Pakonomics

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HIGHLIGHTS

The State Bank of Pakistan's ("SBP") Monetary Policy Committee ("MPC") decided to reduce the policy rate to 10.5% from 11.0%, in its last meeting held on December 15th, 2024. The MPC stated, "The global environment remains challenging, particularly for exports, which may have some implications for the macroeconomic outlook. In this backdrop, while ensuring the ongoing price stability, the MPC noted the available space to reduce the policy rate to support sustainable economic growth".

According to the valuation of Tola Associates ("TA"), the value of PKR is 253.15/USD after incorporating the Current Account Deficit ("CAD") of the Jul-Nov period of FY26.

In the inter-bank market, the value of the national currency stands at PKR 280.2/USD as of 24th December 2025. Over the past week, the USD to PKR parity rate has shown a stagnant position at PKR 280/USD.

According to the Pakistan Bureau of Statistics ("PBS"), Pakistan's LSM sector showed an expansion of almost 8.3% in Oct 2025 on a Year-on-Year ("Y-o-Y") basis vs. Oct 2024.

According to the SBP, Pakistan received a monthly remittance inflow of $3.19 billion in November 2025, recording a decrease of 6.8% compared to $3.42 billion in Oct 2025 on a M-o-M basis.

The Net foreign currency reserves held by the SBP stood at $15.89 billion as of 12th Dec 2025.

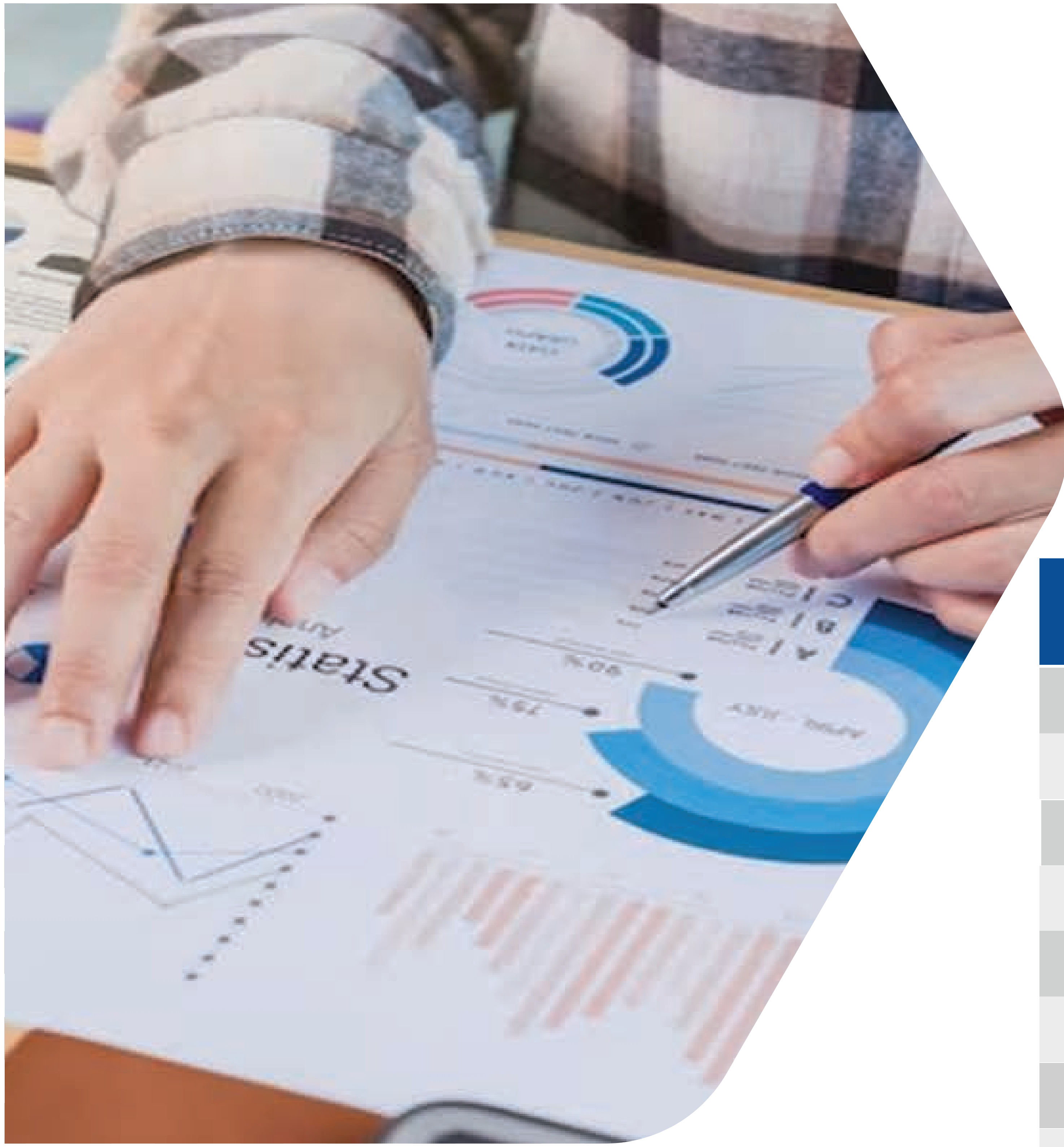
The Currency in circulation stock from 1st July 2025 to 13th Dec 2025 has expanded by PKR 432 billion, compared to a contraction of PKR 184 billion during the same period last year.

According to the PBS, the pace of Consumer Price Index ("CPI") inflation has clocked at 6.1% on a Y-o-Y basis in September 2025 vs. 4.9% same month last year.

Pakistan's net FDI has plunged by 25.4% or $315 million to $927 million provisionally during the Jul-Nov period of FY26, as compared to $1,242 million during the same period of FY25.

The total Net Foreign Investment plunged by 77.5% or $1,077 million to $314 million on a Y-o-Y basis in Jul-Nov period of FY26 as against the amount of $1,391 million in the same period of FY25.

Pakistan reported a CAD of $812 million during the Jul-Nov Period of FY26, compared to a Current Account Surplus of $503 million in the same period of FY25.



