TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

LEADING FIRM
Legal500
ASIA PACIFIC
2025

Tola & Tola
Advocates • Barristers • Legal Consultants

Pakonomics
August 2025

Phone:
+92 21-35303294–6

Address:
408, 4th Floor, Continental Trade Centre, Clifton Block-8, Karachi

Mail & Website:
connect@tolaassociates.com
www.tolaassociates.com

HIGHLIGHTS

The State bank of Pakistan ("SBP") has maintained the policy rate at 11.0%, for three consecutive MPC meetings. Despite inflation remaining stable at or below 3% over the past two months. The MPC's decision to keep the policy rate high is mainly due to recent floods in northern and Punjab regions, which created a temporary but significant supply shock in the crop sector, likely pushing inflation and the current account deficit above earlier Fiscal Year 2025-26 ("FY26") expectations.

According to the valuation of Tola Associates ("TA"), the value of PKR is 254.0/USD after incorporating the Current Account Balance ("CAB") of the Jul-Aug period of FY26.

In the inter-bank market, the value of the national currency stands at PKR 281.4/USD as of 26th September 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 almost 9.0% in July 2025 on a Year-on-Year ("Y-o-Y") basis vs. July 2024.

According to the SBP, Pakistan received a monthly remittance inflow of $3.14 billion in August 2025, recording an decrease of 2.38% compared to $3.21 billion in July 2025 on a M-o-M basis.

The Net foreign currency reserves held by the SBP stood at $14.37 billion as of 19th Sept 2025.

The Currency in circulation stock from 1st July 2025 to 13th Sept 2025 has expanded by PKR 91 billion, compared to a contraction of PKR 81 billion during the same period last year.

According to the PBS, the pace of Consumer Price Index ("CPI") inflation has clocked at 3.0% on a Y-o-Y basis in August 2025 vs. 9.6% same month last year.

Pakistan's net FDI has plunged by 22.0% or $103 million to $364 million provisionally during the Jul-Aug period of FY26, as compared to $467 million during the same period of FY25.

The total Net Foreign Investment plunged by 51.0% or $292 million to $278 million on a Y-o-Y basis in Jul-Aug period of FY26 as against the amount of $570 million in the same period of FY25

Pakistan reported a Current Account Deficit ("CAD") of $624 million during the Jul-Aug Period of FY26, compared to a Current Account Deficit of $430 million in the same period of FY25.

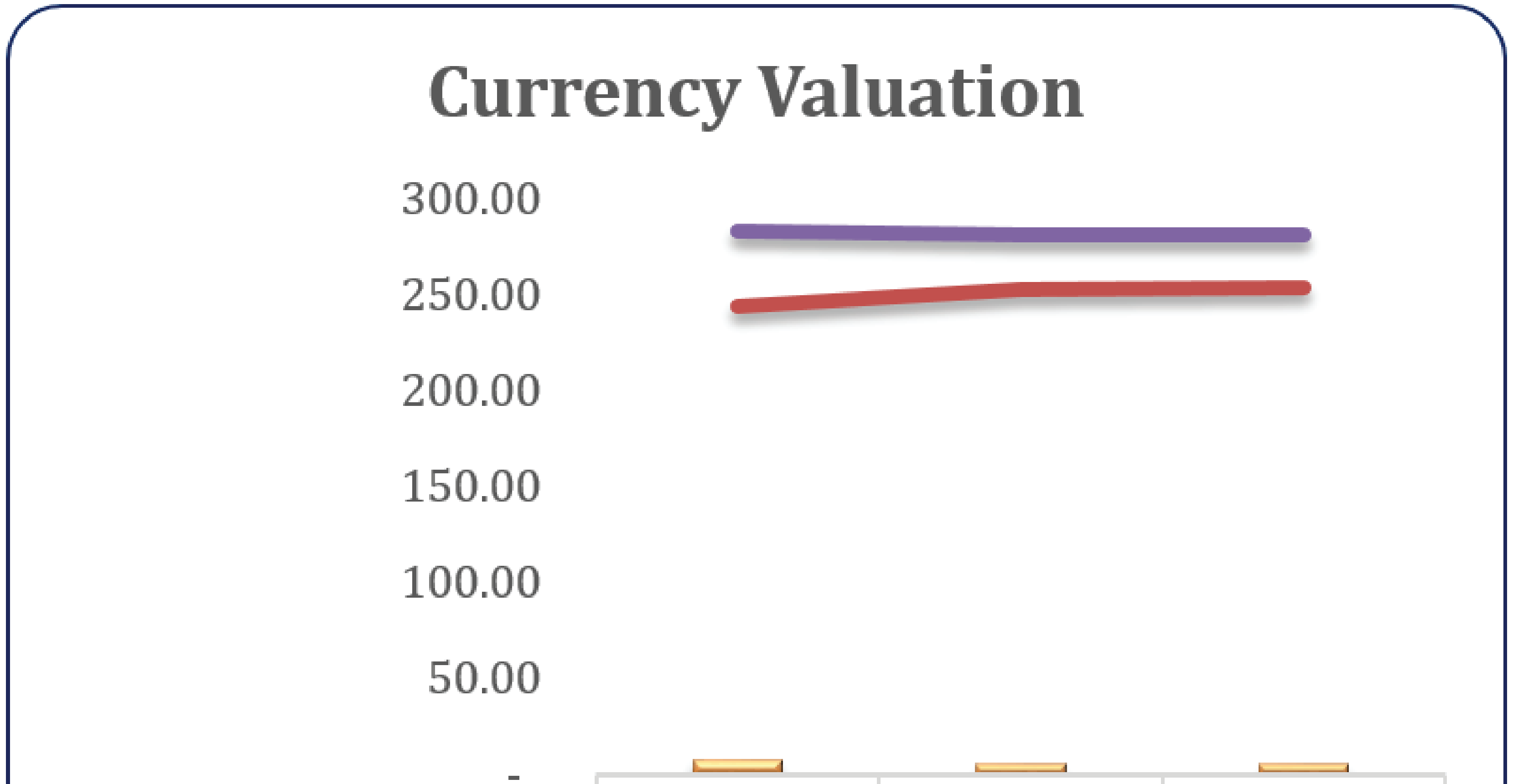
ECONOMY AT A GLANCE

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	July	↑	8.99 %	2.31 %
Central Government Debt	July	↑	PKR 78,238 Billion	PKR 69,623 Billion
Credit to Private Sector	Jul – 13th Sept	↑	PKR (170) Billion	PKR (354) Billion
Worker's Remittances	August	↑	US $3,138 Million	US $2,943 Million
Broad Money (M2)	Jul – 13th Sept	↓	PKR (1,141) Billion	PKR (795) Billion
Net Government Sector borrowing	Jul – 13th Sept	↓	PKR (2,386) Billion	PKR 877 Billion
National CPI (Base Year 2015-16)	August	↓	3.0%	9.6%
FBR Tax Collection	Jul-Aug	↑	PKR 1,635 Billion	PKR 1,445 Billion
Foreign Exchange Reserves with SBP	As of 19th Sept	↑	$14.37 Billion	$9.53 Billion
Foreign Direct Investments	Jul-Aug	↑	$364 Million	$467 Million
Trade Deficit in Goods	Jul-Aug	↑	US$ (6,042) Million	US$ (4,661) Million
Current Account Deficit	Jul-Aug	↓	$(624) Million	$(430) Million

1. VALUATION OF THE PAKISTANI RUPEE PARITY

According to the valuation of TA, the value of PKR is 254.0/USD after adjusting the Current Account Balance ("CAB") of Jul-Aug period of the FY26 (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 281.4/USD, as the present value of PKR currency would have been 254.0/USD.

