US$ (3,180) Million	US$ (2,457) Million
Current Account Deficit	July	↓	$(254) Million	$(348) Million

1. VALUATION OF THE PAKISTANI RUPEE PARITY

According to the valuation of TA, the value of PKR is 253.7/USD after adjusting the Current Account Balance ("CAB") of the FY25 (Note: This estimation also includes two major factors of CAD, i.e.: Primary Income Balance and Secondary Income balance). The PKR value has been kept artificially undervalued at PKR 281.9/USD, as the present value of PKR currency would have been 253.7/USD.t

The graph depicts three scenarios: **(a) First scenario provides PKR valuation as of June 30, 2025; (b) The second scenario provides the PKR value based on the Government's CAD projection of 0.46% of GDP of FY26; and (c) The last scenario calculates the PKR value based on the adjusted CA projection of the Government adjusted for the July month of FY26).** A 10-rupee depreciation results in a 2% increase in inflation, and vice versa.



	Scen. 1*	Scen. 2**	Scen. 3***
Inflation Difference	7.90	5.64	5.63
Actual (PKR/USD)	244.26	253.68	253.73
SBP/Govt. Proj. (PKR/USD)	283.76	281.86	281.86

**Valuation as per actual CAD of till FY25*
*** If CAD restricted to its targeted value of $2.11 billion for FY26.*
**** Actual CAD of July 2025 cumulated in the Projection (adjusted monthly basis)*

2. CURRENT ACCOUNT ("CA"):

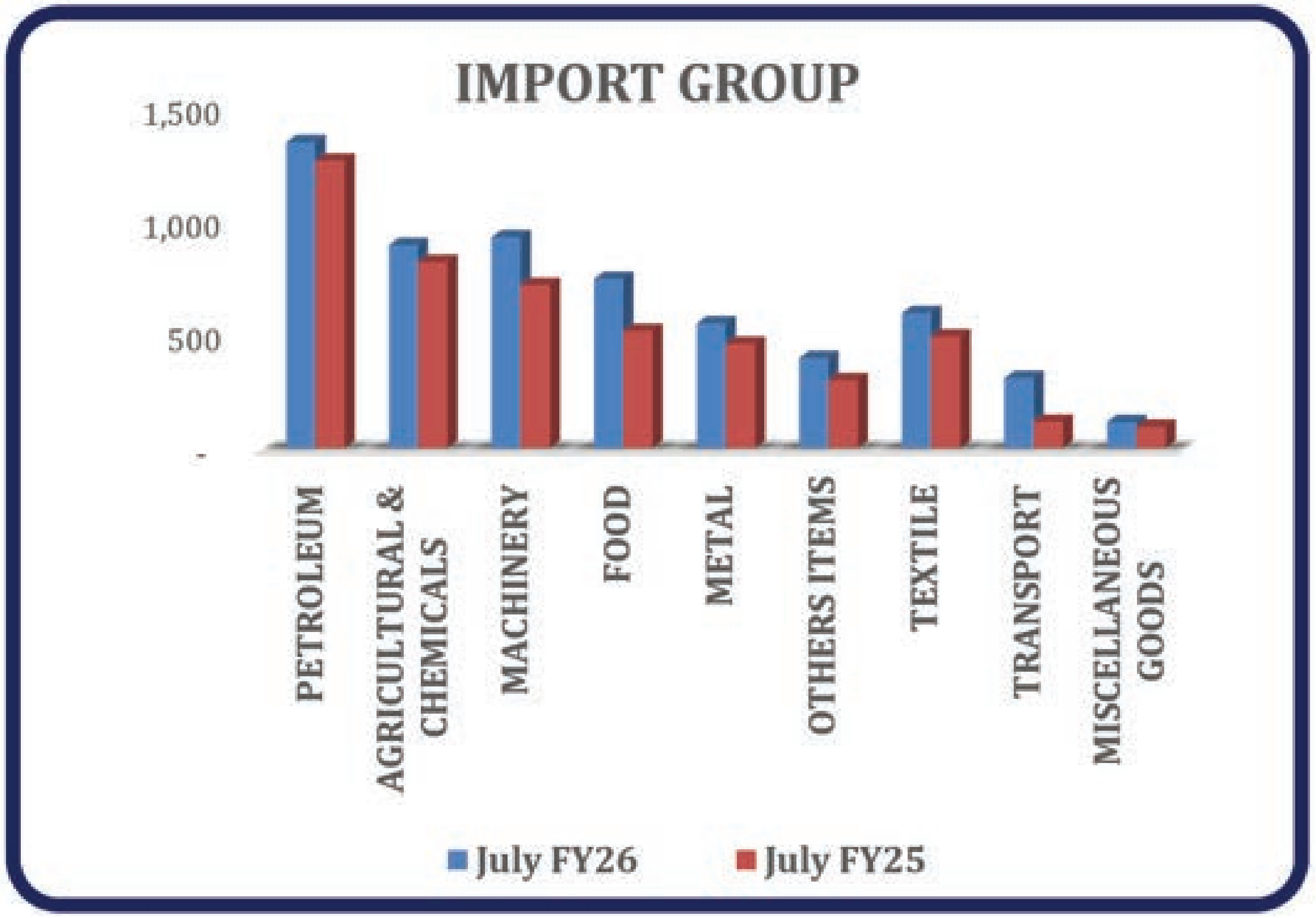
The CA stood at a $254 million deficit in the month of July 2025, a decrease of 176 times from a surplus of $335 million in the previous month of June 2025. On a Year on Year ("Y-o-Y") basis, the CA has declined at a rate of 27.0% compared to previous FY25's same month.

