



Pakonomics

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HIGHLIGHTS

The International Monetary Fund (“IMF”) announced on Wednesday that it has reached a staff-level agreement with Pakistan for the release of the next loan tranche worth \$1.2 billion. The development comes after Islamabad agreed to adhere to the pre-flood budget targets and committed to publishing the governance report ahead of the IMF Executive Board’s upcoming meeting.

According to the valuation of Tola Associates (“TA”), the value of PKR is 253.5/USD after incorporating the Current Account Deficit (“CAD”) of the Jul-Sept period of FY26.

In the inter-bank market, the value of the national currency stands at PKR 281.0/USD as of 24th October 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 of Statistics (“PBS”), Pakistan’s LSM sector showed an expansion of almost 0.54% in Aug 2025 on a Year-on-Year (“Y-o-Y”) basis vs. Aug 2024.

According to the State Bank of Pakistan (“SBP”), Pakistan has received a monthly remittance inflow of \$3.18 billion in September 2025, recording an increase of 1.6% compared to \$3.14 billion in Aug 2025 on a M-o-M basis.

The Net foreign currency reserves held by the SBP stood at \$14.5 billion as of 17th Oct 2025.

The Currency in circulation stock from 1st July 2025 to 10th Oct 2025 has expanded by PKR 158 billion, compared to a contraction of PKR 34 billion during the same period last year.



According to the PBS, the pace of Consumer Price Index (“CPI”) inflation has clocked at 5.6% on a Y-o-Y basis in September 2025 vs. 6.9% same month last year.

Pakistan’s net FDI has plunged by 34.2% or \$296 million to \$569 million provisionally during the Jul-Sept period of FY26, as compared to \$865 million during the same period of FY25.

The total Net Foreign Investment plunged by 1,646 times or \$1.65 billion to -\$64.5 million on a Y-o-Y basis in Jul-Sept period of FY26 as against the amount of \$997 million in the same period of FY25

Pakistan reported a CAD of \$594 million during the Jul-Sept Period of FY26, compared to a Current Account Deficit of \$502 million in the same period of FY25.



ECONOMY AT A GLANCE

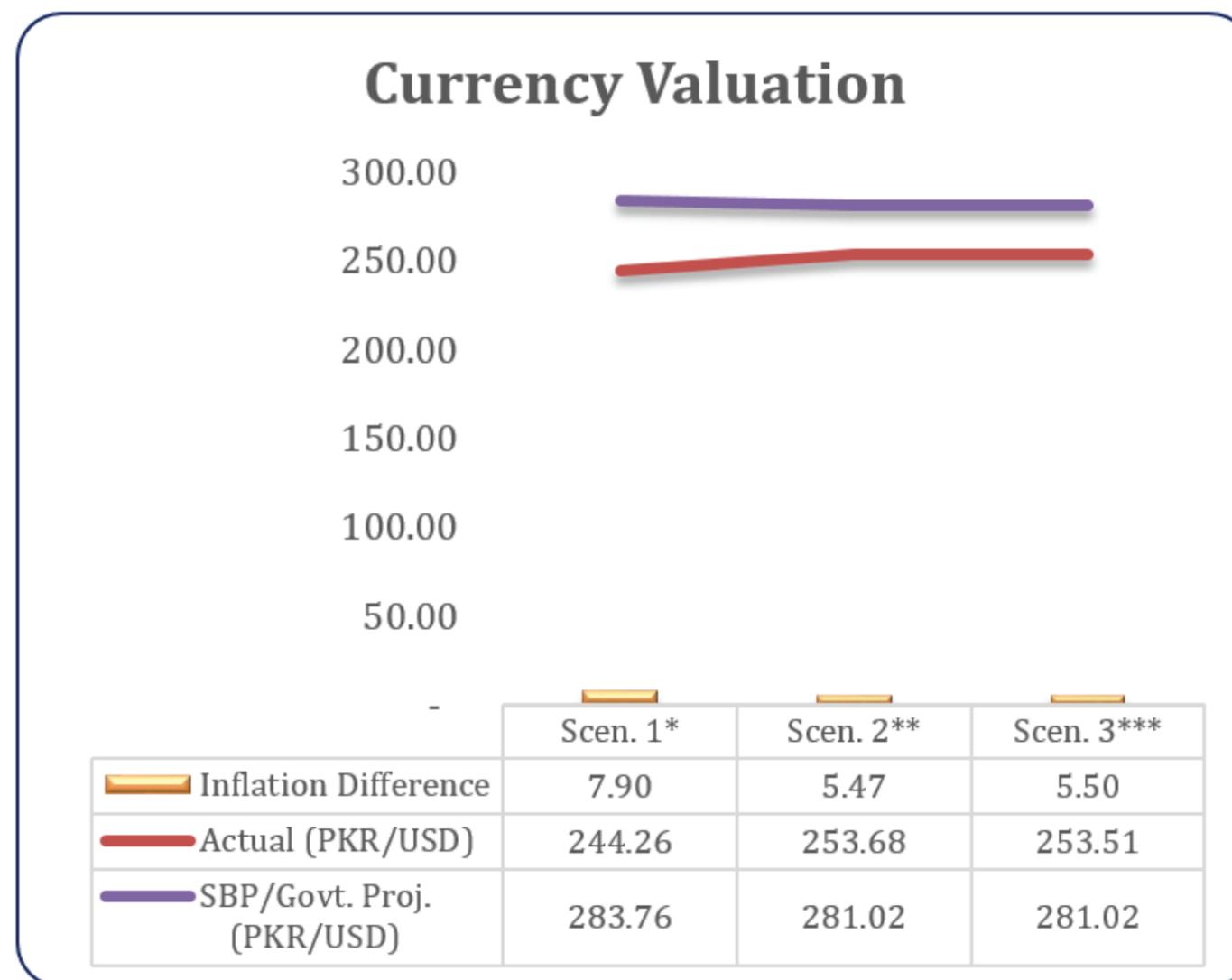


Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	Aug	↑	0.54 %	(2.56) %
Central Government Debt	July	↑	PKR 78,238 Billion	PKR 69,623 Billion
Credit to Private Sector	Jul – 10th Oct	↑	PKR 122 Billion	PKR (261) Billion
Worker's Remittances	September	↑	US \$3,184 Million	US \$2,860 Million
Broad Money (M2)	Jul – 10th Oct	↓	PKR (1,207) Billion	PKR (646) Billion
Net Government Sector borrowing	Jul – 10th Oct	↓	PKR (2,047) Billion	PKR (1,251) Billion
National CPI (Base Year 2015-16)	September	↓	5.6%	6.9%
FBR Tax Collection	Jul-Sept	↑	PKR 2,884 Billion	PKR 2,558 Billion
Foreign Exchange Reserves with SBP	As of 19th Oct	↑	\$14.5 Billion	\$11.0 Billion
Foreign Direct Investments	Jul-Sept	↓	\$569 Million	\$865 Million
Trade Deficit in Goods	Jul-Sept	↑	US\$ (9,430) Million	US\$ (7,048) Million
Current Account Deficit	Jul-Sept	↓	\$(594) Million	\$(502) Million