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 Jul-Aug period 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	5.48
Actual (PKR/USD)	244.26	253.68	254.02
SBP/Govt. Proj. (PKR/USD)	283.76	281.86	281.42

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

2. CURRENT ACCOUNT ("CA"):

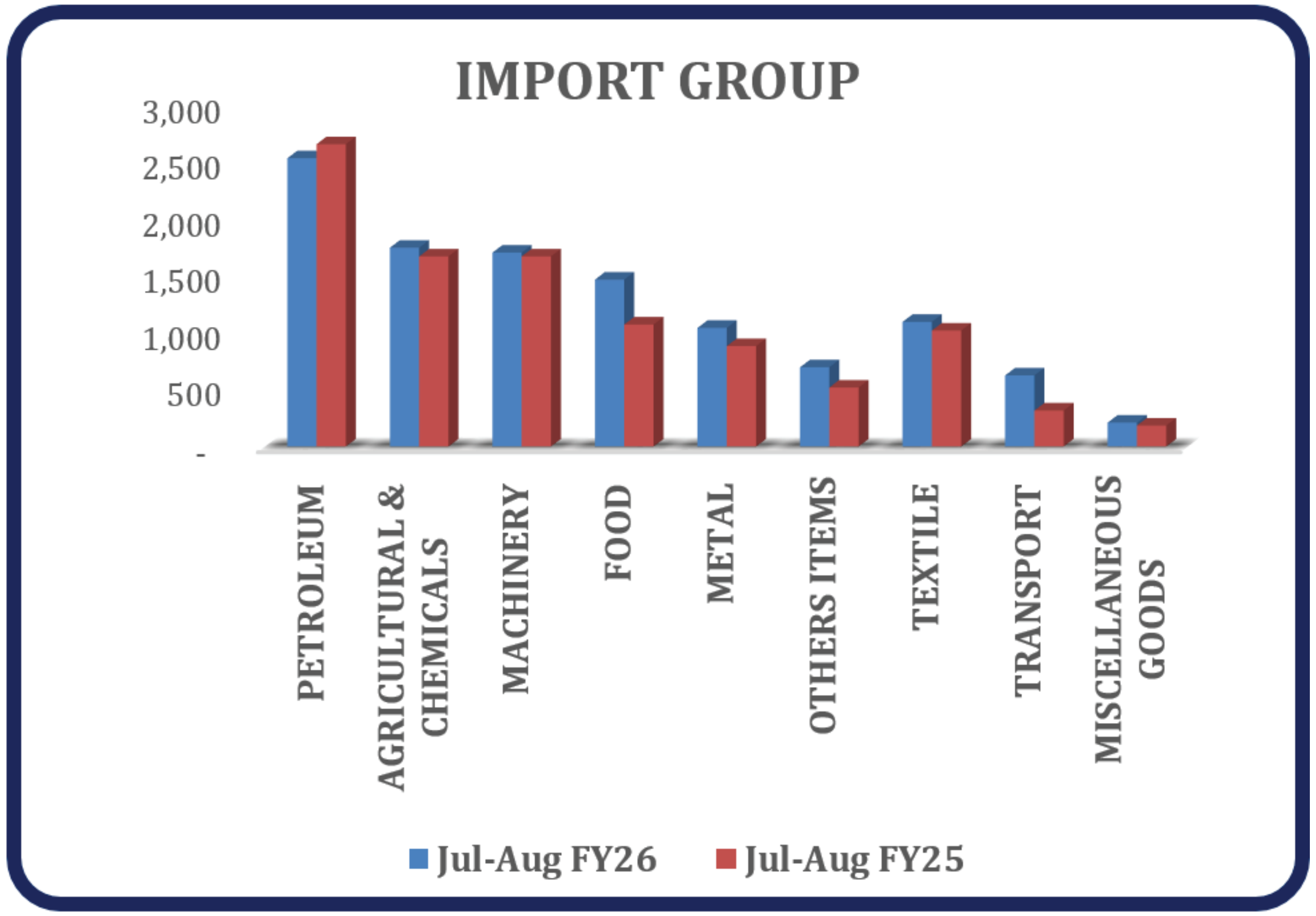
The CA stood at a $245 million deficit in the month of August 2025, a decrease of 35.0% from a deficit of $379 million in the previous month of July 2025. On a Year on Year ("Y-o-Y") basis, the CA has declined by almost 200 times compared to previous FY25's same month.