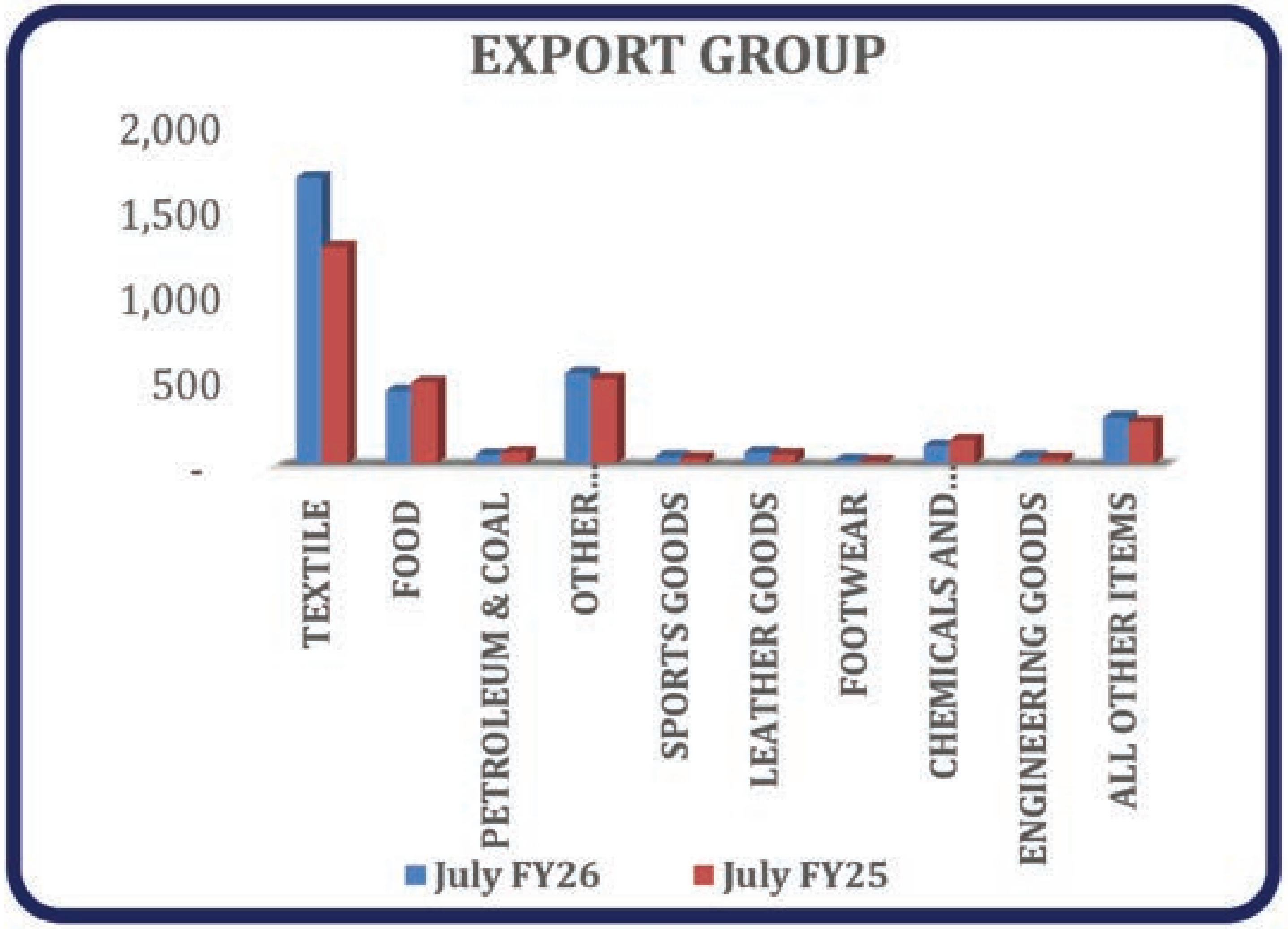
CA FLOWS	Jul-25	Jun-25	Jul-24	MoM (%)	YoY (%)
Exports of goods FOB	**2,743**	**2,609**	**2,361**	**5.14**	**16.18**
Imports of goods FOB	**5,422**	**4,998**	**4,849**	**8.48**	**11.82**
i. Balance of Trade in Goods	**(2,679)**	**(2,389)**	**(2,488)**	**12.14**	**7.68**
Exports of Services	745	714	631	4.34	18.07
Imports of Services	871	842	877	3.44	(0.68)
ii. Balance of Trade in Services	**(126)**	**(128)**	**(246)**	**(1.56)**	**(48.78)**
Primary Income Credit	93	77	90	20.78	3.33
Primary Income Debit	905	871	892	3.90	1.46
iii. Balance in Primary Income	**(812)**	**(794)**	**(802)**	**2.27**	**1.25**
Secondary Income Credit	3,407	3,680	3,242	(7.42)	5.09
Worker Remittances	3,214	3,406	2,994	(5.64)	7.35
Secondary Income Debit	44	34	54	29.41	(18.52)
(iv) Balance on secondary income	**3,363**	**3,646**	**3,188**	**(7.76)**	**5.49**
Current Account Balance (i + ii + iii + iv)	**(254)**	**335**	**(348)**	**(175.82)**	**(27.01)**

(Source: SBP)

3.BALANCE OF TRADE IN GOODS

According to the PBS, Pakistan's trade deficit has increased by a huge margin of 29.4% to $3.1 billion in July of FY26, compared to $2.46 billion in the same month of FY25. Moreover, the exports also went up by 16.4% to $2.69 billion during the first month of FY26 compared to $2.31 billion in the same month of last FY25. Further, the imports increased by 23.1% to $5.87 billion in July of FY25 compared to $4.76 billion in the same period of FY25. Additionally, on a M-o-M basis, exports increased by 8.4% compared to $2.48 billion in June 2025. Furthermore, the country's trade deficit rose by 10.6% compared to $2.88 billion in June 2025 on a M-o-M basis.