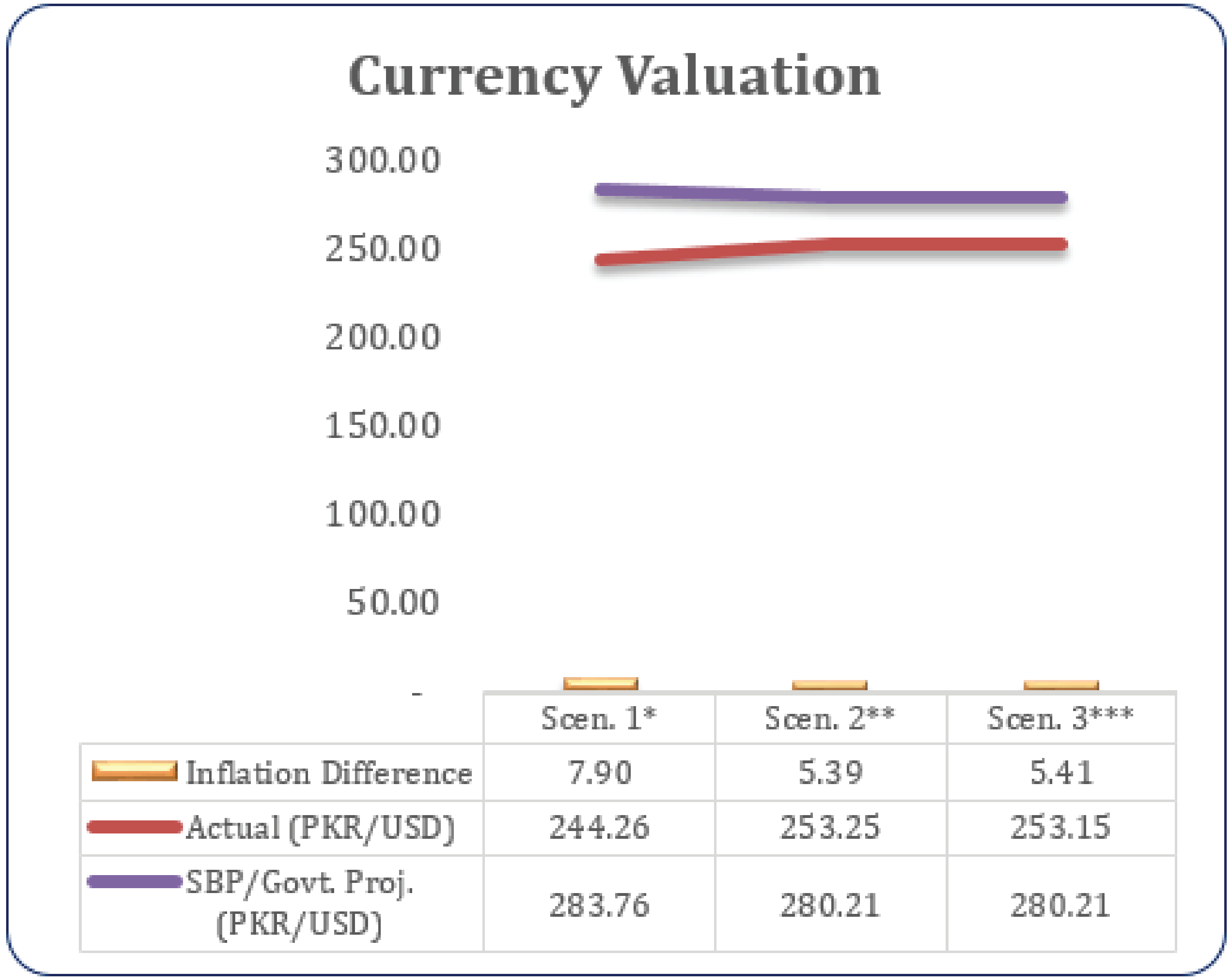
ECONOMY AT A GLANCE

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	October	↑	8.33 %	0.23 %
Central Government Debt	October	↑	PKR 76,980 Billion	PKR 69,115 Billion
Credit to Private Sector	Jul – 13th Dec	↓	PKR 135 Billion	PKR 1,470 Billion
Worker's Remittances	November	↑	US $3,189 Million	US $2,915 Million
Broad Money (M2)	Jul – 13th Dec	↓	PKR (97) Billion	PKR (847) Billion
Net Government Sector borrowing	Jul – 13th Dec	↑	PKR (149) Billion	PKR (2,246) Billion
National CPI (Base Year 2015-16)	November	↑	6.1%	4.9%
FBR Tax Collection	Jul-Nov	↑	PKR 4,715 Billion	PKR 4,280 Billion
Foreign Exchange Reserves with SBP	As of 12th Dec	↑	$15.89 Billion	$12.08 Billion
Foreign Direct Investments	Jul-Nov	↓	$927 Million	$1,242 Million
Trade Deficit in Goods	Jul-Nov	↑	US$ (15,469) Million	US$ (11,277) Million
Current Account Deficit	Jul-Nov	↑	$(812) Million	$503 Million

1. VALUATION OF THE PAKISTANI RUPEE PARITY

According to the valuation of TA, the value of PKR is 253.15/USD after adjusting the CAD of Jul-Nov 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 280.21/USD, as the present value of PKR currency would have been 253.15/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-Nov period of FY26).** A 10-rupee depreciation results in a 2% increase in inflation, and vice versa.



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

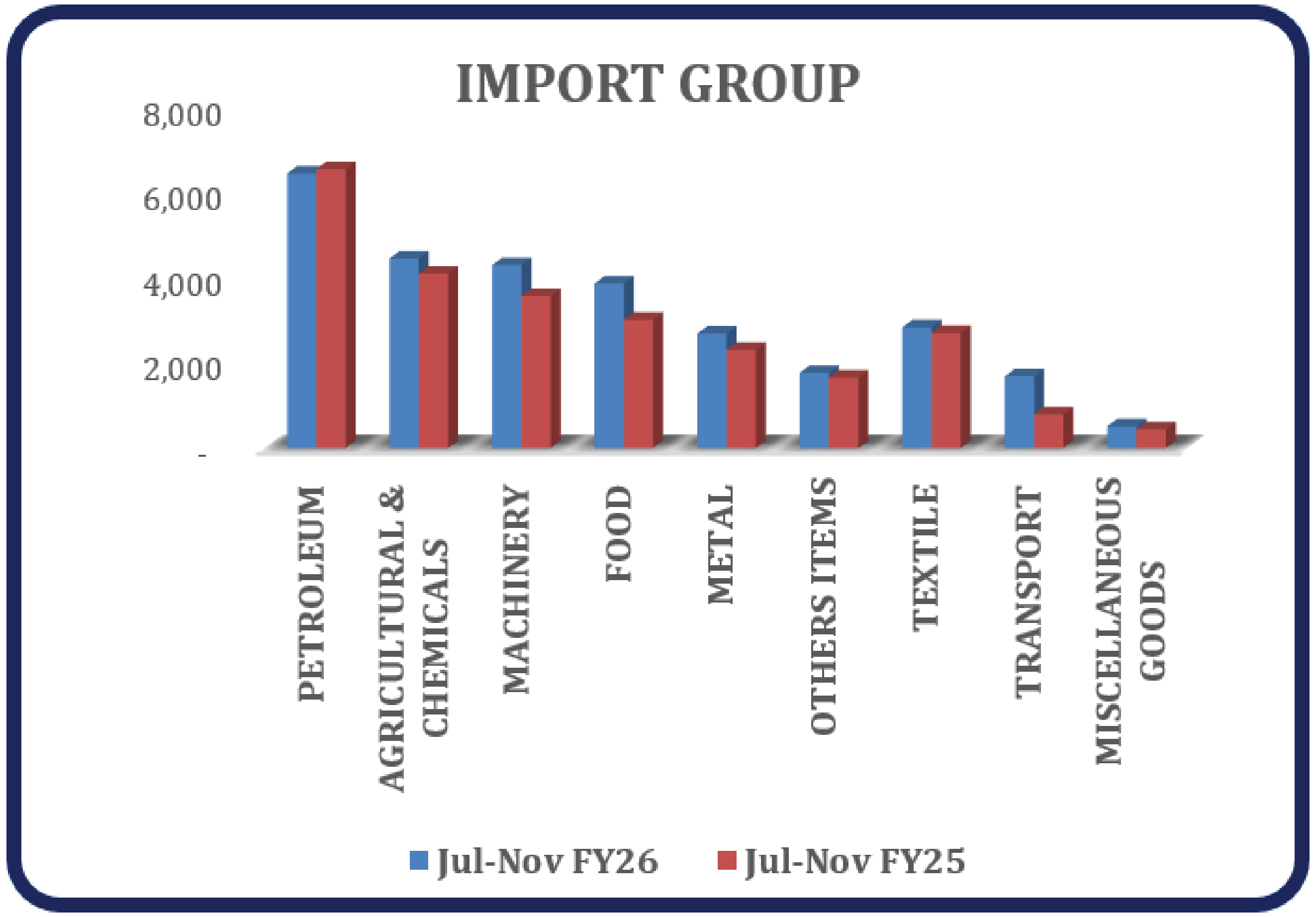
2. CURRENT ACCOUNT ("CA"):