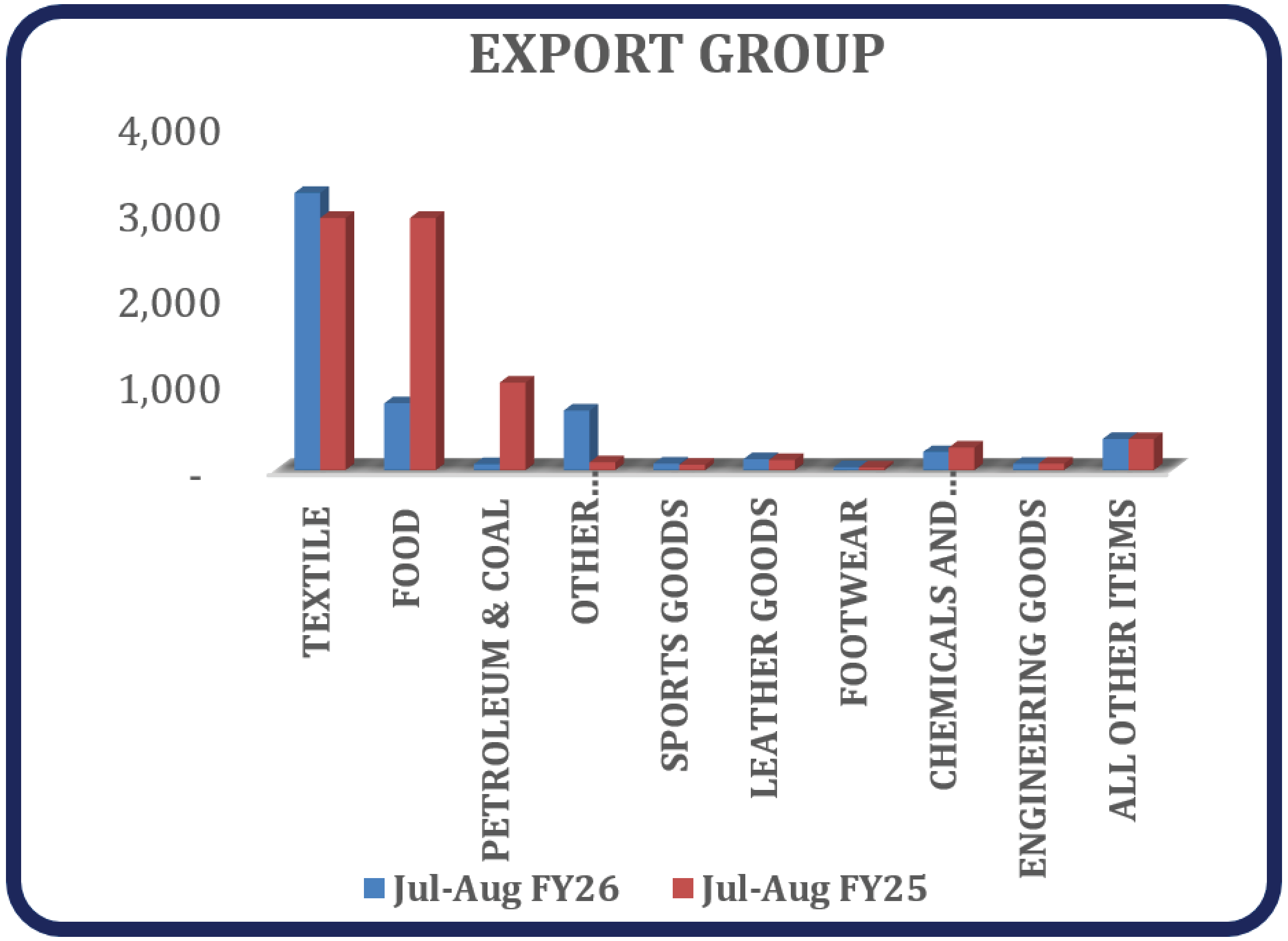
CA FLOWS	Aug-25	Jul-25	Aug-24	MoM (%)	YoY (%)
Exports of goods FOB	**2,508**	**2,780**	**2,437**	**(9.8)**	**2.9**
Imports of goods FOB	**4,984**	**5,417**	**4,709**	**(8.0)**	**5.8**
i. Balance of Trade in Goods	**(2,476)**	**(2,637)**	**(2,272)**	**(6.1)**	**9.0**
Exports of Services	671	724	620	(7.3)	8.2
Imports of Services	1,108	995	978	11.4	13.3
ii. Balance of Trade in Services	**(680)**	**(811)**	**(562)**	**(16.2)**	**21.0**
Primary Income Credit	91	93	82	(2.2)	11.0
Primary Income Debit	771	904	644	(14.7)	19.7
iii. Balance in Primary Income	**(812)**	**(794)**	**(802)**	**2.3**	**1.2**
Secondary Income Credit	3,409	3,419	3,144	(0.3)	8.4
Worker Remittances	3,138	3,214	2,943	(2.4)	6.6
Secondary Income Debit	44	79	34	(22.8)	79.4
(iv) Balance on secondary income	**3,348**	**3,340**	**3,110**	**0.2**	**7.7**
Current Account Balance (i + ii + iii + iv)	**(245)**	**(379)**	**(82)**	**(35.4)**	**198.8**

(Source: SBP)

3.BALANCE OF TRADE IN GOODS

According to the PBS, Pakistan's trade deficit has increased by a huge margin of 31.4% to $2.89 billion in Aug of FY26, compared to $2.20 billion in the same month of FY25. Moreover, the exports went down by 12.5% to $2.41 billion during the second month of FY26 compared to $2.76 billion in the same month of last FY25. Further, the imports increased by 7.0% to $5.31 billion in Aug of FY25 compared to $4.97 billion in the same period of FY25. Additionally, on a M-o-M basis, exports decreased by almost 10.0% compared to $2.69 billion in July 2025. Furthermore, the country's trade deficit declined by 8.0% compared to $3.15 billion in July 2025 on a M-o-M basis.





4. LARGE SCALE MANUFACTURING

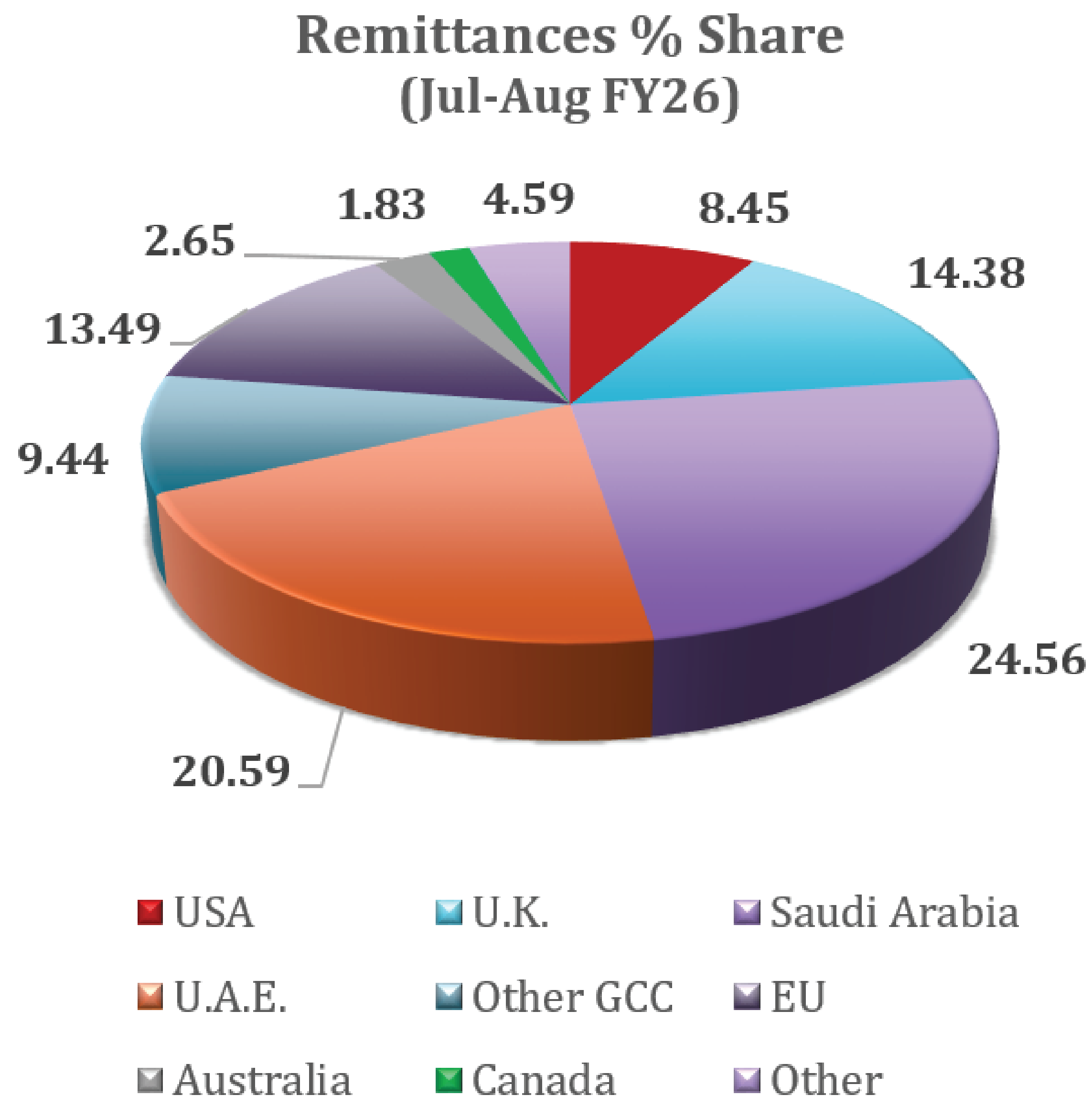
According to the PBS, Pakistan's LSM sector showed an expansion of almost 9.0% in July 2025 on a Y-o-Y basis vs. July 2024. Likewise, on a M-o-M basis, the overall output growth rose by 2.6%, compared to the month of June 2025. Additionally, Sector-wise, important groups such as cotton yarn, cotton cloth, garment sector, and cement industry showed a growth by 1.7%, 0.4%, 24.8%, and 18.75% respectively, in the month of first month of FY26.