4. LARGE SCALE MANUFACTURING

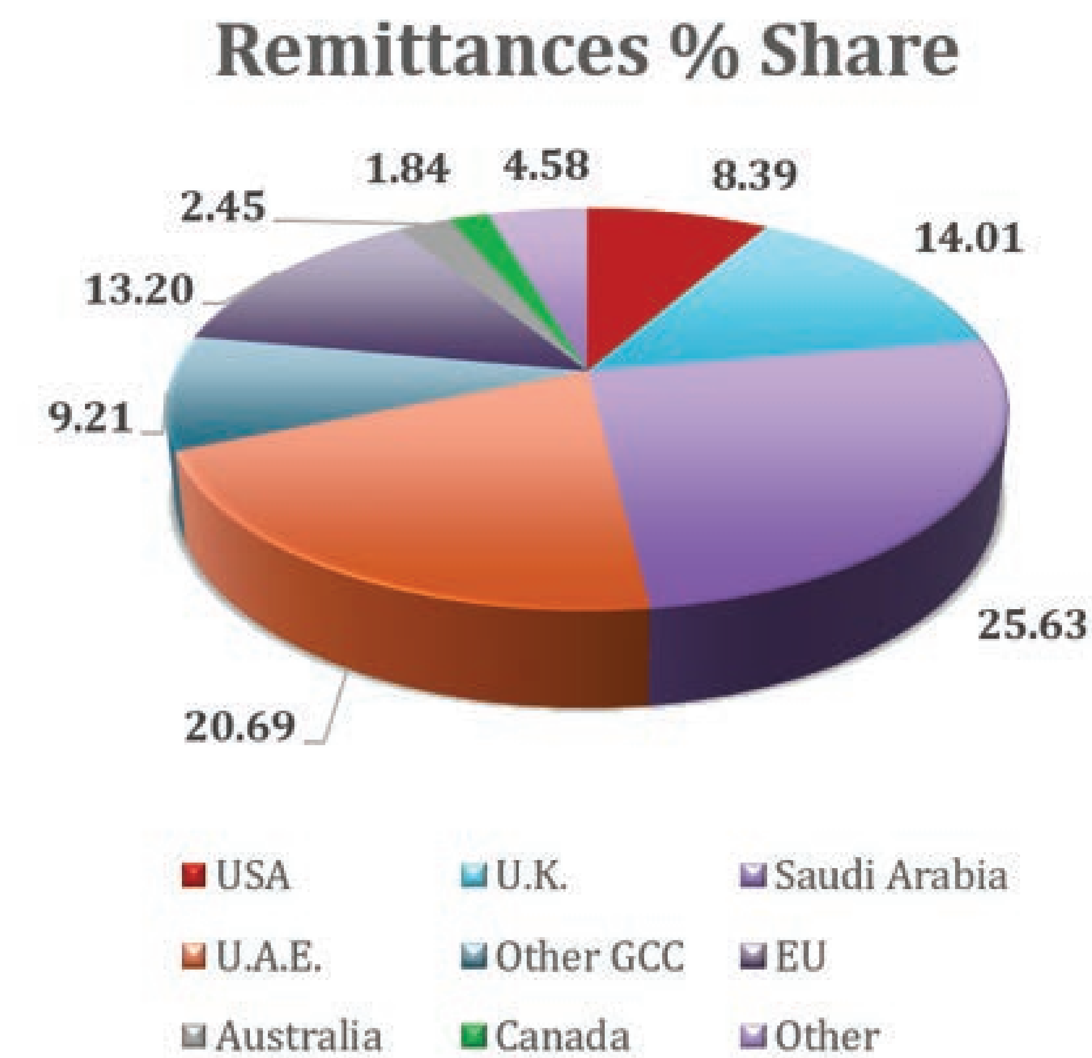
According to the PBS, Pakistan's LSM sector showed an expansion of 4.14% in June 2025 on a Y-o-Y basis vs. June 2024. In contrast, on a M-o-M basis, the overall output growth declined by 3.67%, compared to the month of May 2025. Additionally, the cumulative LSM growth exhibited a negative trend, with a 0.74% contraction in the Jul-June 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 7.60%, 0.68% and 5.70% respectively, whilst the Cement industry showed a contraction of almost 4.52% in the Jul-June period of FY25.

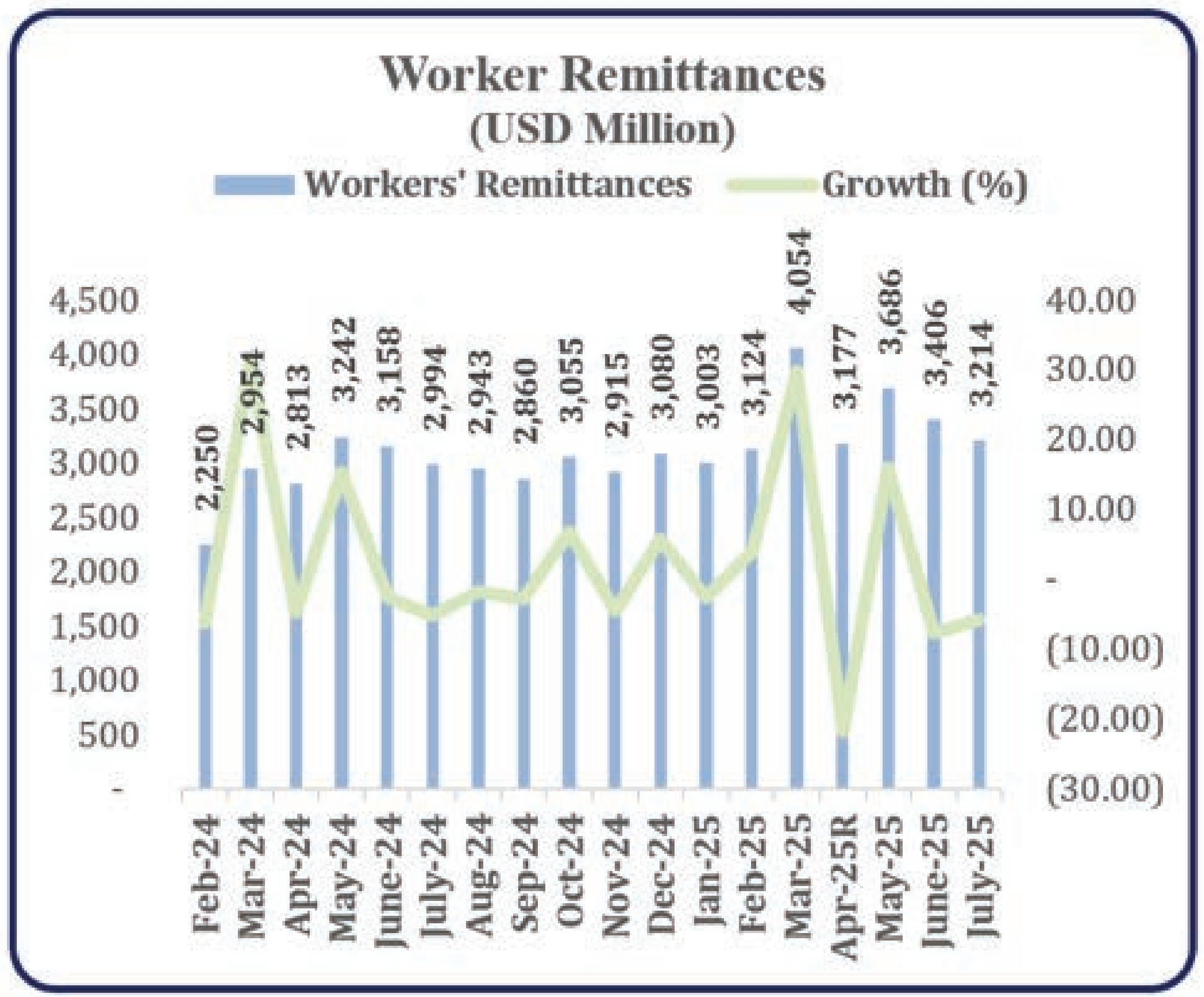
LSM (%)	Weight	June-25	June-24	MoM	YoY Cumulative
Beverages	3.84	1.16	12.76	0.07	0.06
Tobacco	2.07	(16.28)	(3.17)	(0.22)	0.10
Textile	18.16	(0.85)	4.22	(0.15)	0.41
Wearing Apparel	6.08	11.16	(2.46)	1.85	0.88
Leather Products	1.23	(2.41)	6.69	(0.02)	0.01
Wood Products	0.18	2.20	9.02	0.00	0.00