1. VALUATION OF THE PAKISTANI RUPEE PARITY

According to the valuation of TA, the value of PKR is 253.5/USD after adjusting the CAD of Jul-Sept 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 281.0/USD, as the present value of PKR currency would have been 253.5/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 the GDP for FY26; and (c) The last scenario calculates the PKR value based on the adjusted CA projection of the Government adjusted for the Jul-Sept period of FY26). A 10-rupee depreciation results in a 2% increase in inflation, and vice versa.**



*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-Sept 2025 cumulated in the Projection (adjusted monthly basis)

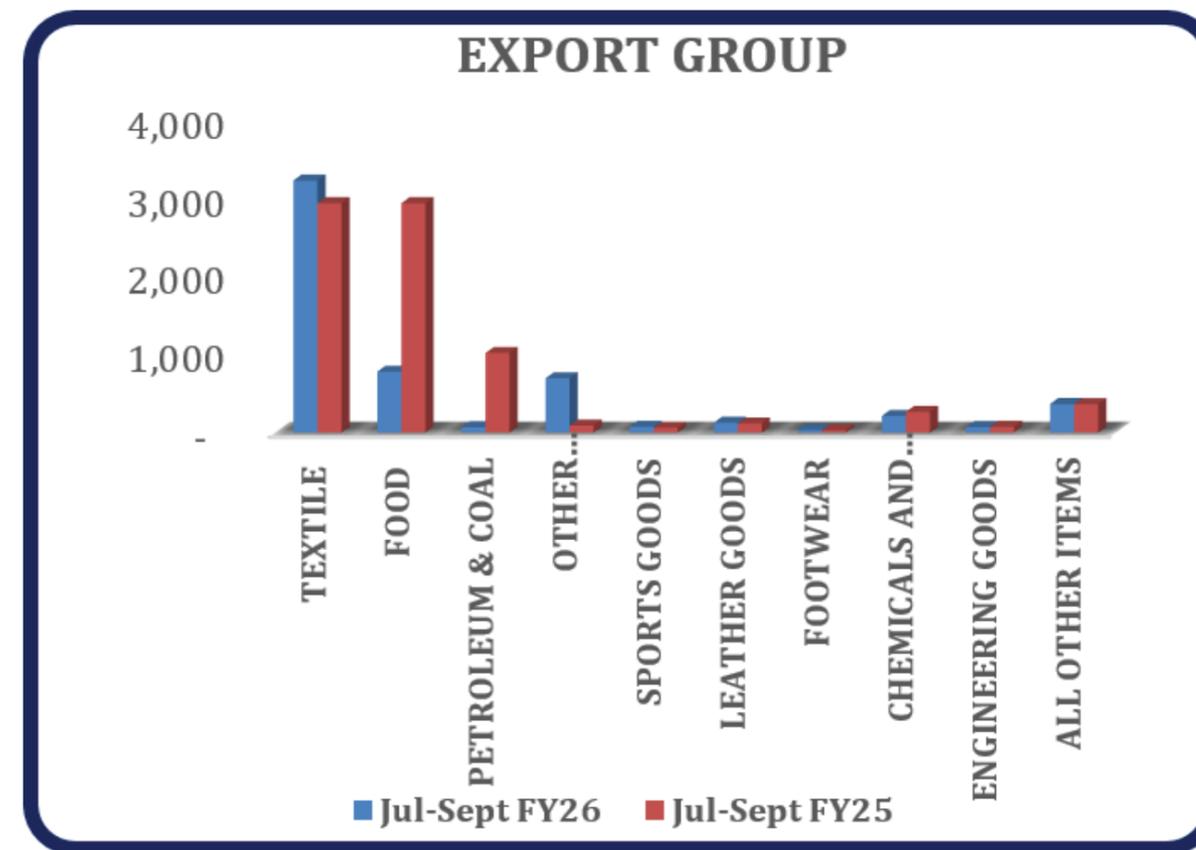
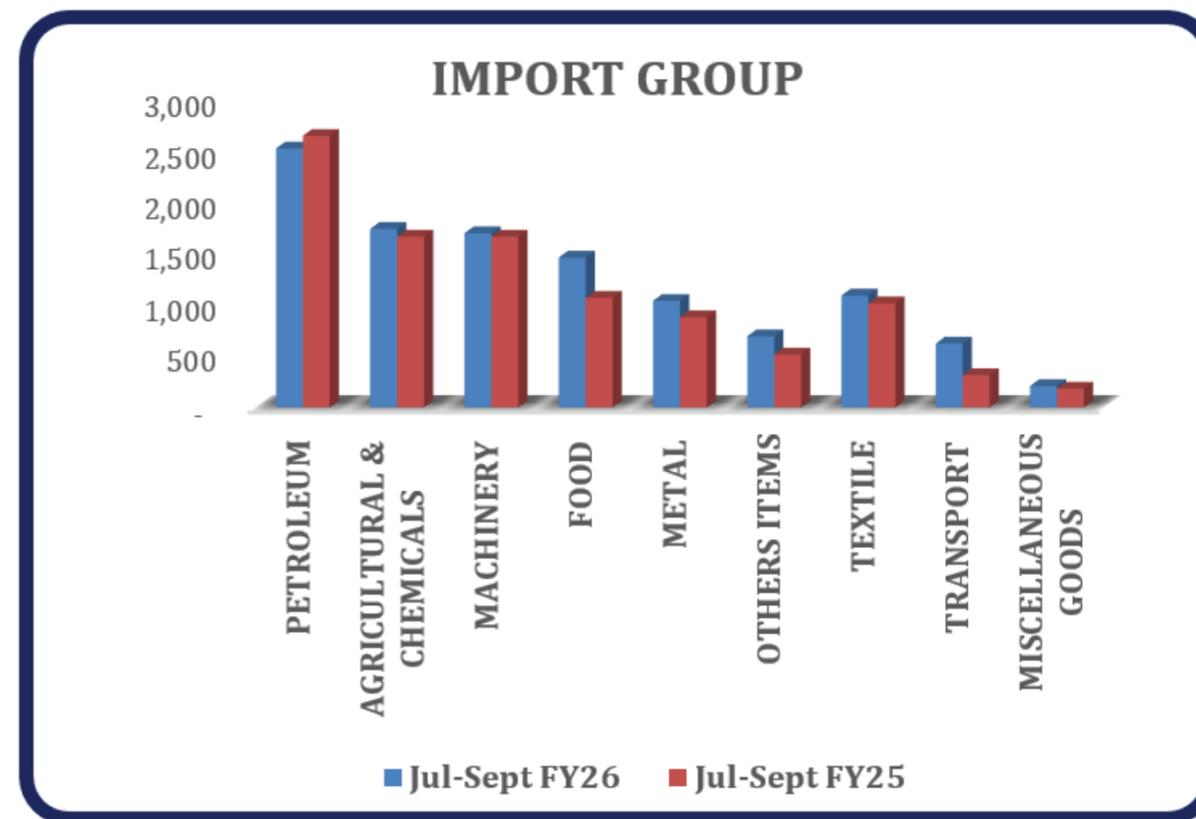
2. CURRENT ACCOUNT ("CA"):

The CA stood at a \$110 million surplus in the month of September 2025, for the first time in this FY26; which is a decrease of 134 times from a deficit of \$325 million in the previous month of August 2025. On a Year on Year ("Y-o-Y") basis, the CAD has declined by 311 times compared to previous FY25's same month.