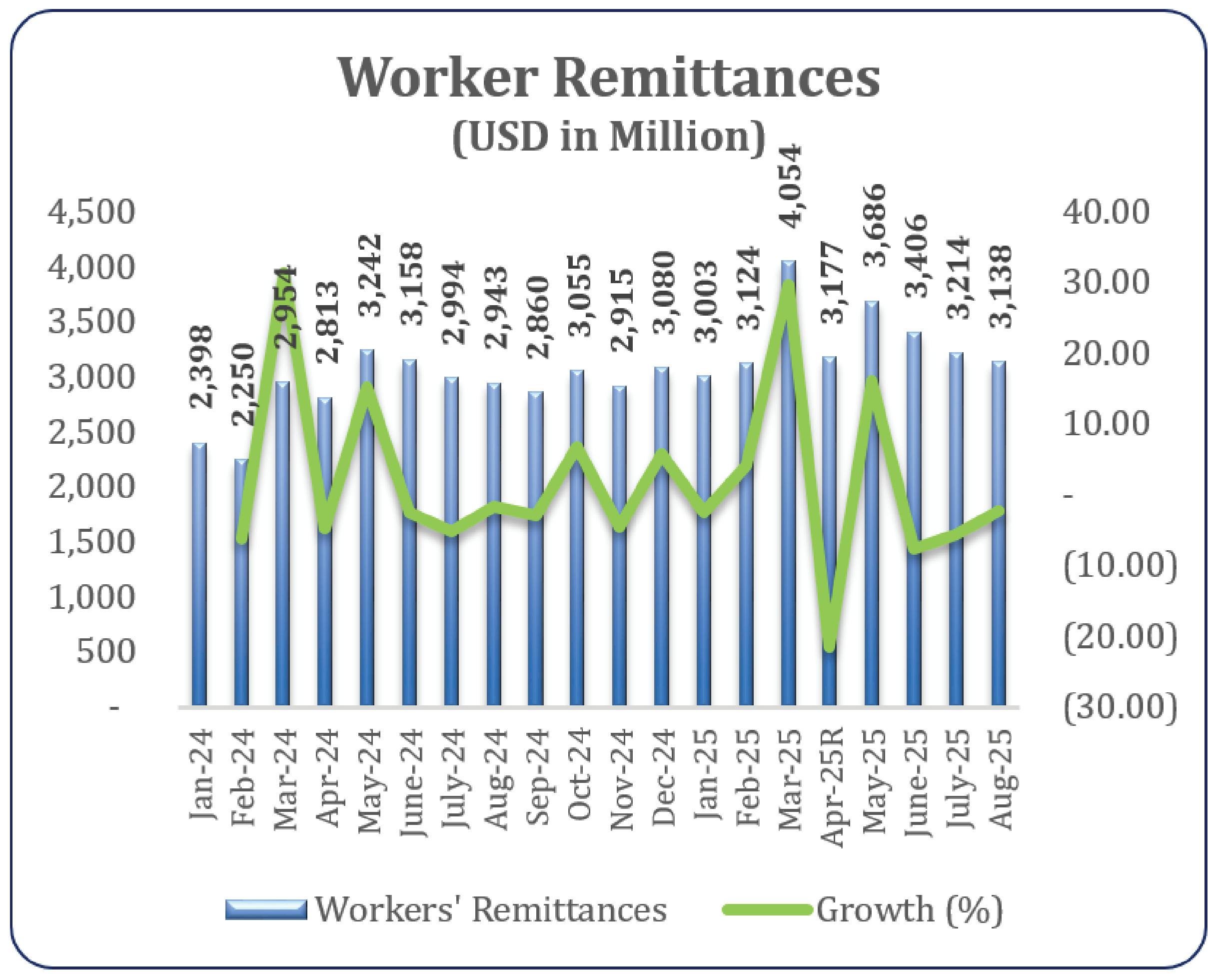
LSM (%)	Weight	July-25	June-24	YoY (%)
Food	10.69	6.63	3.55	0.89
Tobacco	2.07	0.07	90.15	0.00
Textile	18.16	0.04	8.45	0.01
Wearing Apparel	6.08	24.79	9.59	3.80
Leather Products	1.23	0.29	2.89	0.00
Paper & Board	1.63	15.01	11.10	0.36
Coke & Petroleum Products	6.66	13.18	5.57	1.01
Pharmaceuticals	5.15	1.09	(3.40)	0.07
Rubber Products	0.24	17.29	(16.02)	0.04
Non Metallic Mineral Products	5.01	16.52	(10.91)	0.96
Computer, electronics and Optical products	0.03	0.96	1.09	0.00
Electrical Equipment	2.05	4.39	(19.18)	0.12
Automobiles	3.10	57.80	68.63	1.33
Other transport Equipment	0.69	45.80	16.29	0.21
Furniture	0.51	86.79	(55.83)	0.91
Other Manufacturing (Football)	0.32	33.73	10.67	0.15
Beverages	3.84	(6.19)	4.60	(0.39)
Wood Products	0.18	(2.24)	8.41	(0.00)
Chemicals	6.48	(2.64)	(0.06)	(0.24)
Iron & Steel Products	3.45	(3.69)	(12.70)	(0.17)
Fabricated Metal	0.42	(3.55)	(15.60)	(0.01)
Machinery and Equipment	0.39	(22.77)	(10.86)	(0.08)
LSM Growth for July 2025 (Y/Y)				**8.99%**
LSM Growth of July 2025 vs. June 2025 (M/M)				**2.60%**

(Source: PBS)

5. WORKER'S REMITTANCES

As per the SBP, Pakistan received a monthly remittance inflow of $3.14 billion in August 2025, recording an decrease of 2.38% compared to $3.21 billion in July 2025 on a M-o-M basis. Similarly, on a Y-o-Y comparison, the remittance inflows went up by 6.63% when compared to $2.94 billion received a year ago in the same month.