Paper & Board	1.63	(3.15)	8.86	(0.07)	0.01
Coke & Petroleum Products	6.66	11.92	28.30	0.88	0.37
Pharmaceuticals	5.15	2.97	(1.01)	0.19	0.16
Computer, electronics and Optical products	0.03	0.69	1.98	0.00	0.00
Automobiles	3.10	65.53	37.44	1.58	0.85
Other transport Equipment	0.69	61.72	9.28	0.28	0.17
Food	10.69	3.97	2.83	0.54	(0.32)
Chemicals	6.48	3.89	(3.59)	0.31	(0.28)
Rubber Products	0.24	8.12	(14.75)	0.02	(0.00)
Non Metallic Mineral Products	5.01	(7.86)	(14.48)	(0.49)	(0.51)
Iron & Steel Products	3.45	(1.45)	(11.80)	(0.07)	(0.40)
Fabricated Metal	0.42	5.34	(17.60)	0.02	(0.05)
Electrical Equipment	2.05	1.63	(20.89)	0.05	(0.34)
Machinery and Equipment	0.39	(36.19)	28.66	(0.16)	(0.18)
Furniture	0.51	(21.51)	(42.10)	(0.39)	(1.59)
Other Manufacturing (Football)	0.32	(8.35)	10.92	(0.04)	(0.08)
LSM Growth for June 2025 (Y/Y)					4.14 %
LSM Growth of June 2025 vs. May 2025 (M/M)					(3.67) %
LSM Growth Jul-June FY25					(0.74) %