CA FLOWS	Sept-25	Aug-25	Sept-24	MoM (%)	YoY (%)
Exports of goods FOB	2,630	2,496	2,616	5.4	0.5
Imports of goods FOB	5,023	4,998	4,697	0.5	6.9
(i) Balance on trade in goods	(2,393)	(2,502)	(2,081)	(4.4)	15.0
Exports of services	797	677	662	17.7	20.4
Imports of services	995	1,139	964	(12.6)	3.2
(ii) Balance on trade in services	(198)	(462)	(302)	(57.1)	(34.4)
Primary Income Credit	119	86	97	38.4	22.7
Primary Income Debit	790	787	836	0.4	(5.5)
(iii) Balance in Primary Income	(671)	(701)	(739)	(4.3)	(9.2)
Secondary Income Credit	3,445	3,401	3,118	1.3	9.1
Worker Remittances	3,184	3,138	2,860	1.5	9.7
Secondary Income Debit	73	61	48	19.7	27.1
(iv) Balance on secondary income	3,372	3,340	3,070	1.0	8.8
Current Account Surplus/ (Deficit) "i + ii + iii + iv"	110	(325)	(52)	(133.8)	(311.5)

3. BALANCE OF TRADE IN GOODS

According to the PBS, Pakistan's trade deficit has increased by a huge margin of 48.6% to \$3.40 billion in Sept of FY26, compared to \$2.29 billion in the same month of FY25. Moreover, the exports went down by 11.9% to \$2.50 billion during the second month of FY26 compared to \$2.84 billion in the same month of last FY25. Further, the imports increased by 15.2% to \$5.90 billion in Sept of FY25 compared to \$5.14 billion in the same period of FY25. Additionally, on a M-o-M basis, exports increased by almost 3.5% compared to \$2.42 billion in Aug 2025. Furthermore, the country's trade deficit increased by 18.5% compared to \$2.87 billion in Aug 2025 on a M-o-M basis.



4. LARGE SCALE MANUFACTURING

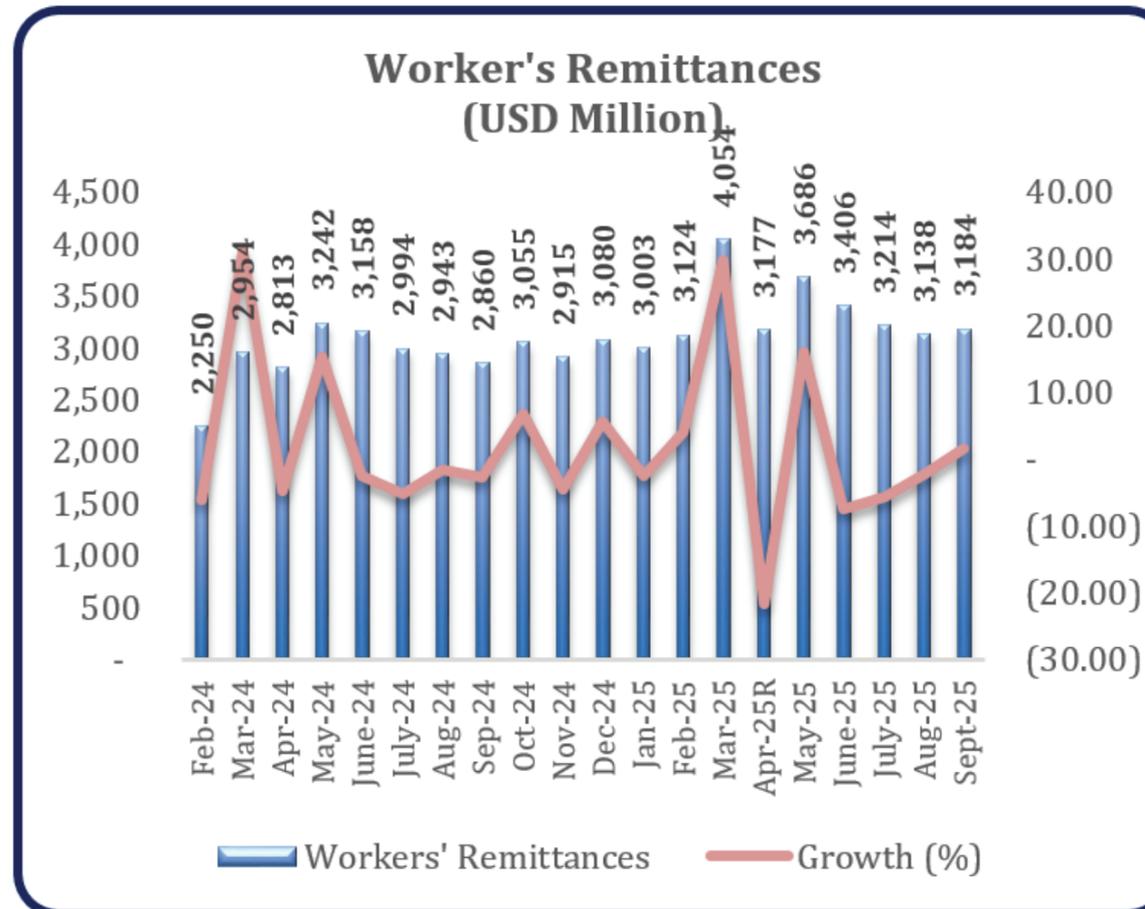
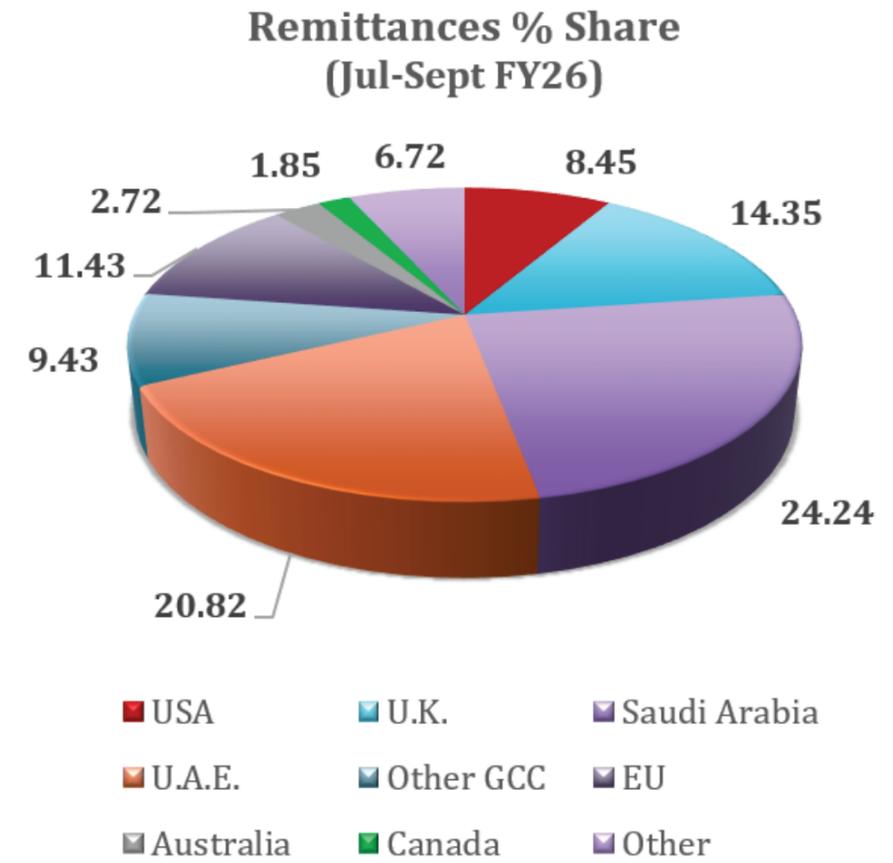
According to the PBS, Pakistan's LSM sector showed an expansion of 0.54% in Aug 2025 on a Y-o-Y basis vs. Aug 2024. In contrast, on a M-o-M basis, the overall output growth declined by 2.8%, compared to the month of July 2025. Additionally, Sector-wise, important groups such as cotton yarn, cotton cloth, garment sector, and cement industry showed a growth of 8.88%, 0.4%, 24.8%, and 18.75% respectively, in the month of first month of FY26.