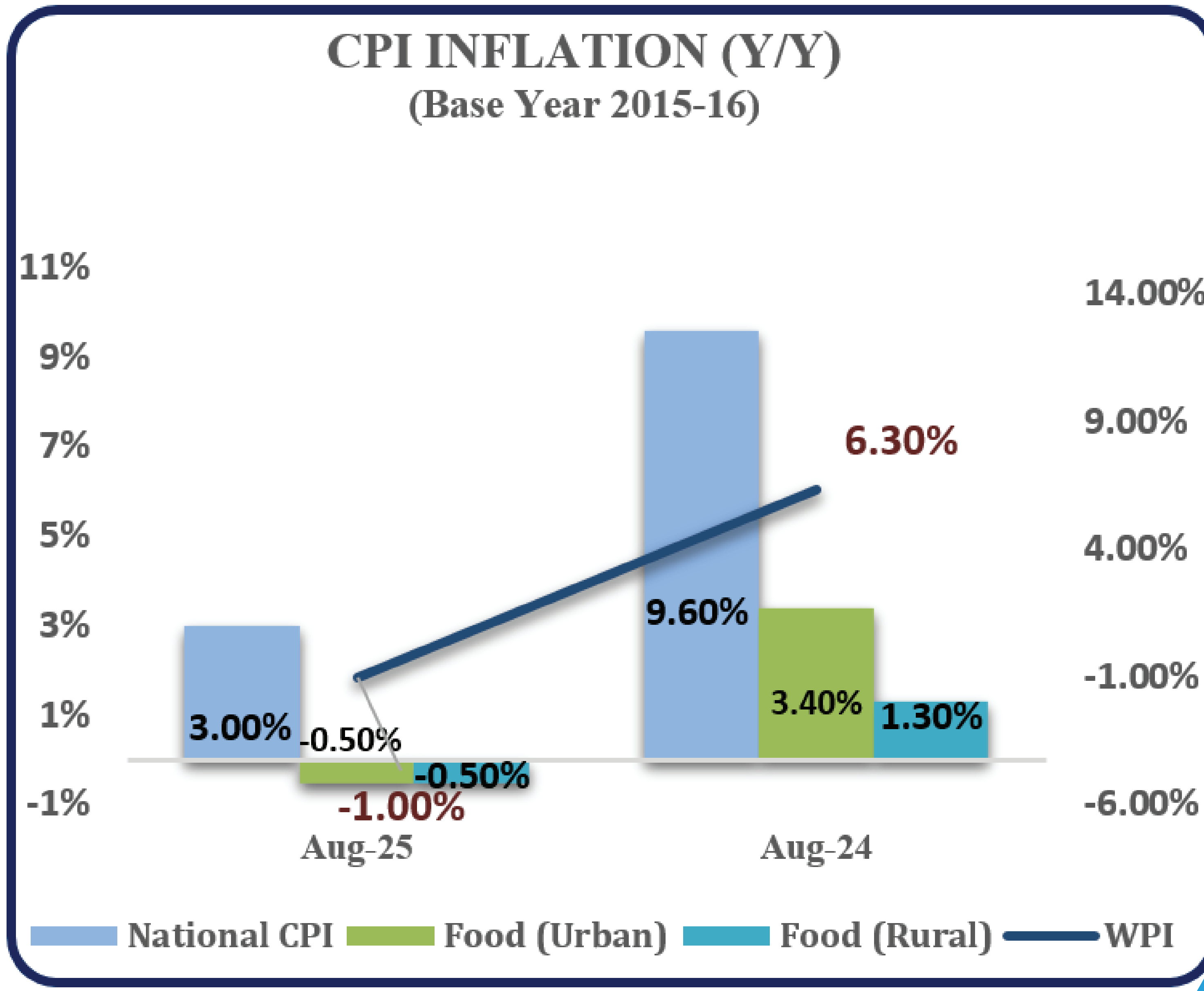


6. CONSUMER PRICE INDEX INFLATION

According to the PBS, the monthly inflation rate in Aug 2025 is reported at 3.0% on a Y-o-Y basis. The decline in inflation is due to perishable food items saw decrease of 12.1% in Aug 2025. Additionally, the food inflation rates in both the urban and rural areas slow down to deflation of 0.5%, respectively. The wholesale price index ("WPI") stood at -1.0% on a Y-o-Y basis in FY26, which was recorded 6.3% in the same month of FY25. On a monthly basis, the National CPI has recorded a deflation of 0.6%. Similarly, the Food inflation rate decline by -1.3% and -0.7% for the urban areas and rural areas, respectively. In July 2025, Core inflation, which is calculated by excluding energy and food items, rose by 6.9% and 7.8% in urban and rural areas on a Y-o-Y basis, respectively.

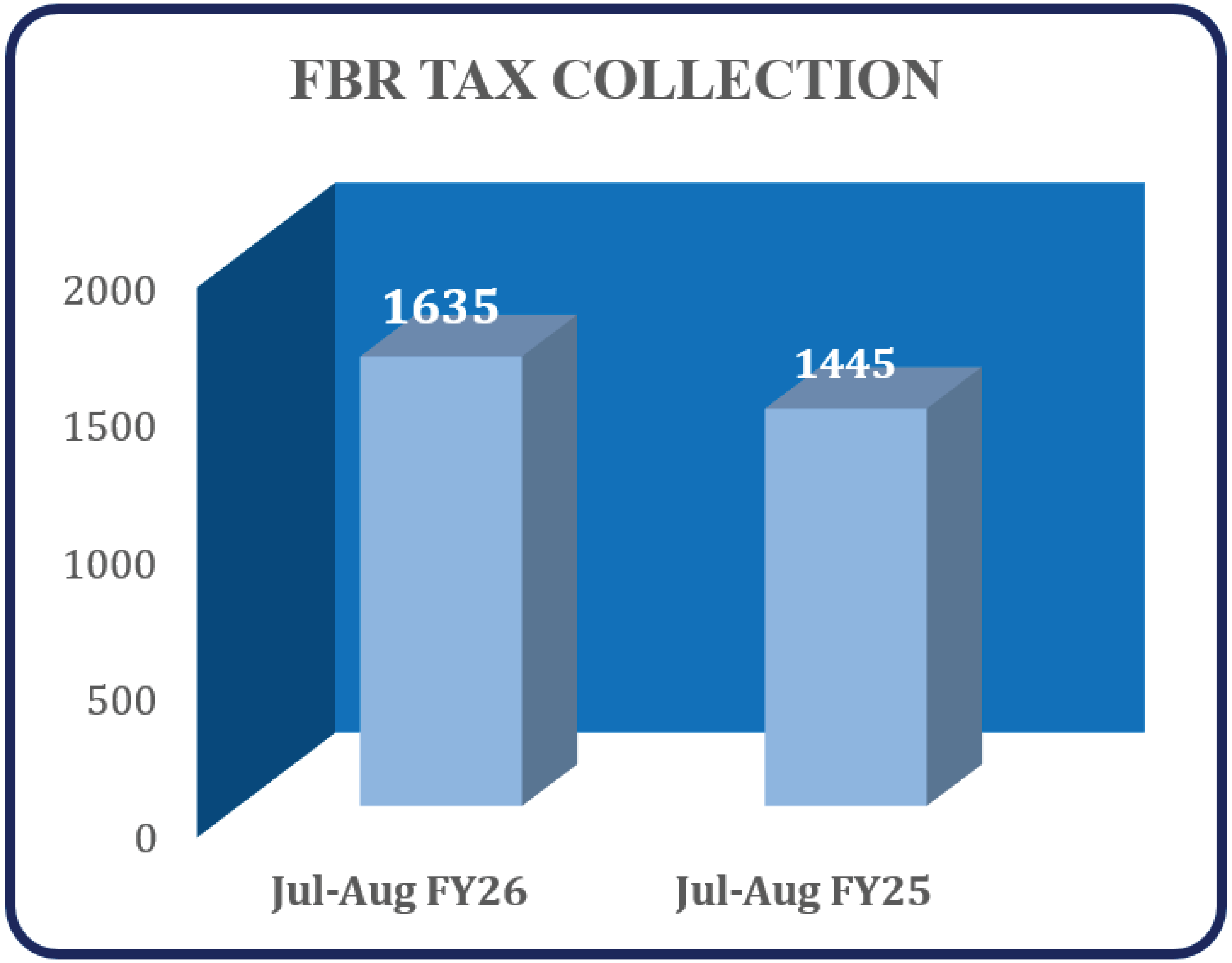
Group	Weight (%)	% Change over	
		July-25	Aug-24
Food	34.58	(1.23)	(1.79)
Non-perishable	29.60	0.57	1.95
Perishable	4.99	(12.07)	(21.56)
Utility	23.63	(1.36)	3.61
Health	2.79	0.71	10.60
Transport	5.91	(0.97)	2.49
Education	3.79	1.28	10.94
Restaurants & Hotels	6.92	0.19	7.15