(Source: PBS)

5. WORKER'S REMITTANCES

As per the SBP, Pakistan received a monthly remittance inflow of $3.21 billion in July 2025, recording an decrease of 5.64% compared to $3.41 billion in June 2025 on a M-o-M basis. Similarly, on a Y-o-Y comparison, the remittance inflows went up by 7.36% when compared to $3.00 billion received a year ago in the same month.



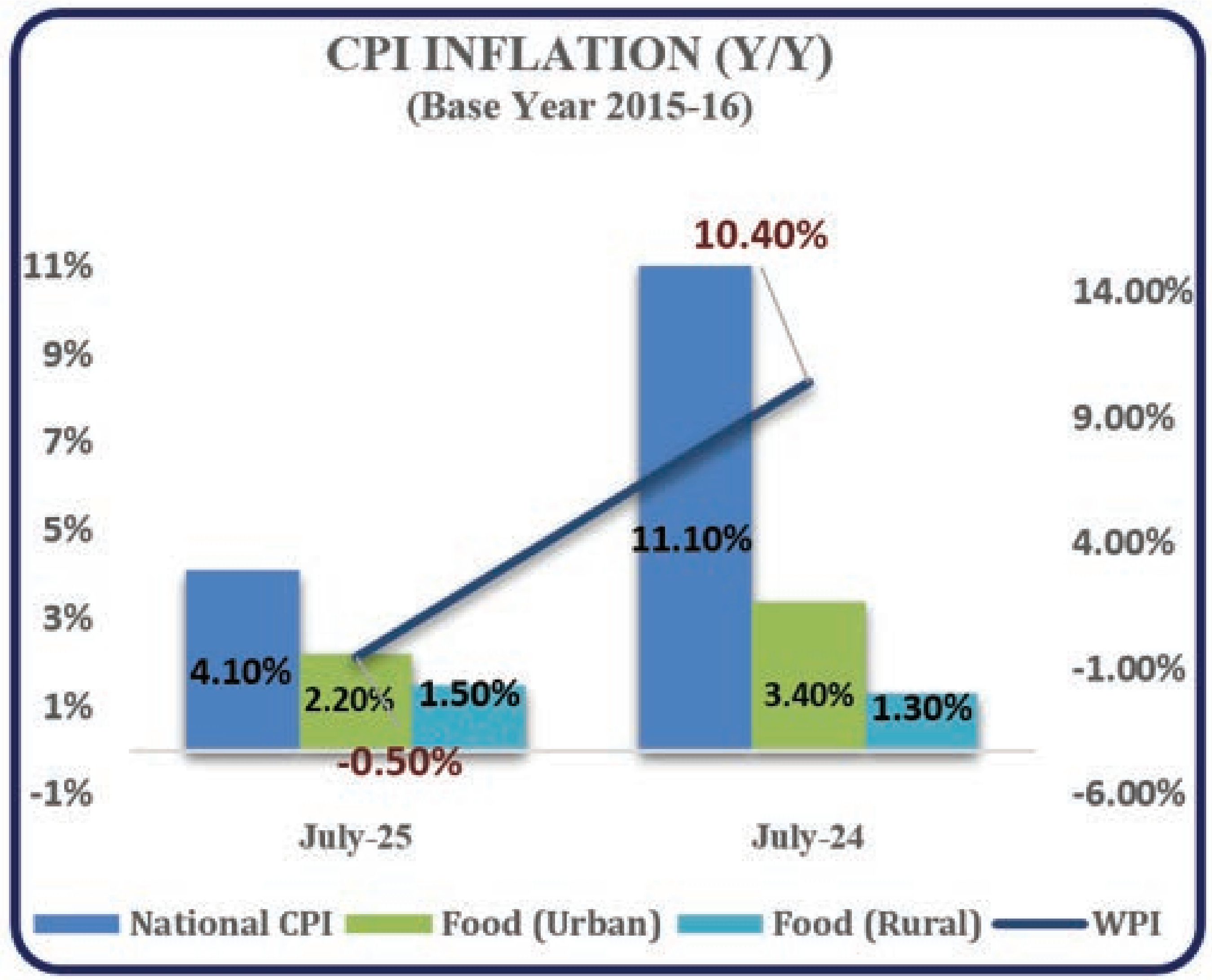


6. CONSUMER PRICE INDEX INFLATION

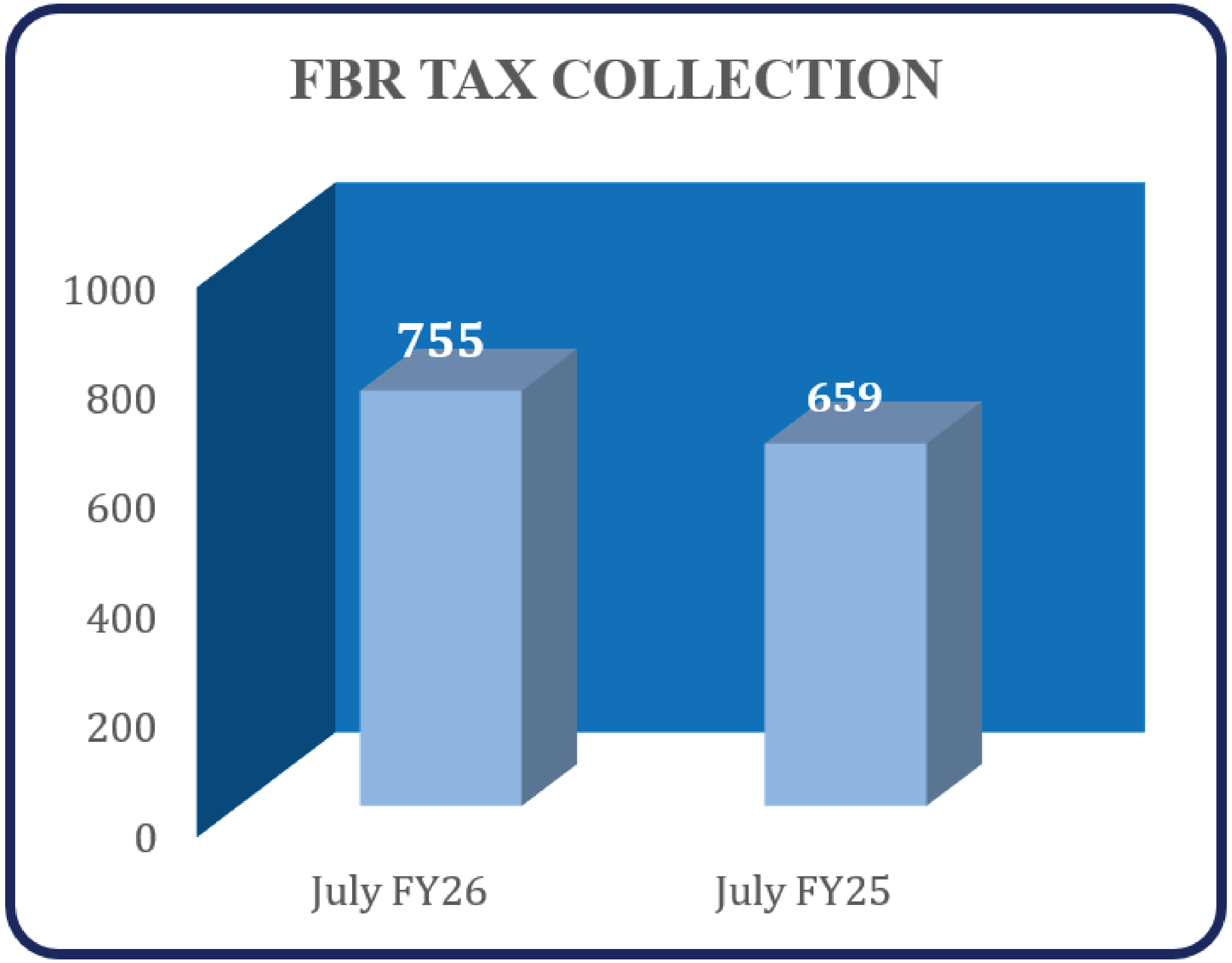
According to the PBS, the monthly inflation rate in July 2025 is reported at 4.1% on a Y-o-Y basis. The rise in inflation is due to non food items such as clothing, footwear, utilities, fuel, health and education saw increases. Additionally, the food inflation rates in urban and rural areas slow down to 2.2% & 1.5%, respectively. The wholesale price index ("WPI") stood at -0.5% on a Y-o-Y basis in FY26, which was recorded 10.4% in the same month of FY25. On a monthly basis, the National CPI has recorded a hike of 2.9%. Similarly, the Food inflation rate hike by 2.4% for urban areas, while food inflation for rural areas stood at 2.7%, compared to June 2025. In July 2025, Core inflation, which is calculated by excluding energy and food items, rose by 7.0% and 8.1% in urban and rural areas on a Y-o-Y basis, respectively.