LSM (%)	Weight	Aug-25	Aug-24	Jul-Aug FY26 (%)
Food	3.84	8.06	1.19	7.77
Tobacco	2.07	23.37	0.72	11.06
Wearing Apparel	6.08	(10.65)	18.69	4.92
Leather Products	1.23	4.50	(1.25)	2.01
Paper & Board	1.63	3.01	2.86	8.41
Rubber Products	0.24	21.77	1.82	24.90
Non Metallic Mineral Products	5.01	18.08	(26.55)	17.31
Computer, electronics and Optical products	0.03	2.38	(3.19)	1.67
Electrical Equipment	2.05	1.27	(18.19)	2.79
Automobiles	3.10	130.68	(10.00)	90.40
Other transport Equipment	0.69	40.87	28.75	44.47
Other Manufacturing (Football)	0.32	6.47	(4.13)	19.35
Beverages	3.84	7.23	(5.87)	(2.68)
Textile	18.16	(0.34)	(0.86)	(0.15)
Wood Products	0.18	(1.04)	1.41	(1.65)
Coke & Petroleum Products	6.66	(13.59)	8.40	(2.69)
Chemicals	6.48	(0.48)	1.50	(1.47)
Pharmaceuticals	5.15	(4.59)	(5.87)	(1.77)
Iron & Steel Products	3.45	(3.18)	(0.86)	(3.44)
Fabricated Metal	0.42	3.40	1.41	(0.19)
Machinery and Equipment	0.39	(45.39)	8.40	(33.84)
Furniture	0.51	(56.64)	1.50	(10.84)
LSM Growth for Aug 2025 (Y/Y)				0.54%
LSM Growth of Aug 2025 vs. July 2025 (M/M)				(2.75)%
LSM Jul-Aug FY26 (Cumulative)				4.44%



5. WORKER'S REMITTANCES

As per the SBP, Pakistan received a monthly remittance inflow of \$3.18 billion in September 2025, recording an increase of 1.6% compared to \$3.14 billion in Aug 2025 on a M-o-M basis. Similarly, on a Y-o-Y comparison, the remittance inflows went up by 11.3% when compared to \$2.86 billion received a year ago in the same month.