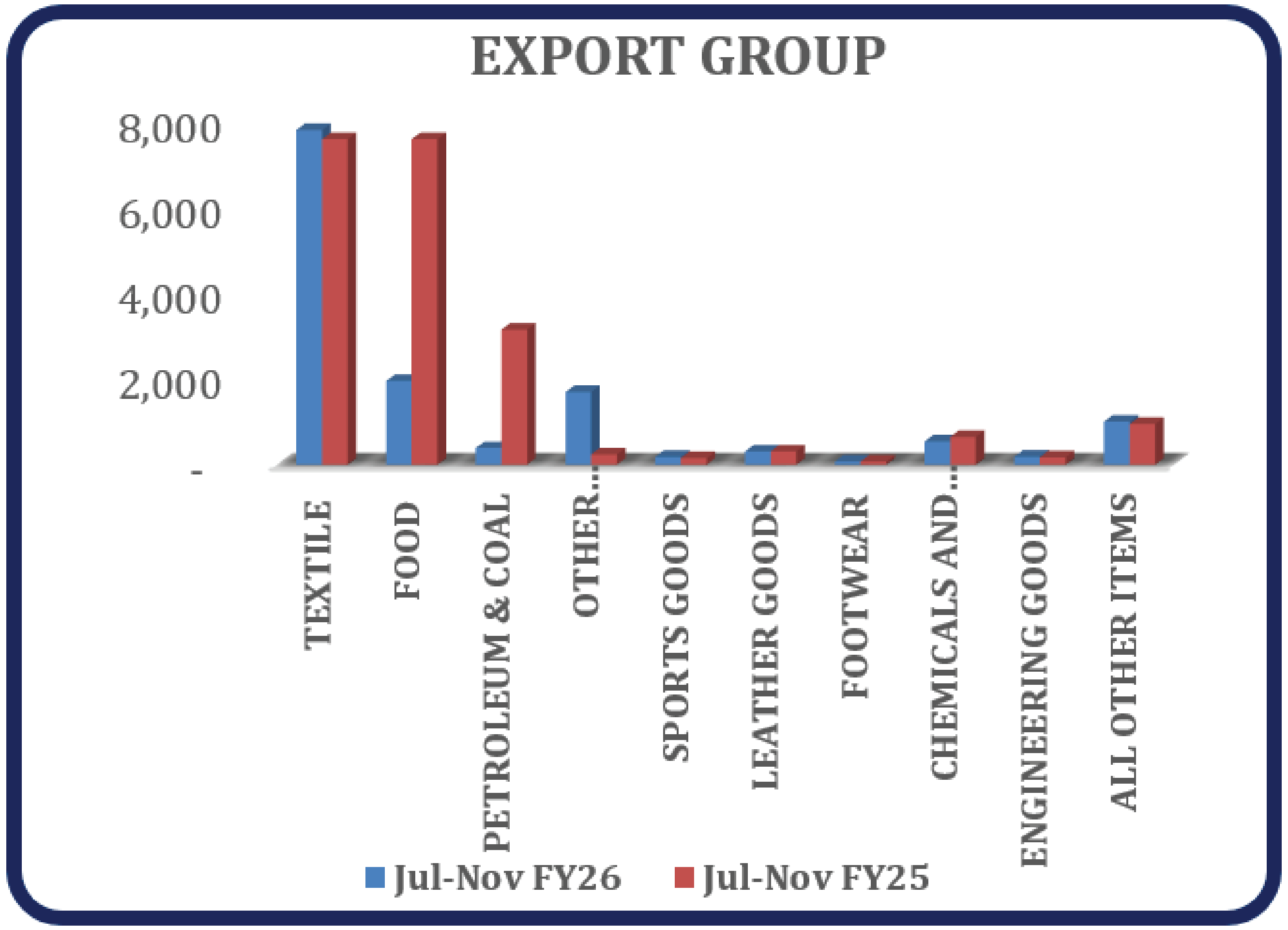
The CA stood at a $100 million surplus in the month of October 2025, for the second time in this FY26; which is a increase of 134 times from a deficit of $291 million in the previous month of October 2025. On a Year on Year ("Y-o-Y") basis, the CAD has declined by 86.0 percent compared to previous FY25's same month.

CA FLOWS	Nov-25	Oct-25	Nov-24	MoM (%)	YoY (%)
Exports of goods FOB	2,273	2,632	2,788	(13.64)	(18.47)
Imports of goods FOB	4,727	5,383	4,110	(12.19)	15.01
(i) Balance on trade in goods	(2,454)	(2,751)	(1,322)	(10.80)	85.63
Exports of services	813	811	667	0.25	21.89
Imports of services	953	1,049	817	(9.15)	16.65
(ii) Balance on trade in services	(140)	(238)	(150)	(41.18)	(6.67)
Primary Income Credit	78	91	68	(14.29)	14.71
Primary Income Debit	817	996	961	(17.97)	(14.98)
(iii) Balance in Primary Income	(739)	(905)	(893)	(18.34)	(17.25)
Secondary Income Credit	3,462	3,649	3,115	(5.12)	11.14
Worker Remittances	3,189	3,420	2,915	(6.75)	9.40
Secondary Income Debit	29	46	41	(36.96)	(29.27)
(iv) Balance on secondary income	3,433	3,603	3,074	(4.72)	11.68
Current Account Surplus/ (Deficit) "i + ii + iii + iv"	100	(291)	709	(134.36)	(85.90)

3.BALANCE OF TRADE IN GOODS

According to the PBS, Pakistan's trade deficit has increased by a huge margin of 33.0% to $2.86 billion in Nov of FY26, compared to $2.15 billion in the same month of FY25. Moreover, the exports went down by 15.4% to $2.40 billion during the fifth month of FY26 compared to $2.83 billion in the same month of last FY25. Further, the imports increased by 5.4% to $5.25 billion in Nov of FY25 compared to $4.98 billion in the same period of FY25. Additionally, on a M-o-M basis, exports went down by 15.8% compared to $2.85 billion in Oct 2025. Furthermore, the country's trade deficit increased by 11.8% compared to $3.24 billion in Oct 2025 on a M-o-M basis.