Group	Weight (%)	% Change over	
		June-25	July-24
Food	34.58	2.97	0.89
Non-perishable	29.60	1.08	2.59
Perishable	4.99	15.91	(8.25)
Utility	23.63	7.14	3.56
Health	2.79	0.35	10.77
Transport	5.91	3.53	2.72
Education	3.79	0.22	10.22
Restaurants & Hotels	6.92	0.38	7.66

(Source: PBS)



7. FBR TAX REVENUE COLLECTION

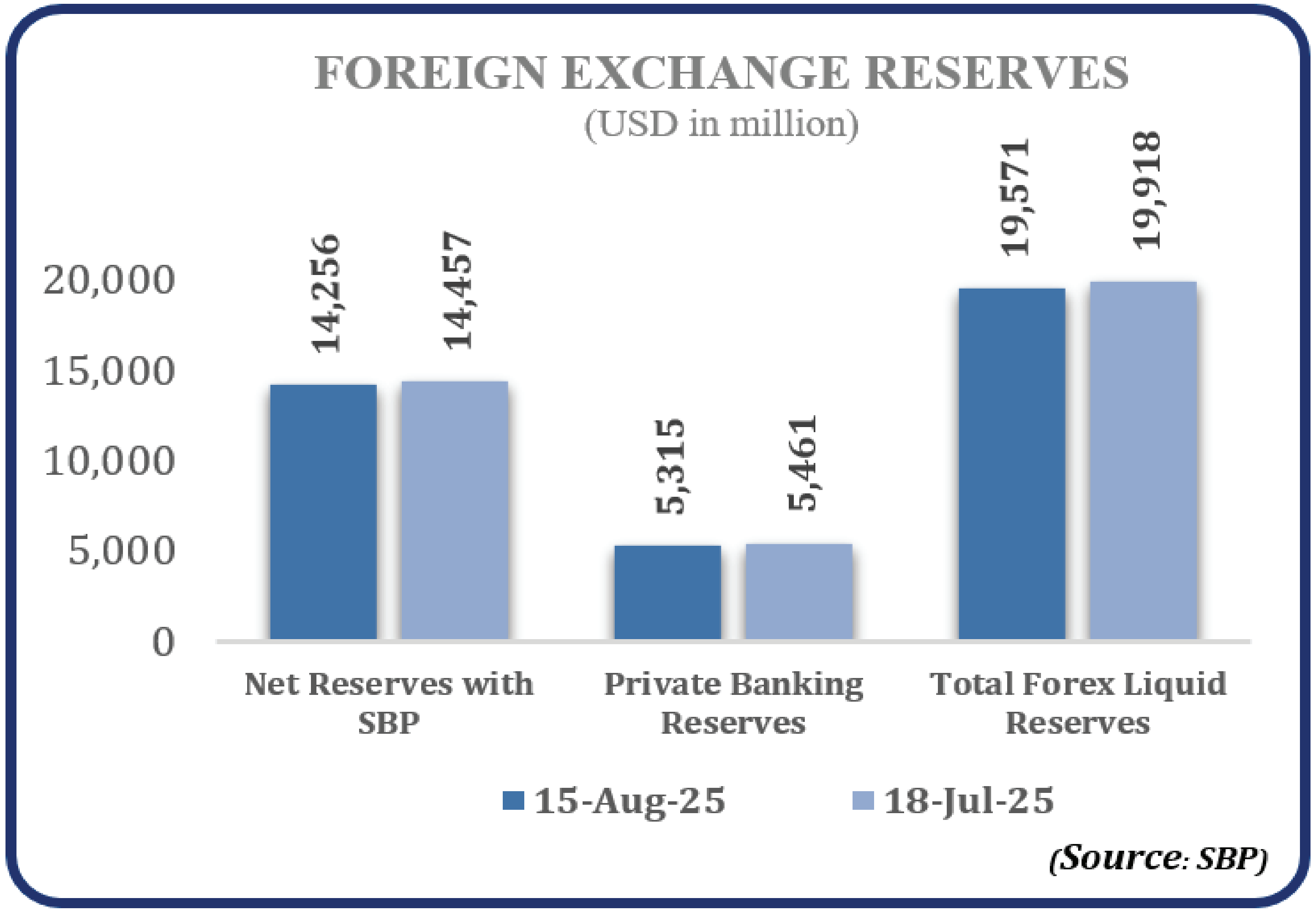


As per the data published by the FBR, the FBR collected PKR 755 billion worth of tax revenue in the starting month of July of FY26 and successfully achieve its target of PKR 748 billion. The Government has fixed a revenue target of Rs14.13 trillion for the current fiscal year, reflecting a 20% increase from the previous year. To achieve this, the FBR is banking on stronger enforcement actions and the recovery of taxes currently locked in litigation, according to Shahbaz Rana's article in The Express Tribune titled 'FBR exceeds target, collects Rs755b'.

(Source: Express Tribune)