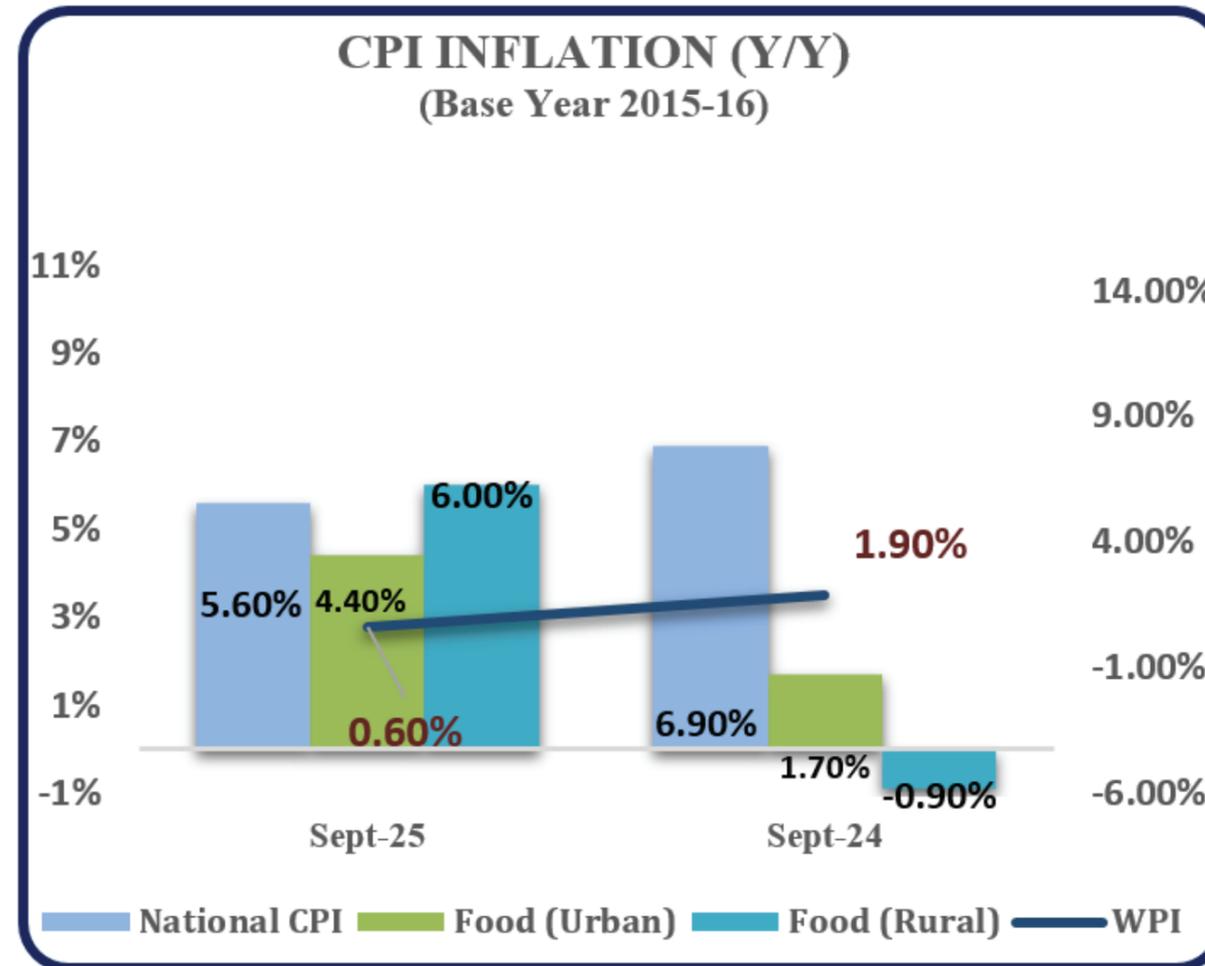


6. CONSUMER PRICE INDEX INFLATION

According to the PBS, the monthly inflation rate in Sept 2025 is reported at 5.6% on a Y-o-Y basis. The increase in inflation is due to perishable food items seeing a rise of 12.7% in Sept 2025. Additionally, the food inflation rates in both the urban and rural areas rose up to a level of 4.4% and 6.0%, respectively. The Wholesale Price Index (“WPI”) stood at 0.6% on a Y-o-Y basis in FY26, which was recorded 1.9% in the same month of FY25. On a monthly basis, the National CPI has recorded a inflation of 2.0%. Similarly, the Food inflation rate has risen by 4.0% and 5.5% for the urban areas and rural areas, respectively. In Sept 2025, Core inflation, which is calculated by excluding energy and food items, rose by 7.0% and 7.8% in urban and rural areas on a Y-o-Y basis, respectively.

Group	Weight (%)	% Change over	
		Aug-25	Sept-24
Food	34.58	5.46	5.02
Non-perishable	29.60	4.41	6.53
Perishable	4.99	12.65	(3.69)
Utility	23.63	(0.56)	3.65
Health	2.79	0.83	10.59
Transport	5.91	(0.28)	4.20
Education	3.79	0.21	10.72
Restaurants & Hotels	6.92	0.68	6.12

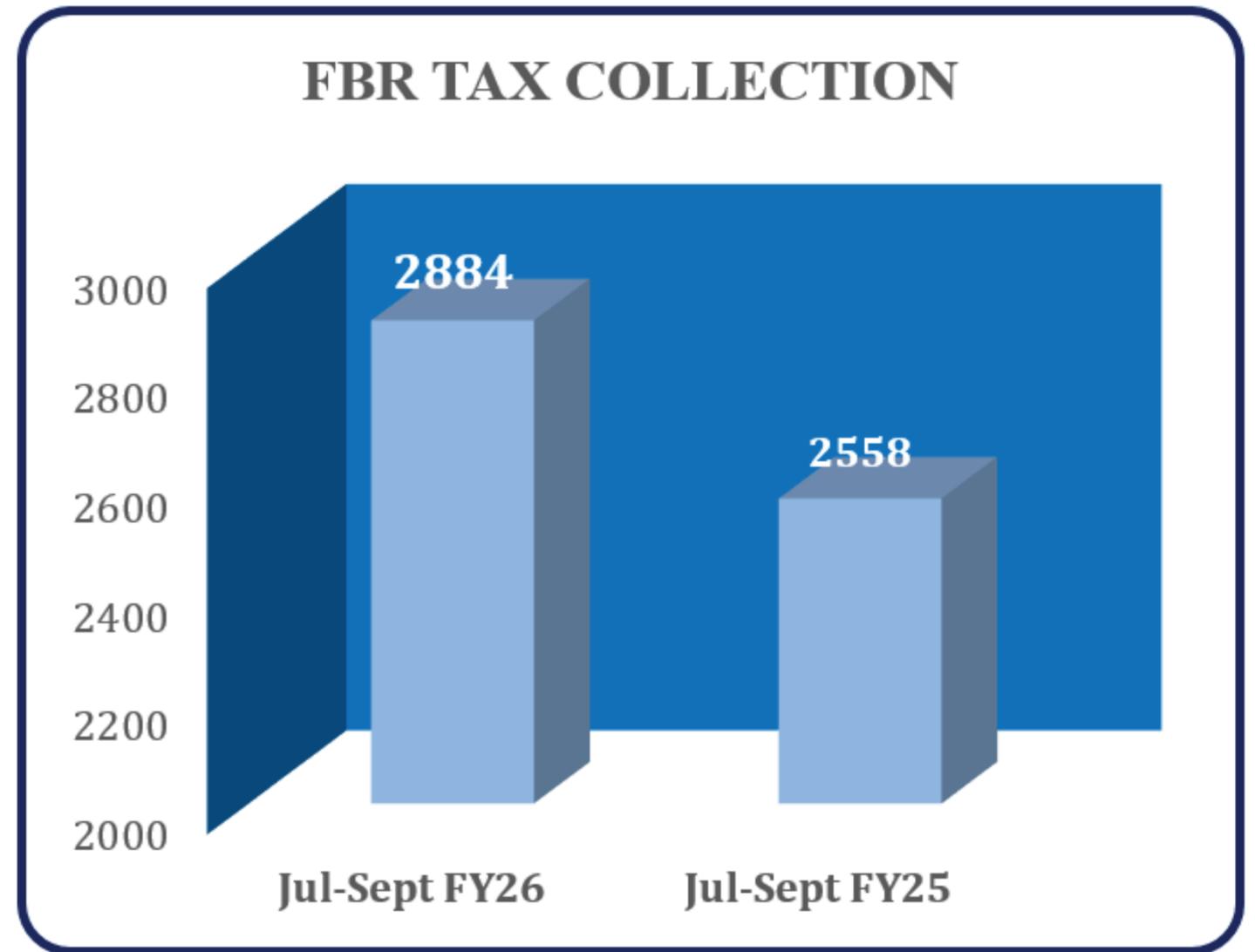
(Source: PBS)