4. LARGE SCALE MANUFACTURING

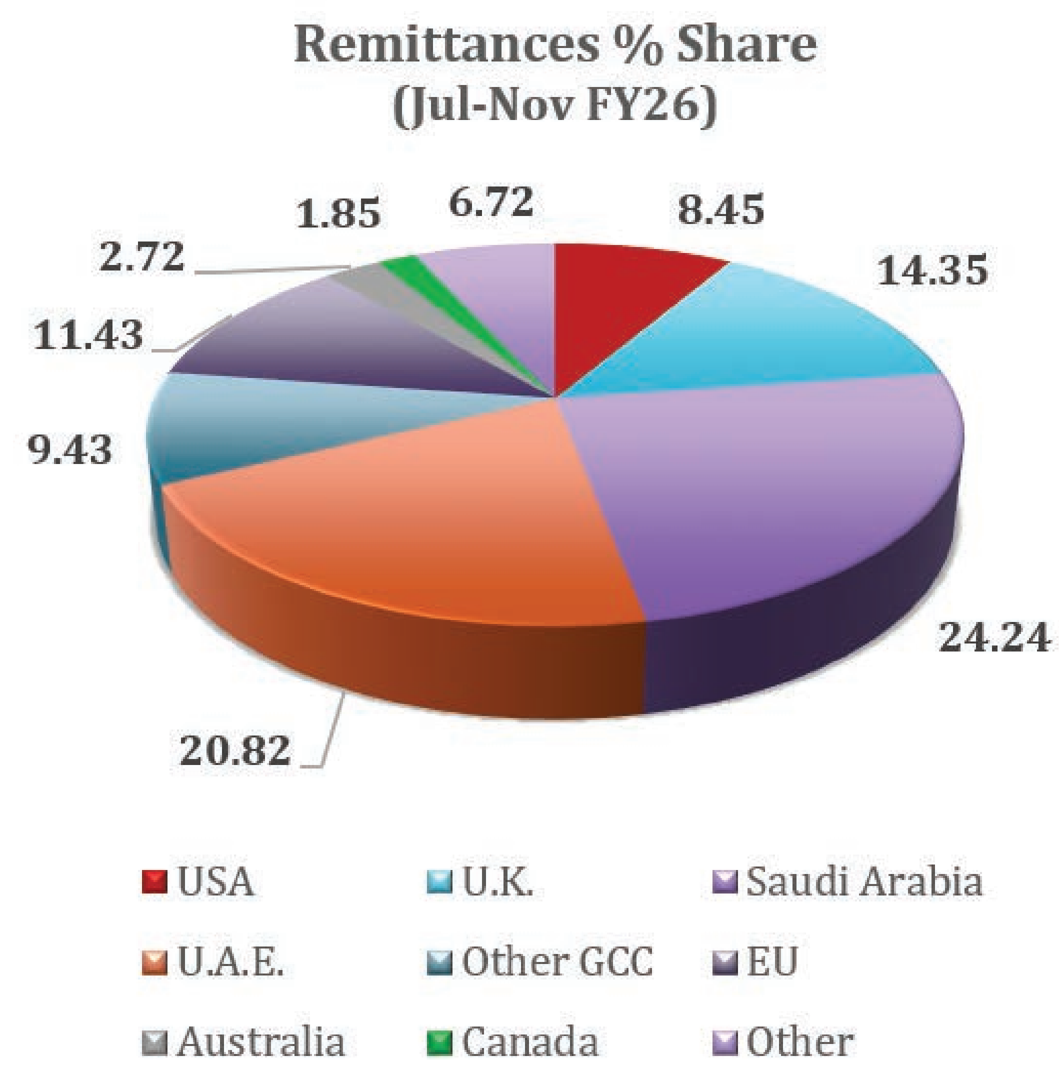
According to the PBS, Pakistan's LSM sector showed an expansion of 8.3% in Oct 2025 on a Y-o-Y basis vs. Oct 2024. Likewise, on a M-o-M basis, the overall output growth rose by 3.8%, compared to the month of Sept 2025. Additionally, Sector-wise, important groups such as cotton yarn, cotton cloth, garment sector, and cement industry showed a growth of 2.2%, 0.3%, 4.7%, and 12.3% respectively, in the month of Oct of FY26.