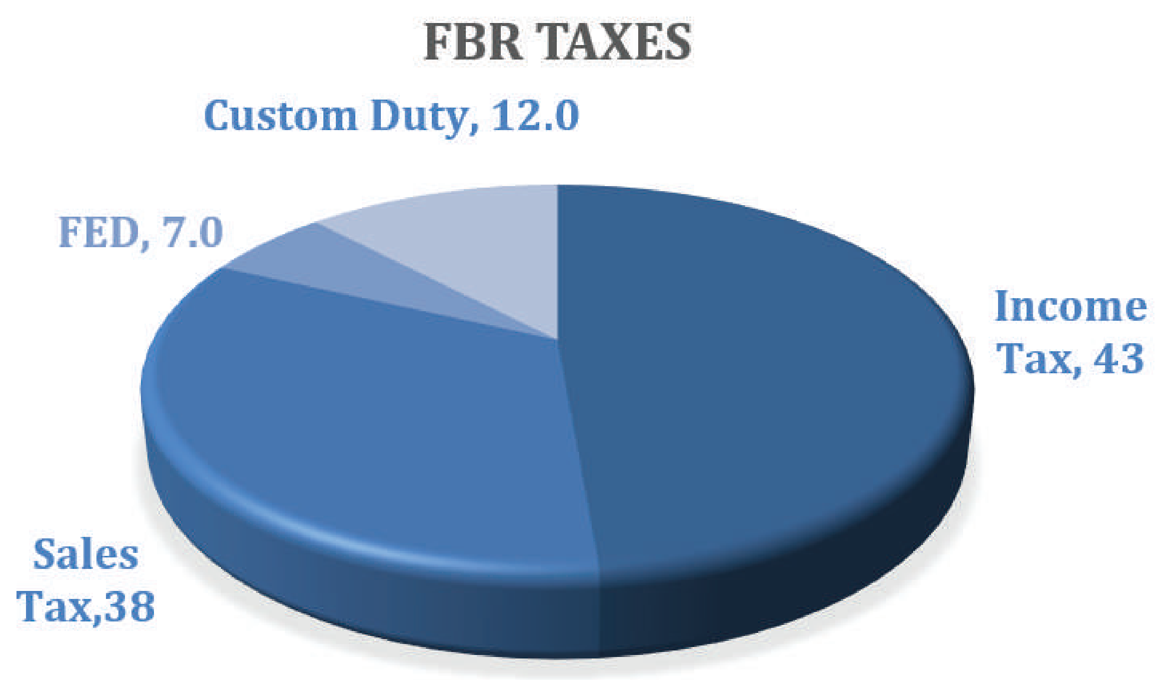
(Source: PBS)



7. FBR TAX REVENUE COLLECTION

As per the data published by the FBR, the FBR collected PKR 1,635 billion worth of tax revenue in the starting two months of Jul-Aug of FY26 and failed to achieve its target of PKR 1.7tr. The Government has fixed a revenue target of Rs14.13 trillion in the ongoing 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 misses revenue target by Rs65b'.