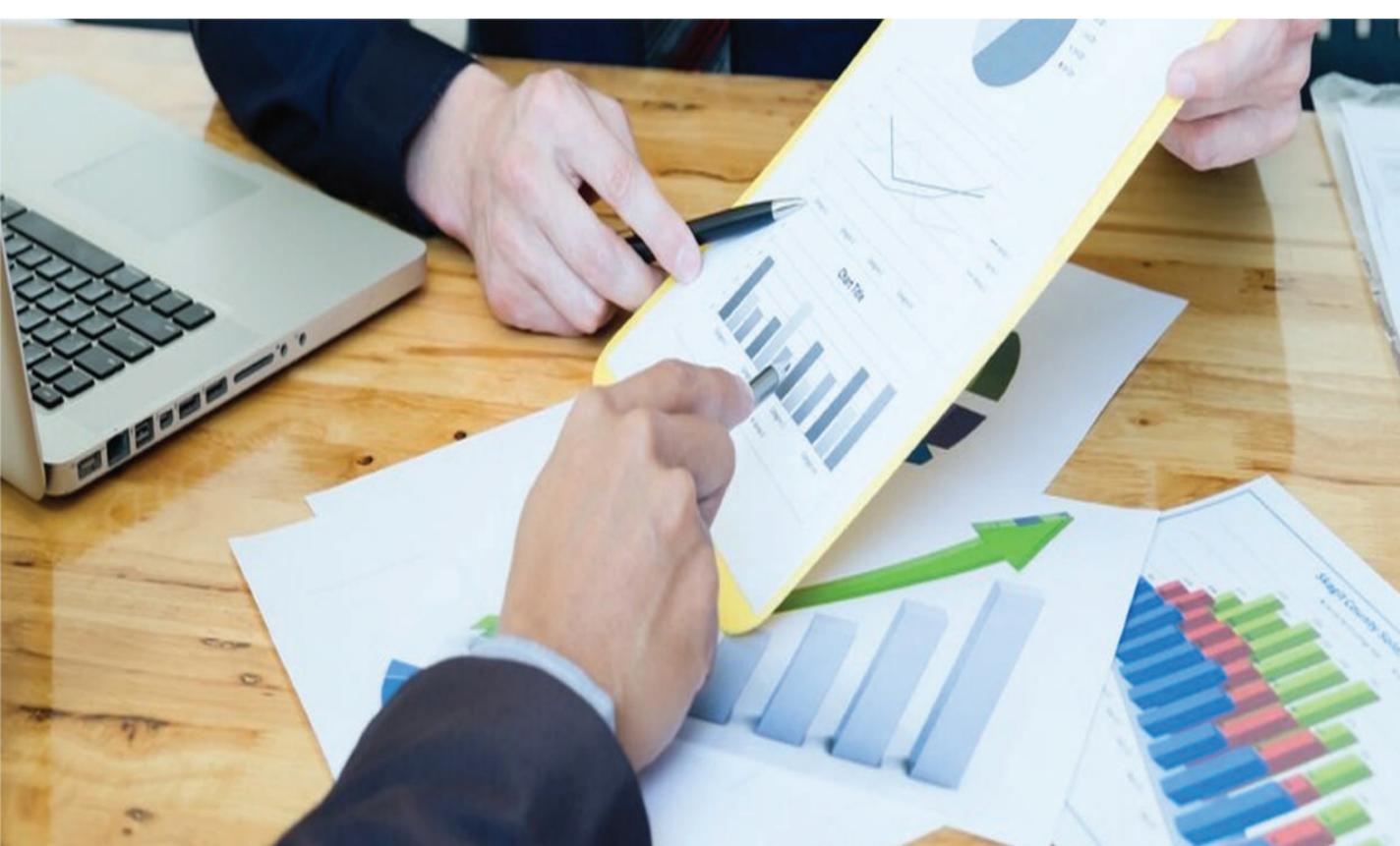


7. FBR TAX REVENUE COLLECTION

As per the data published by the FBR, the FBR collected PKR 2,884 billion worth of tax revenue in the first quarter of FY26 and failed to achieve its target of PKR 3,083 billion. The decline in domestic sales tax is driven by several factors, including reduced business activity following the widespread floods.