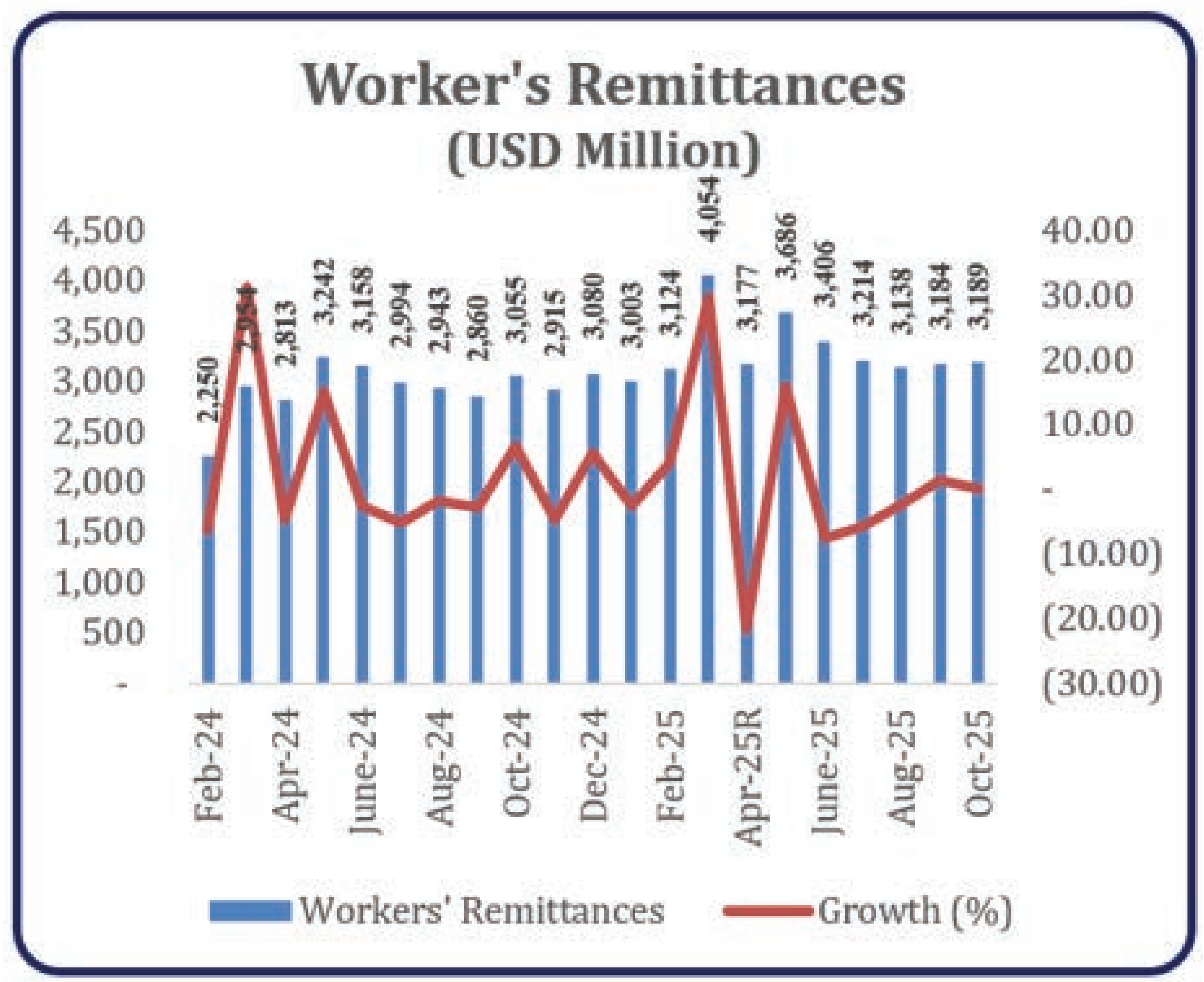
LSM (%)	Weight	Oct-25	Oct-24	Jul-Oct FY26 (%)
Food	3.84	8.06	1.95	5.02
Beverages	2.07	23.37	2.45	1.14
Tobacco	6.08	(10.65)	16.86	2.10
Textile	1.23	4.50	0.92	1.58
Wearing Apparel	1.63	3.01	12.02	4.69
Leather Products	0.24	21.77	0.81	0.94
Paper & Board	5.01	18.08	(6.15)	3.94
Coke & Petroleum Products	0.03	2.38	(18.62)	12.25
Rubber Products	2.05	1.27	0.26	12.03
Non Metallic Mineral Products	3.10	130.68	(2.98)	13.45
Fabricated Metal	0.69	40.87	(24.90)	8.93
Computer, electronics and Optical products	0.32	6.47	1.50	1.58
Electrical Equipment	3.84	7.23	(14.44)	6.26
Automobiles	18.16	(0.34)	109.81	78.89
Other transport Equipment	0.18	(1.04)	30.44	37.51
Other Manufacturing (Football)	6.66	(13.59)	(19.79)	27.86
Wood Products	0.18	(0.85)	(4.41)	(1.46)
Chemicals	6.48	(0.87)	2.32	(1.90)
Pharmaceuticals	5.15	(11.96)	9.25	(6.68)
Iron & Steel Products	3.45	(2.40)	(11.86)	(3.25)
Machinery and Equipment	0.39	(5.86)	(60.82)	(11.95)
Furniture	0.51	20.00	(64.00)	(16.46)
LSM Growth for Sept 2025 (Y/Y)				**8.33%**
LSM Growth of Sept 2025 vs. Aug 2025 (M/M)				**3.75%**
LSM Jul-Sept FY26 (Cumulative)				**5.02%**

(Source: PBS)

5. WORKER'S REMITTANCES

As per the SBP, Pakistan received a monthly remittance inflow of $3.19 billion in November 2025, recording a decrease of 6.8% compared to $3.42 billion in Oct 2025 on a M-o-M basis. Similarly, on a Y-o-Y comparison, the remittance inflows went up by 9.4% when compared to $2.92 billion received a year ago in the same month.