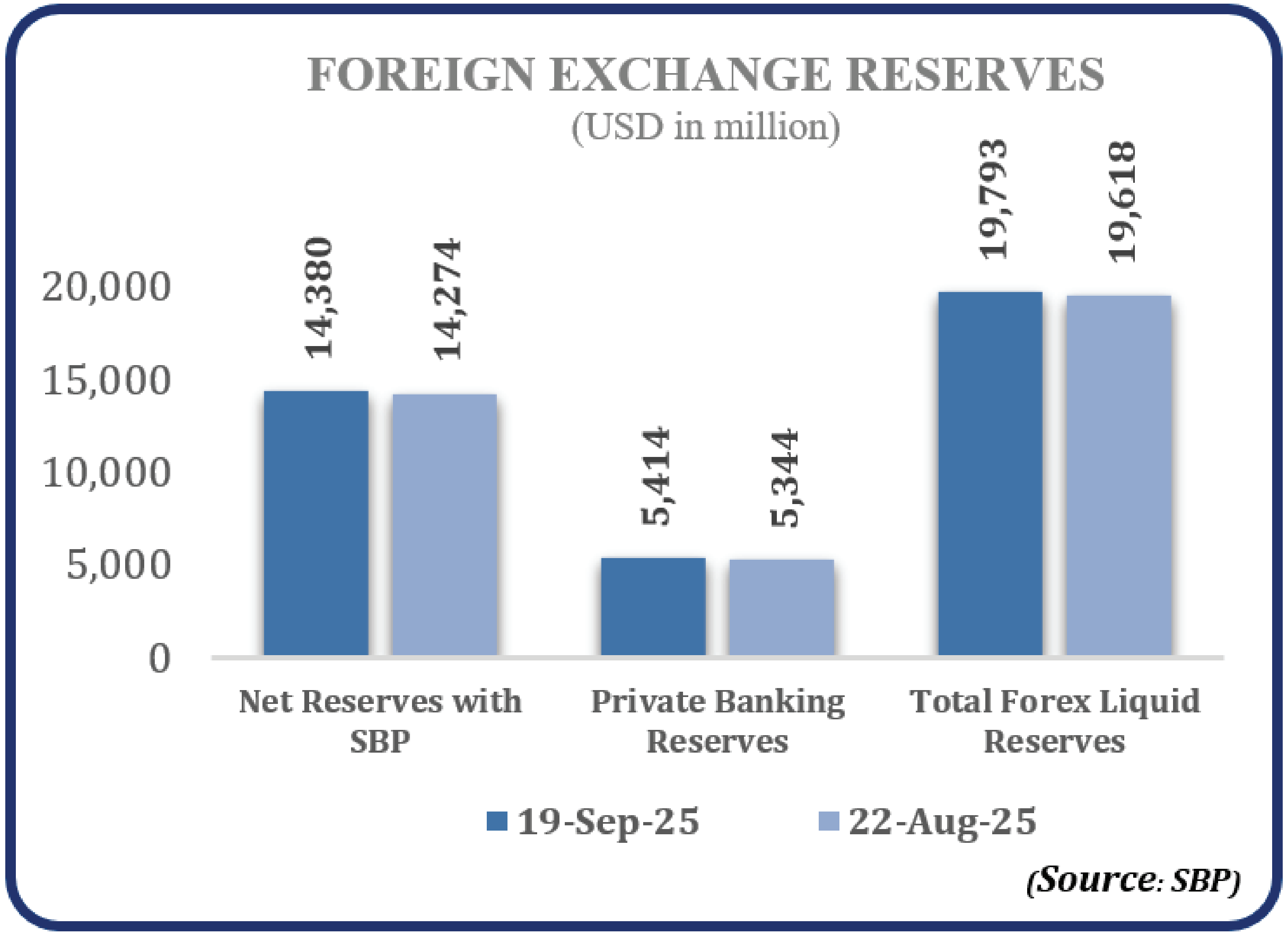




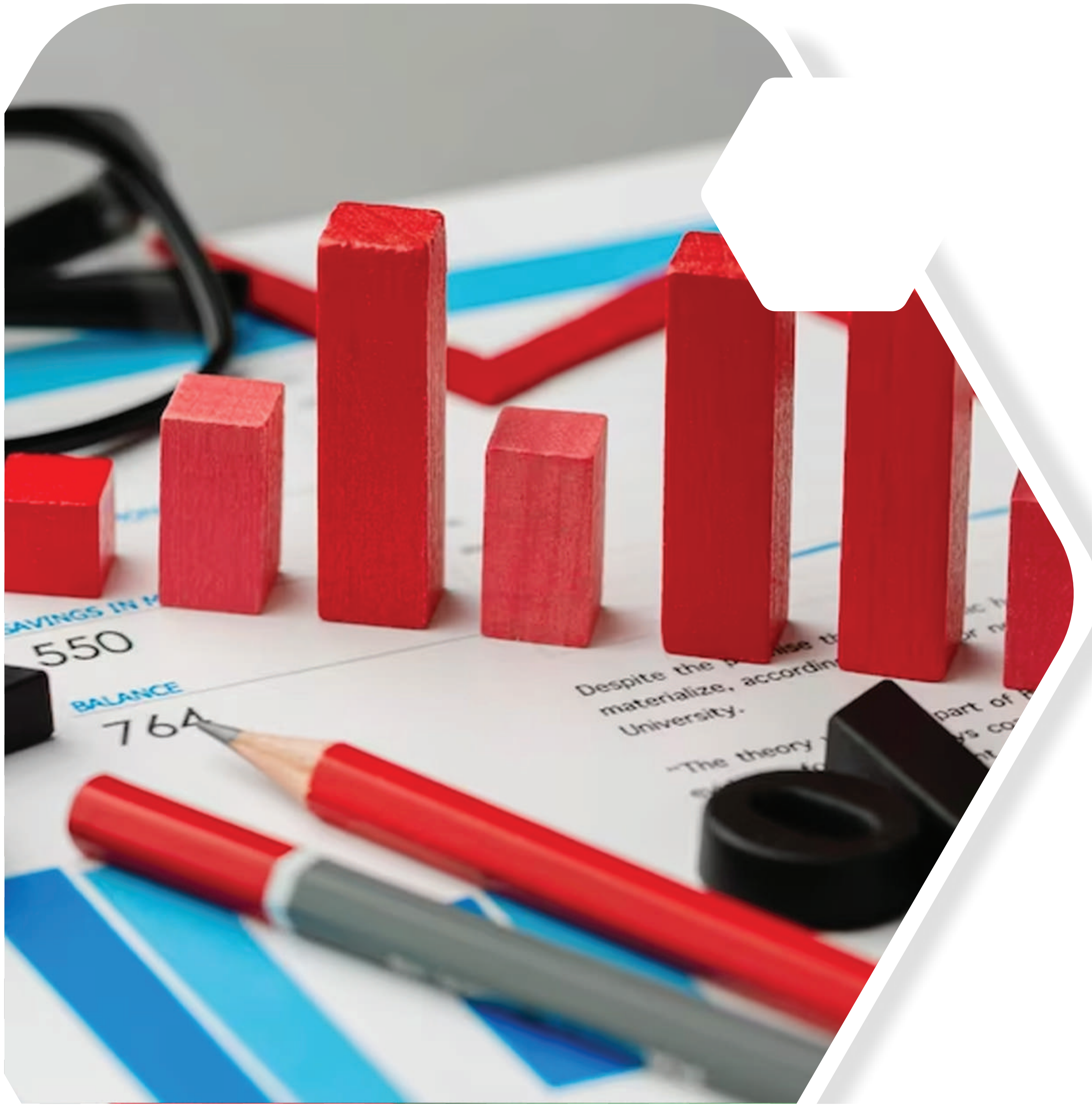
(Source: Express Tribune)

8. FOREIGN EXCHANGE RESERVES

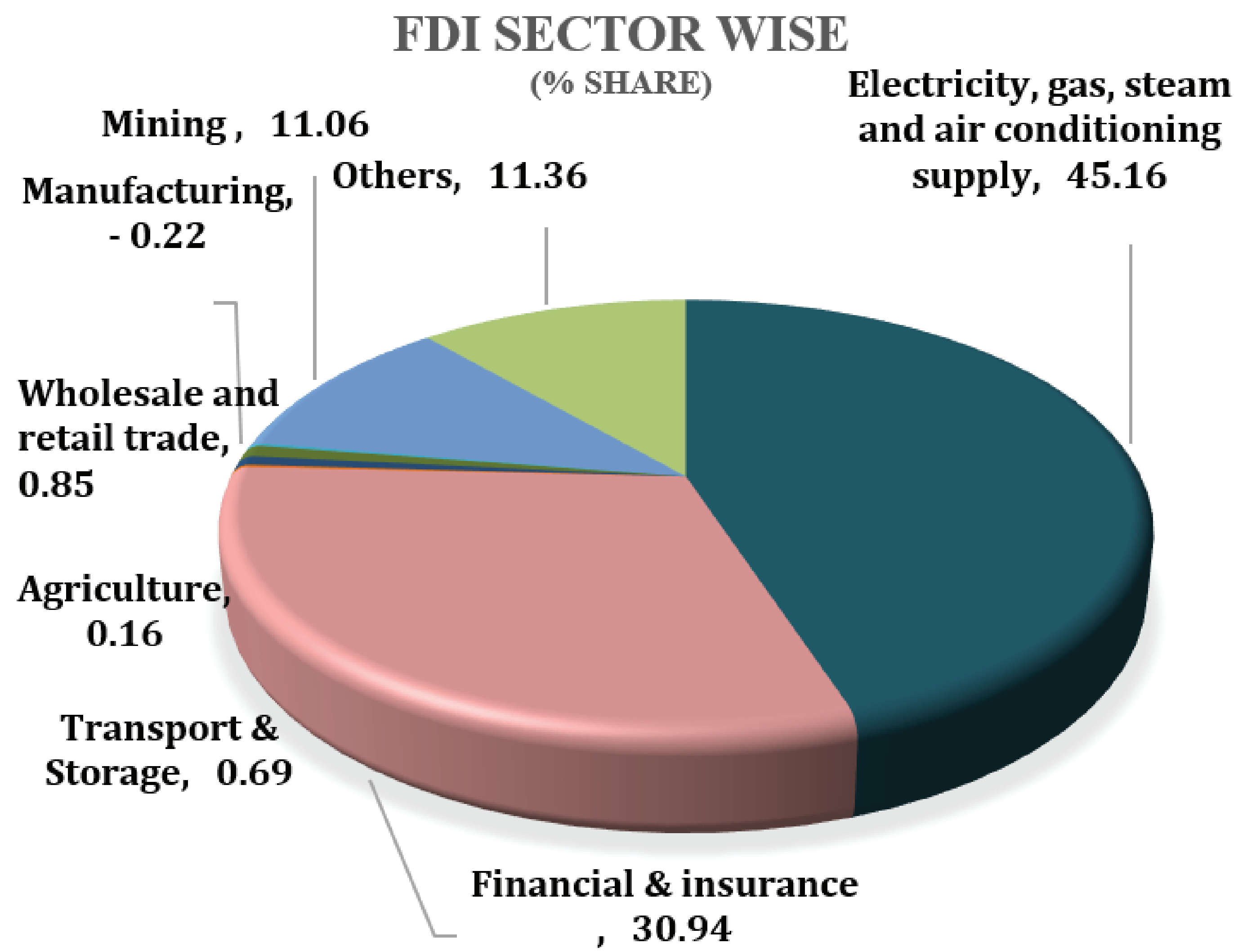
The Net foreign exchange reserves of the SBP stood at $14.37 billion as of Aug 19th, 2025, representing a increase of 0.7%, or $105 million, compared to previous month reserves of $14.36 billion on Aug 22nd, 2025.