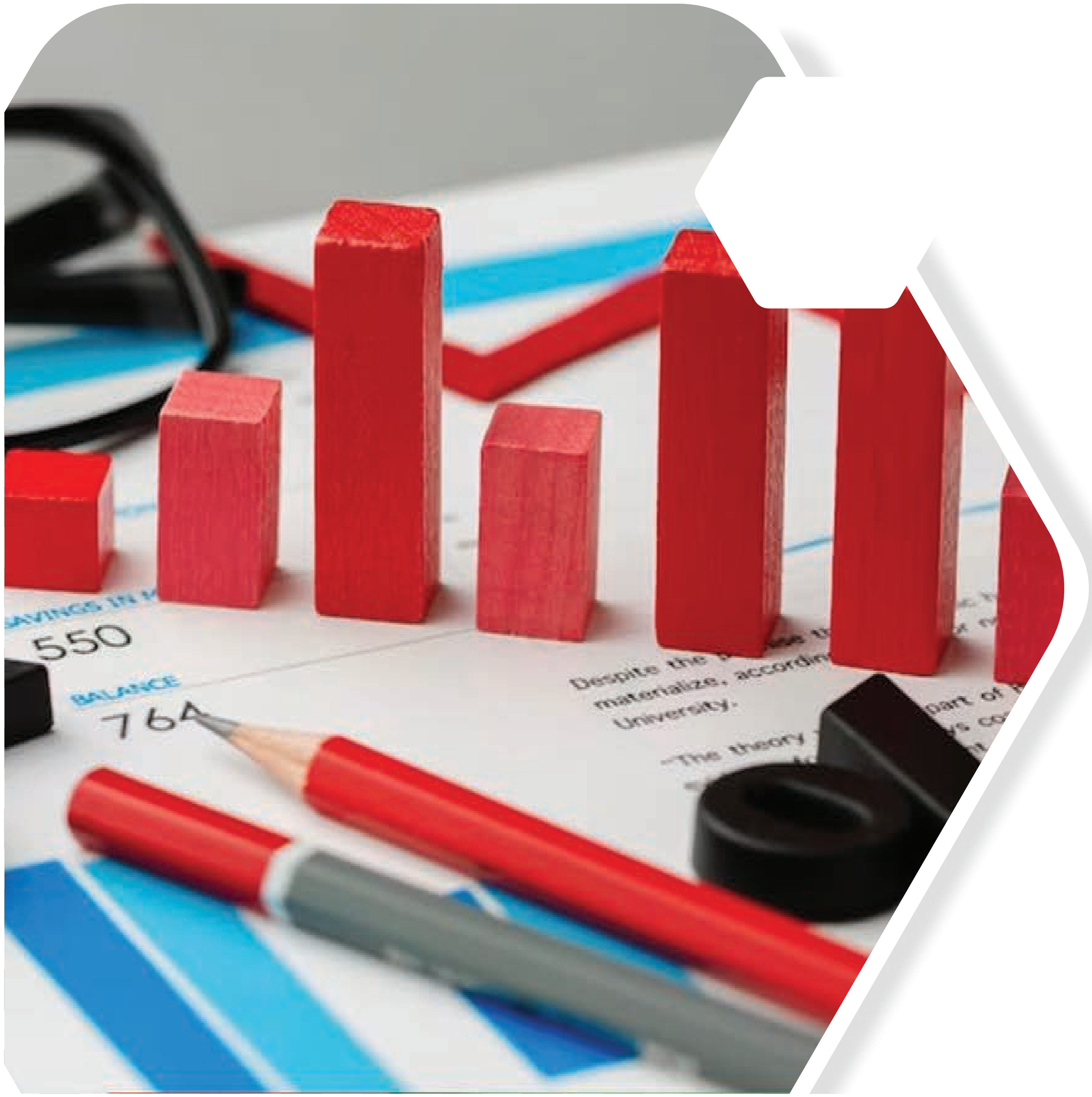
8. FOREIGN EXCHANGE RESERVES

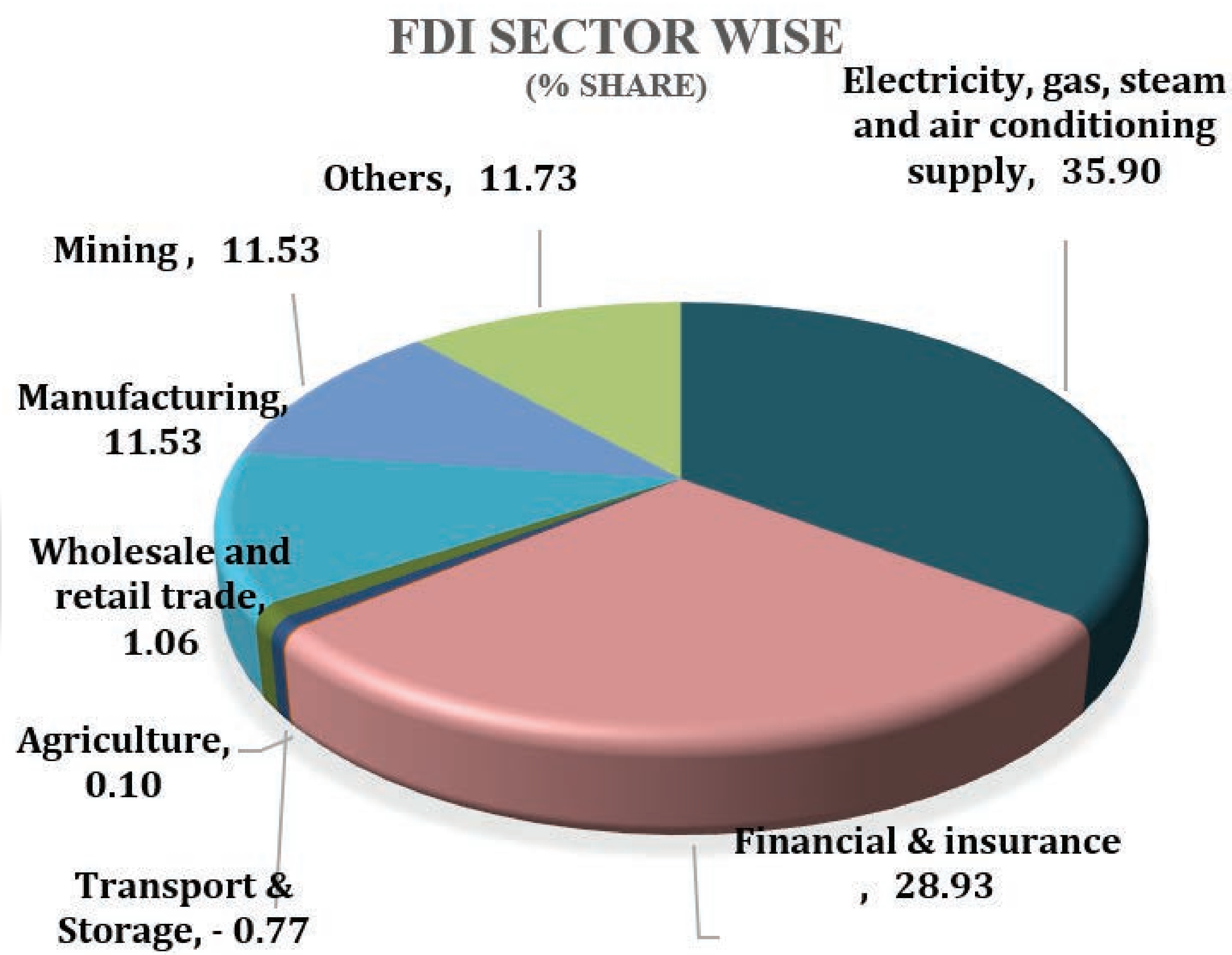
The Net foreign exchange reserves of the SBP stood at $14.25 billion as of Aug 15th, 2025, representing a decrease of 1.39%, or $200 million, compared to previous month reserves of $14.46 billion on July 18th, 2025.