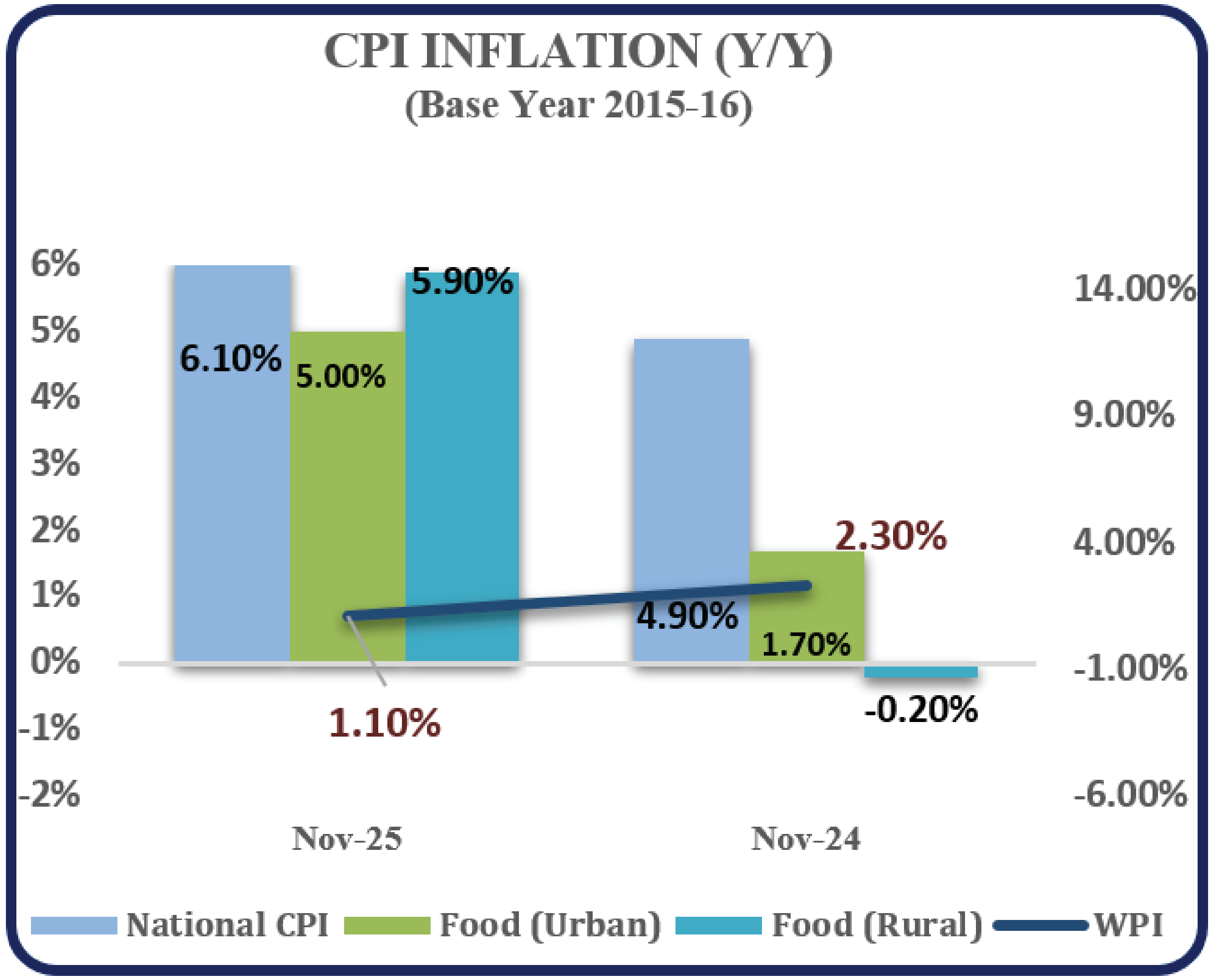


6. CONSUMER PRICE INDEX INFLATION

According to the PBS, the monthly inflation rate in Nov 2025 is reported at 6.1% on a Y-o-Y basis. The increase in inflation is due to non-perishable food items and health sector seeing a rise in prices. Additionally, the food inflation rates in both the urban and rural areas rose up to a level of 5.0% and 5.9%, respectively. The Wholesale Price Index ("WPI") stood at 1.1% on a Y-o-Y basis in FY26, which was recorded 2.3% in the same month of FY25. On a monthly basis, the National CPI has recorded an inflation of 0.4%. Similarly, the Food inflation rate has risen by 0.3% in urban areas and has declined by 0.7% in the rural areas. In Nov 2025, Core inflation, which is calculated by excluding energy and food items, rose by 6.6% and 8.2% in urban and rural areas on a Y-o-Y basis, respectively.

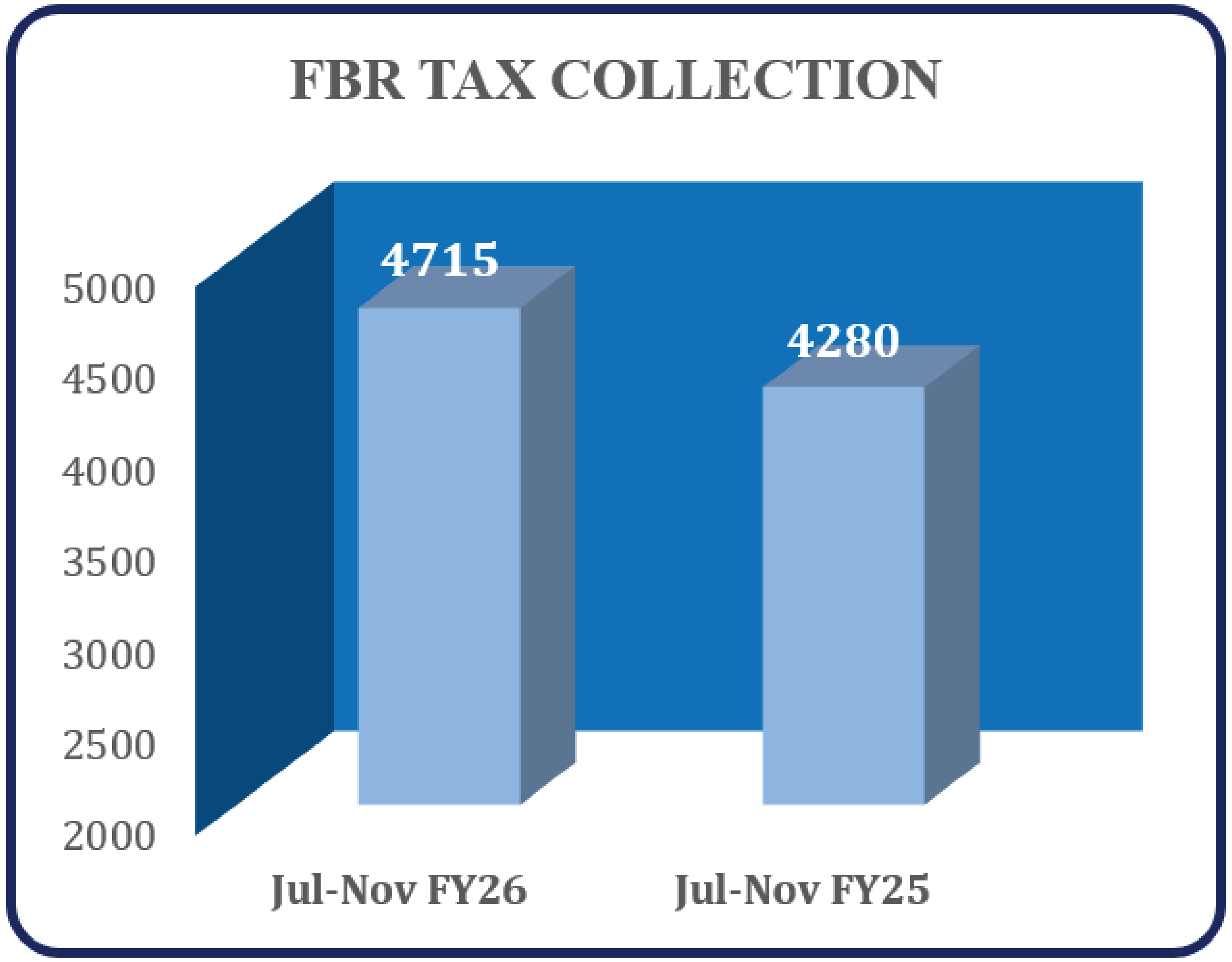
Group	Weight (%)	% Change over	
		Oct-25	Nov-24
Food	34.58	-0.23	5.53
Non-perishable	29.60	0.94	7.25
Perishable	4.99	-6.76	-3.73
Utility	23.63	1.46	5.34
Health	2.79	1.08	8.30
Transport	5.91	0.15	6.11
Education	3.79	0.00	8.97
Restaurants & Hotels	6.92	0.33	5.34

(Source: PBS)