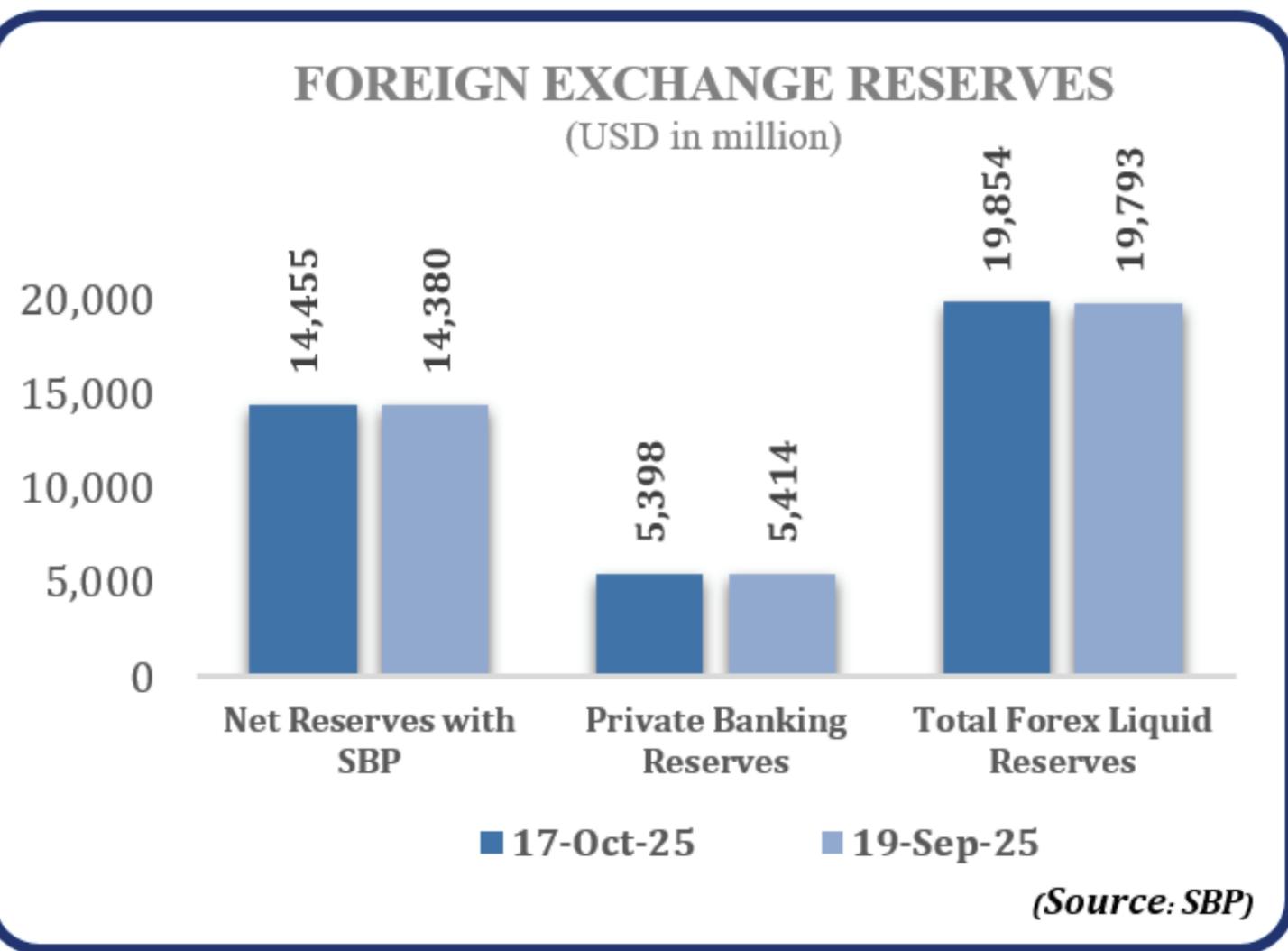


(Source: Express Tribune)



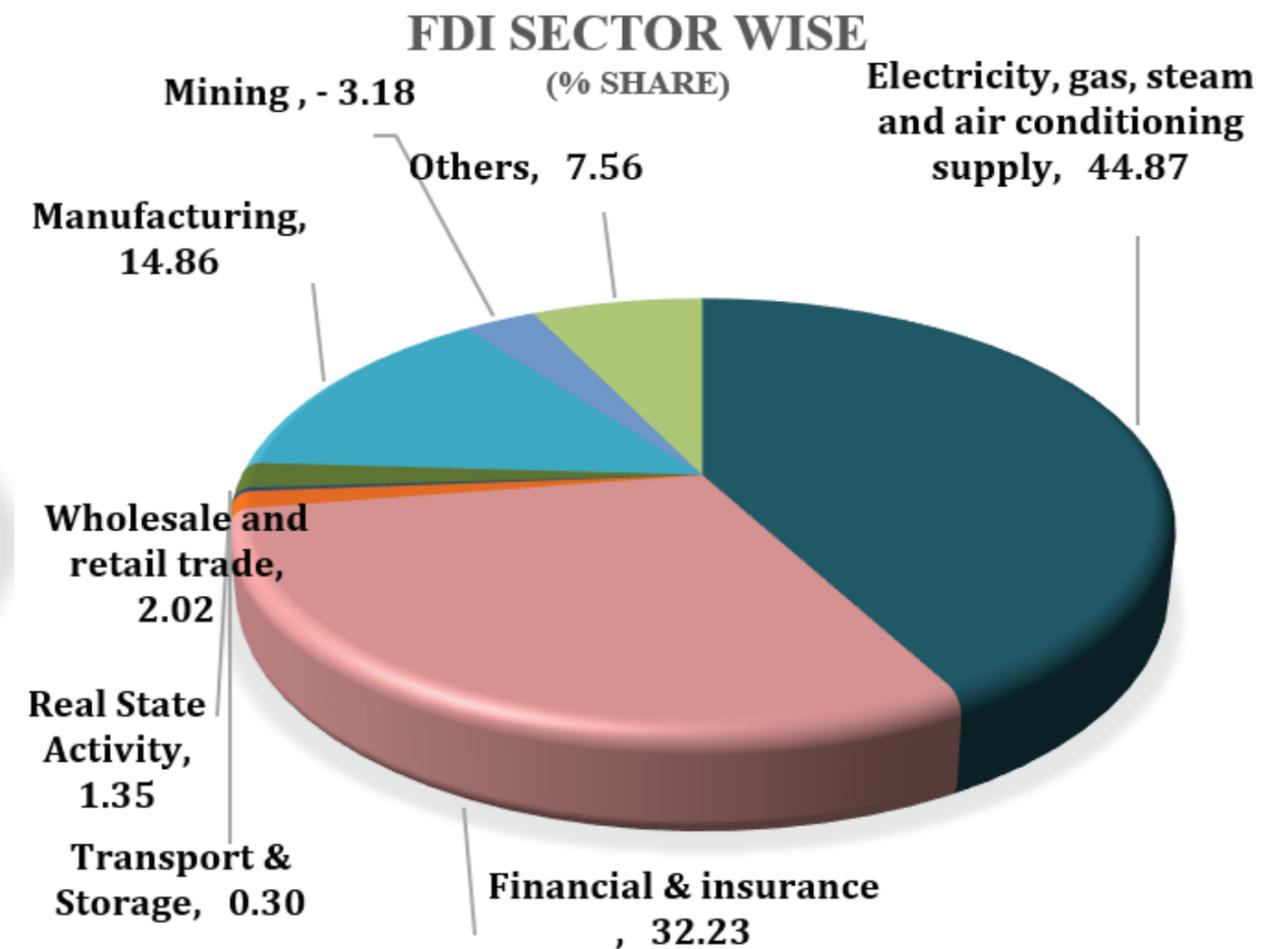
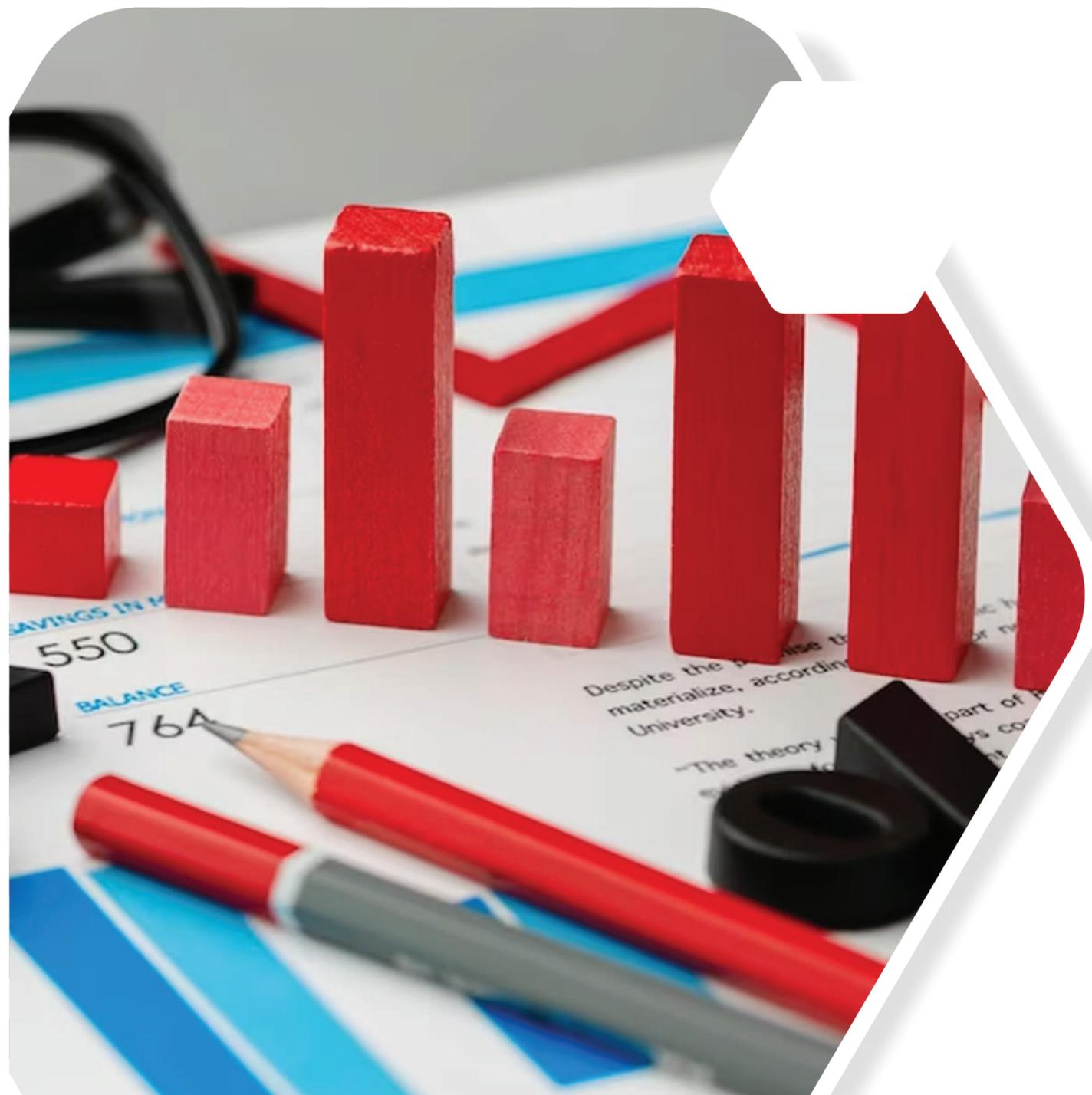
8. FOREIGN EXCHANGE RESERVES