9. FOREIGN DIRECT INVESTMENT

Pakistan's net FDI has surged by 7.0% or $13.4 million to $208 million provisionally during the July period of FY26, as compared to $195 million during the same period of FY25. Whereas, the total Net Foreign Investment plunged by 55.0% or $200 million to $164 million on a Y-o-Y basis in July period of FY26 as against the amount of $363 million in the same period of FY25. This Pie chart shows the percentage share of net inflows in different sectors of the Economy in the July month of FY26.





10.DEBT PROFILE

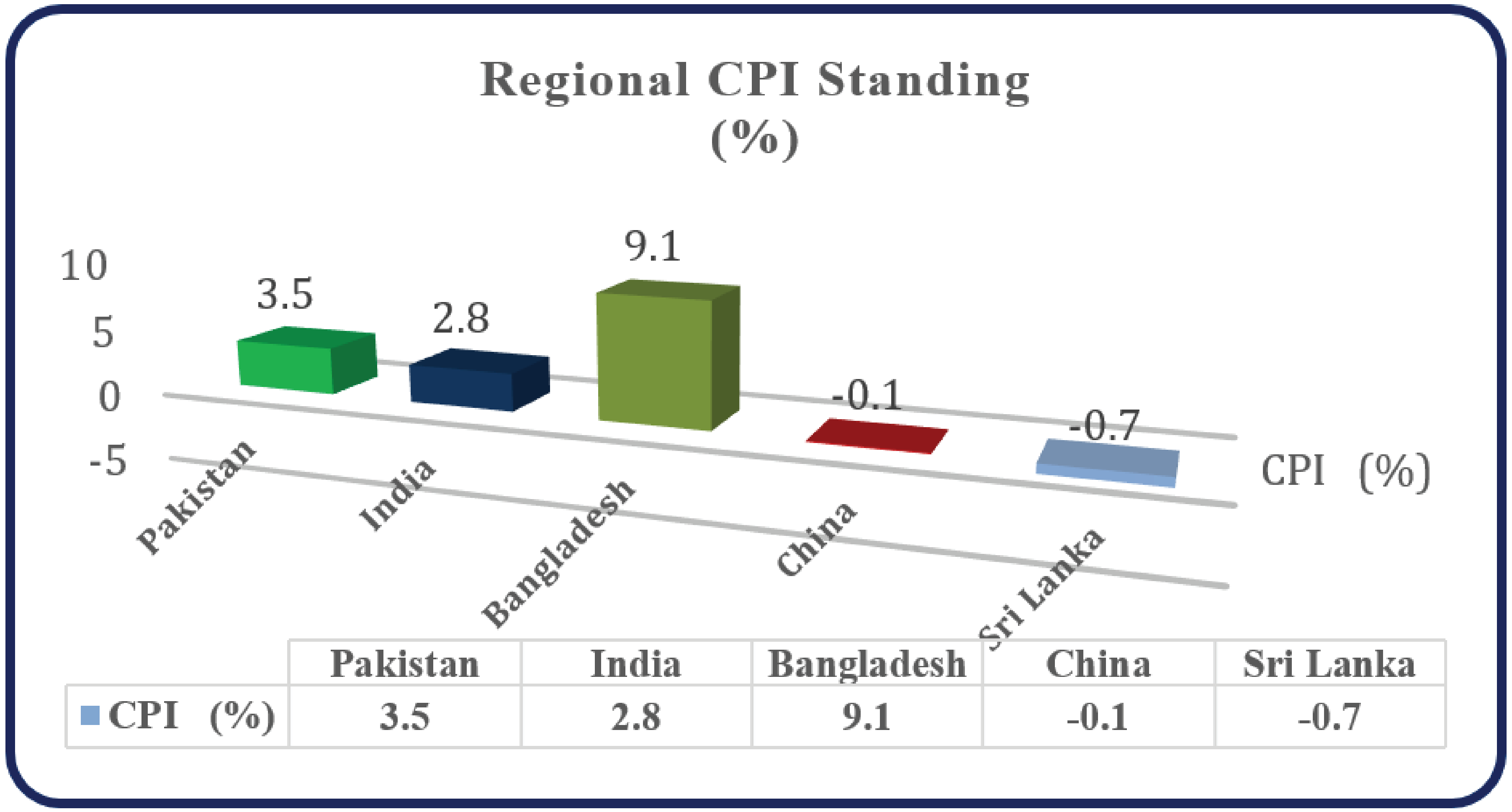
The total central Government debt, comprising of the Government's domestic debt and external debt, has surged to PKR 76.0 trillion in May 2025, marking a substantial increase of 12.3% compared to the same month of the previous Fiscal Year. These figures underscore the significant escalation in the country's debt burden, signaling challenges in debt management and fiscal sustainability.

Pakistan's Total Debt & Liabilities			
(PKR in billion)	May-25	May-24	% change
Domestic Debt	53,460	46,125	16.0
% of GDP	**46.6**	**43.9**	
External Debt	22,585	21,608	4.5
% of GDP	**19.7**	**20.6**	
Total Debt	76,045	67,733	12.3
% of GDP	**66.3**	**64.4**	
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 gained momentum against the USD over the past month. Additionally, the high base effect has eliminated, and the inflation rate has risen to 4.1% during June 2025. Further, the inflation in Bangladesh has been steady at 8.6%. In Sri Lanka, the CPI has recorded deflation of 0.3%, as the rate of deflation decreased from 0.6% when compared to last month, influenced by the slight increase in aggregate demand in the Sri Lankan economy. Meanwhile, India's inflation has dropped down to 1.55% from 2.1%, primarily driven by declining prices of food articles and food products. Additionally, China has experienced a little or no inflation in July 2025.



Country	Local Currency Units per USD (As of 27th Aug)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	281.9	(2.08)
India	87.9	(4.58)
Bangladesh	121.7	(2.05)
China	7.2	(0.42)
Sri Lanka	302.3	(0.54)

(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. Therefore, 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 July 2025, from 0.3% in April 2025 to 4.1% in July 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.

Despite stable inflation below 5.0% in recent months, the SBP has kept the policy rate unchanged for two MPC meetings. To achieve the 4.2% GDP growth target, a 3 to 4% rate cut is needed while maintaining a positive real interest rate. Inflation is expected to stay near 7.5% in FY26. Bringing the exchange rate closer to PKR 253.7 would strengthen stability. Such adjustments may even create room for deflation, allowing further monetary easing and faster growth.

DISCLAIMER