7. FBR TAX REVENUE COLLECTION

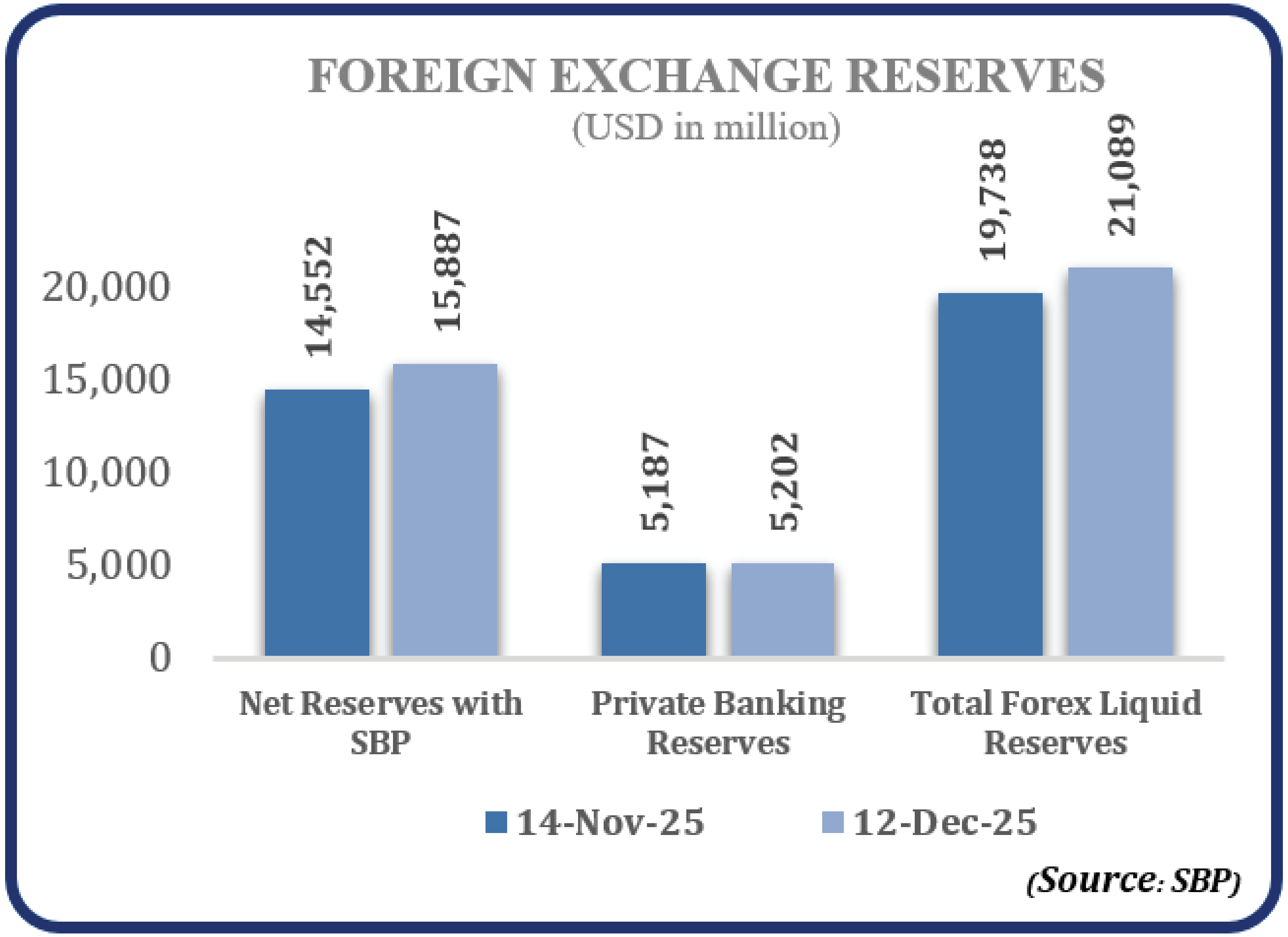
As per the data published by the FBR, the FBR collected PKR 4,715 billion worth of tax revenue in the Jul-Nov period of FY26 and failed to achieve its target of PKR 5,140 billion. As per the article by Shahbaz Rana, published in Express tribune titled, 'IMF flags conflict-of-interest gaps as tax shortfall hits Rs428bn'," The FBR collected Rs2.19 trillion in income tax in five months, missing the target by Rs177 billion. Sales tax collection amounted to Rs1.67 trillion, falling behind the target by Rs250 billion."



(Source: Express Tribune)

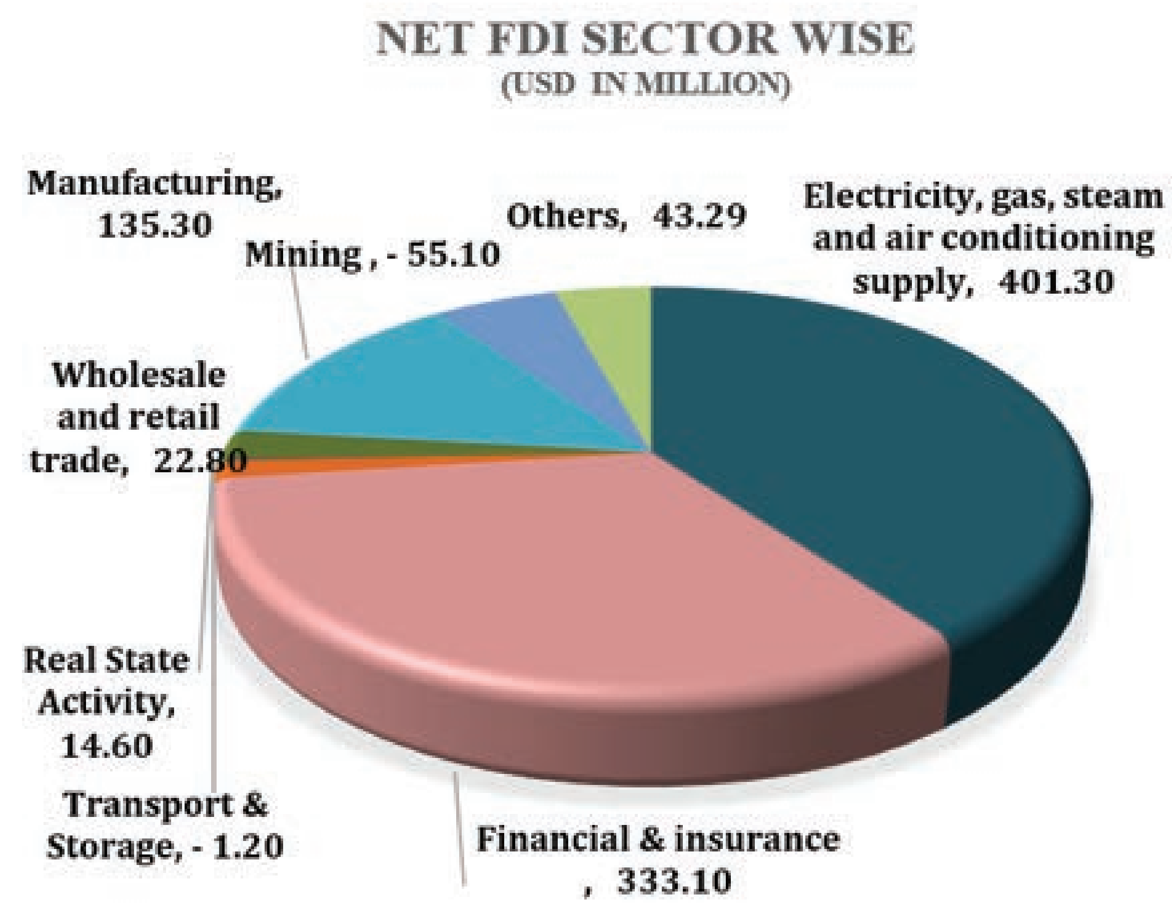
8. FOREIGN EXCHANGE RESERVES

The Net foreign exchange reserves of the SBP stood at $15.89 billion as of Dec 12th, 2025, representing an increase of 9.2%, or $1.335 million, compared to previous month reserves of $14.55 billion on Nov 14th, 2025.