The Net foreign exchange reserves of the SBP stood at \$14.5 billion as of Oct 17th, 2025, representing an increase of 0.5%, or \$76 million, compared to previous month reserves of \$14.38 billion on Sept 19th, 2025.



9. FOREIGN DIRECT INVESTMENT

Pakistan's net FDI has plunged by 34.2% or \$296 million to \$569 million provisionally during the Jul-Sept period of FY26, as compared to \$865 million during the same period of FY25. Whereas, the total Net Foreign Investment plunged by 1,646 times or \$1.65 billion to -\$64.5 million on a Y-o-Y basis in Jul-Sept period of FY26 as against the amount of \$997 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-Sept 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

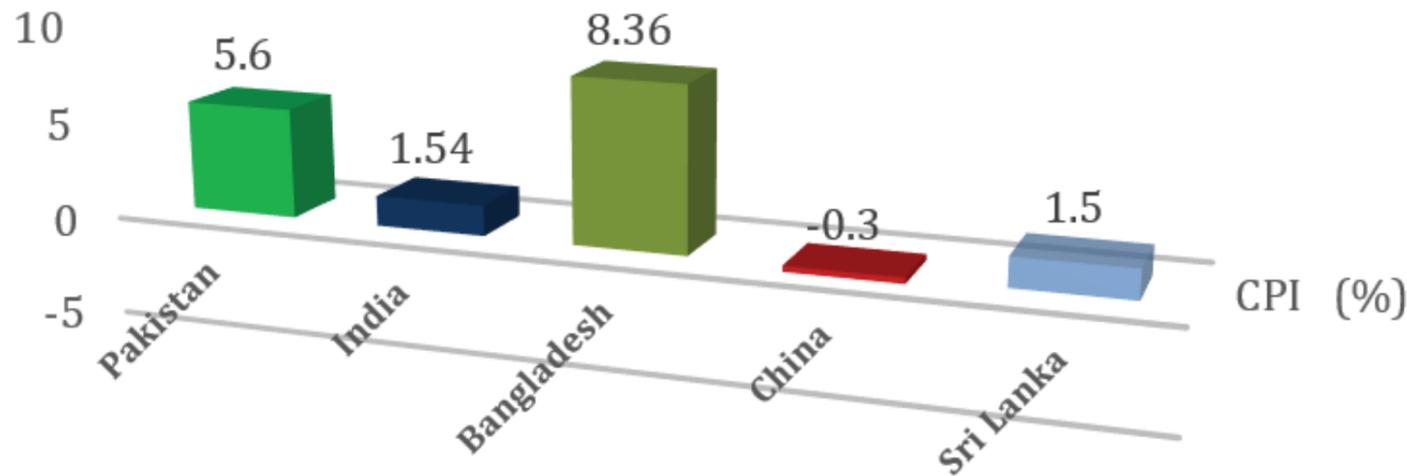
(Source: SBP & MOF)

11. REGIONAL ANALYSIS

Compared to other countries in the region, the Pakistani economy has gained momentum against the USD over the past month. Additionally, due to the recent floods, the inflation rate has surged to 5.6% during Sept 2025. Further, the inflation in Bangladesh has been steady at 8.4%. In Sri Lanka, the CPI has recorded inflation for the second consecutive months and recorded 1.5% in September, influenced by the slight increase in aggregate demand in the Sri Lankan economy. Meanwhile, India's inflation has slowed down to 1.5% from 2.1%, primarily driven by declining prices of food articles and food products. Additionally, China has experienced a deflation in September 2025 which is recorded at negative of 0.3.



Regional CPI Standing (%)



(Source: Trading Economics)

Country	Local Currency Units per USD (As of 24th Oct)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	281.0	(1.84)
India	87.8	(4.39)
Bangladesh	122.5	(2.52)
China	7.2	0.08
Sri Lanka	303.7	(3.20)

(Source: Trading Economics)



OUTLOOK

Fixing the economy in ongoing 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 September 2025, from 0.3% in April 2025 to 5.6% in September 2025. Moreover, the inflation outlook remains vulnerable to several risks, including additional fiscal measures to address revenue shortfalls and recent flood disasters, a potential resurgence in food inflation, increment in petroleum levy and rising global commodity prices. Despite these challenges and the 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 four MPC meetings. To achieve the 4.2% GDP growth target, a 3 to 4% cut in the interest rates 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 253.5 would strengthen stability. Such adjustments may even create room for deflation, allowing further monetary easing and faster growth.



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