9. FOREIGN DIRECT INVESTMENT



Pakistan's net FDI has plunged by 22.0% or $103 million to $364 million provisionally during the Jul-Aug period of FY26, as compared to $467 million during the same period of FY25. Whereas, the total Net Foreign Investment plunged by 51.0% or $292 million to $278 million on a Y-o-Y basis in Jul-Aug period of FY26 as against the amount of $570 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 Jul-Aug period of FY26.



10.DEBT PROFILE

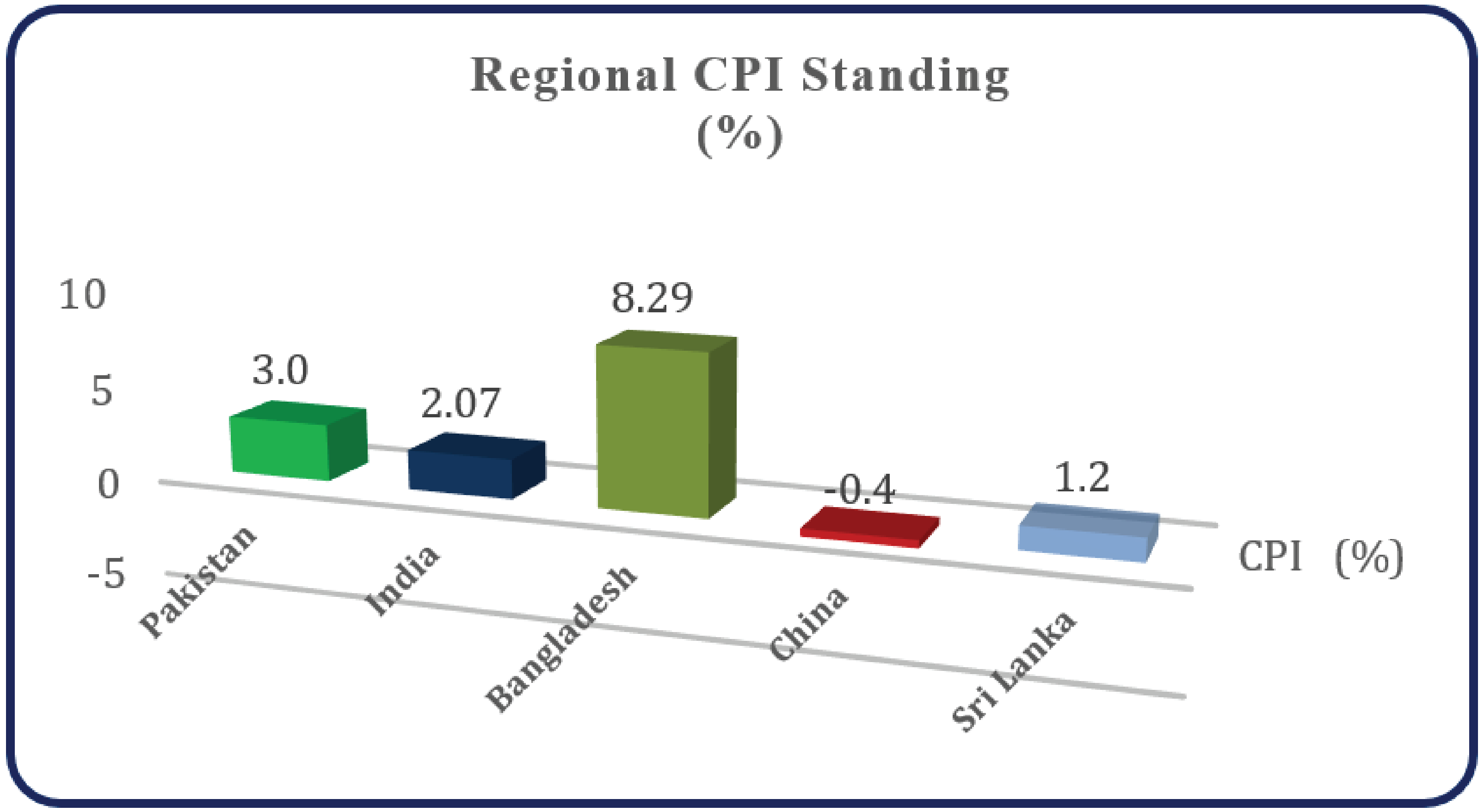
The total central Government debt, comprising of the Government's domestic debt and external debt, has surged to PKR 78.2 trillion in July 2025, marking a substantial increase of 12.3% compared to the same month of the previous Fiscal Year. These figures underscore the significant escalation in the country's debt burden, signaling challenges in debt management and fiscal sustainability.

Pakistan's Total Debt & Liabilities			
(PKR in billion)	July-25	July-24	% change
Domestic Debt	54,988	47,716	15.24
% of GDP	**47.94**	**45.38**	
External Debt	23,250	21,907	6.13
% of GDP	**20.27**	**20.84**	
Total Debt	78,238	69,623	12.37
% of GDP	**68.21**	**66.22**	
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 base effect impact has eliminated, and the inflation rate has declined to 3.0% during August 2025. Further, the inflation in Bangladesh has been steady at 8.3%. In Sri Lanka, the CPI has recorded inflation for the first time in six months and recorded 1.2%, as the rate of inflation decreased from -0.3% when compared to last month, influenced by the slight increase in aggregate demand in the Sri Lankan economy. Meanwhile, India's inflation has rose up to 2.1% from 1.6%, primarily driven by rising prices of food articles and food products. Additionally, China has experienced a deflation in August 2025 which is recorded at negative of 0.4.



(Source: Trading Economics)

Country	Local Currency Units per USD (As of 26th Sept)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	281.4	(2.08)
India	88.7	(6.07)
Bangladesh	121.7	(1.89)
China	7.1	(2.17)
Sri Lanka	302.5	(0.90)

(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 August 2025, from 0.3% in April 2025 to 3.0% in August 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 4.0% in recent months, the SBP has kept the policy rate unchanged for three 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 254.0 would strengthen stability. Such adjustments may even create room for deflation, allowing further monetary easing and faster growth.

DISCLAIMER