9. FOREIGN DIRECT INVESTMENT

Pakistan's net FDI has plunged by 25.4% or $315 million to $927 million provisionally during the Jul-Nov period of FY26, as compared to $1,242 million during the same period of FY25. Whereas, the total Net Foreign Investment plunged by 77.5% or $1,077 million to $314 million on a Y-o-Y basis in Jul-Nov period of FY26 as against the amount of $1,391 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-Oct period of FY26



10.DEBT PROFILE

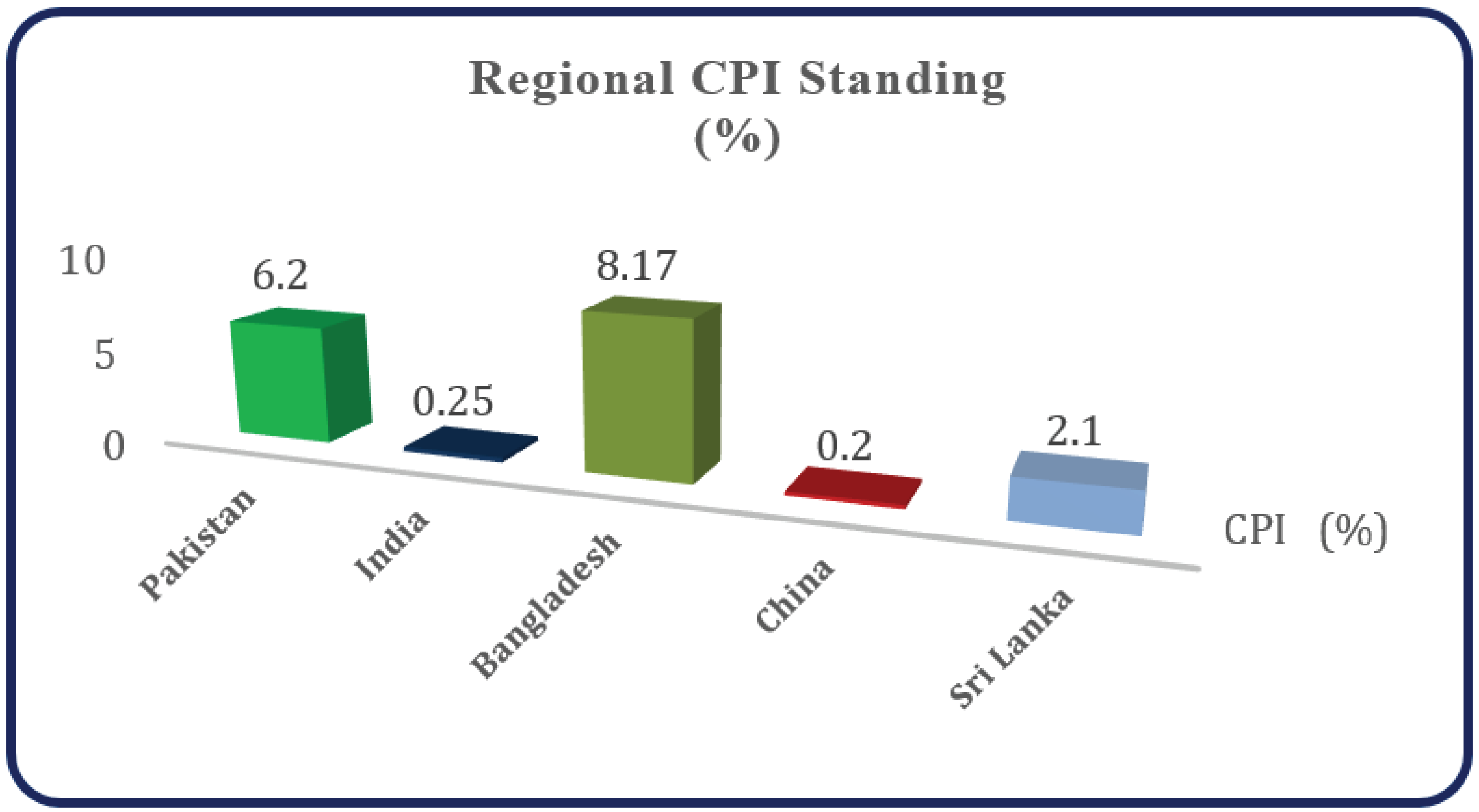
The total central Government debt, comprising of the Government's domestic debt and external debt, has surged to PKR 77 trillion in Oct 2025, marking a substantial increase of 11.4% compared to the same month of the previous Fiscal Year. These figures underscore the significant escalation in the country's debt burden, signaling challenges in debt management and fiscal sustainability.

Pakistan's Total Debt & Liabilities			
(PKR in billion)	Oct-25	Oct-24	% change
Domestic Debt	53,976	47,231	14.28
% of GDP	**47.06**	**44.92**	
External Debt	23,004	21,884	5.12
% of GDP	**20.06**	**20.81**	
Total Debt	76,980	69,115	11.38
% of GDP	**67.12**	**65.73**	
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 been stable against the USD over the past month. Further, the inflation in Bangladesh has been steady at 8.3%. In Sri Lanka, the CPI has recorded inflation for the second consecutive months and recorded 2.1% in November, influenced by the slight increase in aggregate demand in the Sri Lankan economy. Meanwhile, India's inflation has rose up to 0.7% from 0.2%, primarily driven by declining prices of food articles and food products. Additionally, China has experienced an inflation in November 2025 which is recorded at 0.7%.



(Source: Trading Economics)

Country	Local Currency Units per USD (As of 24th Dec)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	280.2	(1.84)
India	89.6	(4.9)
Bangladesh	122.3	(2.8)
China	7.2	4.1
Sri Lanka	309.8	(5.3)

(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 FY22, 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.

Despite stable inflation at 5.0% in the Jul-Nov period, the SBP has declined the policy rate to 10.5% from 11.0% for the first time in the last five MPC meetings. There is a strong case for rationalizing the exchange rate and further reducing the policy rate by 3 to 4 percent to provide immediate relief to the fiscal space and CPI Inflation. Moreover, the persistent federal fiscal deficit is partly attributable to elevated interest costs, underscoring the need for monetary easing. By way of illustration, a 1 percent reduction in the policy rate could lower debt servicing costs by approximately Rs. 540 billion; consequently, a cumulative 4 percent reduction could yield savings of nearly Rs. 2.2 trillion.

At present, Pakistan's policy rate remains the highest in the region, continuing to suppress industrial activity, deter private investment, and delay economic recovery. Reducing the interest rate to the range of 7 to 8 percent would help lower production costs, revive industrial growth, and encourage new business formation. Furthermore, in the context of emerging food supply constraints, lower borrowing costs would incentivize capacity expansion and increase supply, thereby contributing to the moderation of inflationary pressures.

DISCLAIMER