TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

LEADING FIRM
Legal500
ASIA PACIFIC
2025

Tola & Tola
Advocates • Barristers • Legal Consultants

Pakonomics
December 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 Federal Board Revenue ("FBR") missed its revised first half target by PKR 330 billion lower than expected reducing the likelihood of a mini-budget affecting solar panels, mobile phones, and bank users. Against the original target, the Jul–Dec shortfall stood at PKR 545 billion.

According to the valuation of Tola Associates ("TA"), the value of PKR is 253.38/USD after incorporating the Current Account Deficit ("CAD") of the Jul-Dec period of FY26.

In the inter-bank market, the value of the national currency stands at PKR 279.86/USD as of 23rd December 2025. Over the past week, the USD to PKR parity rate has shown a slight decline from 280/USD.

According to the Pakistan Bureau of Statistics ("PBS"), Pakistan's LSM sector showed an expansion of 10.37% in Nov 2025 on a Year-on-Year ("Y-o-Y") basis vs. Nov 2024.

According to the SBP, Pakistan received a monthly remittance inflow of $3.60 billion in December 2025, recording a increase of 12.6% compared to $3.19 billion in Nov 2025 on a M-o-M basis.

The Net foreign currency reserves held by the SBP stood at $16.09 billion as of 16th Jan 2025.

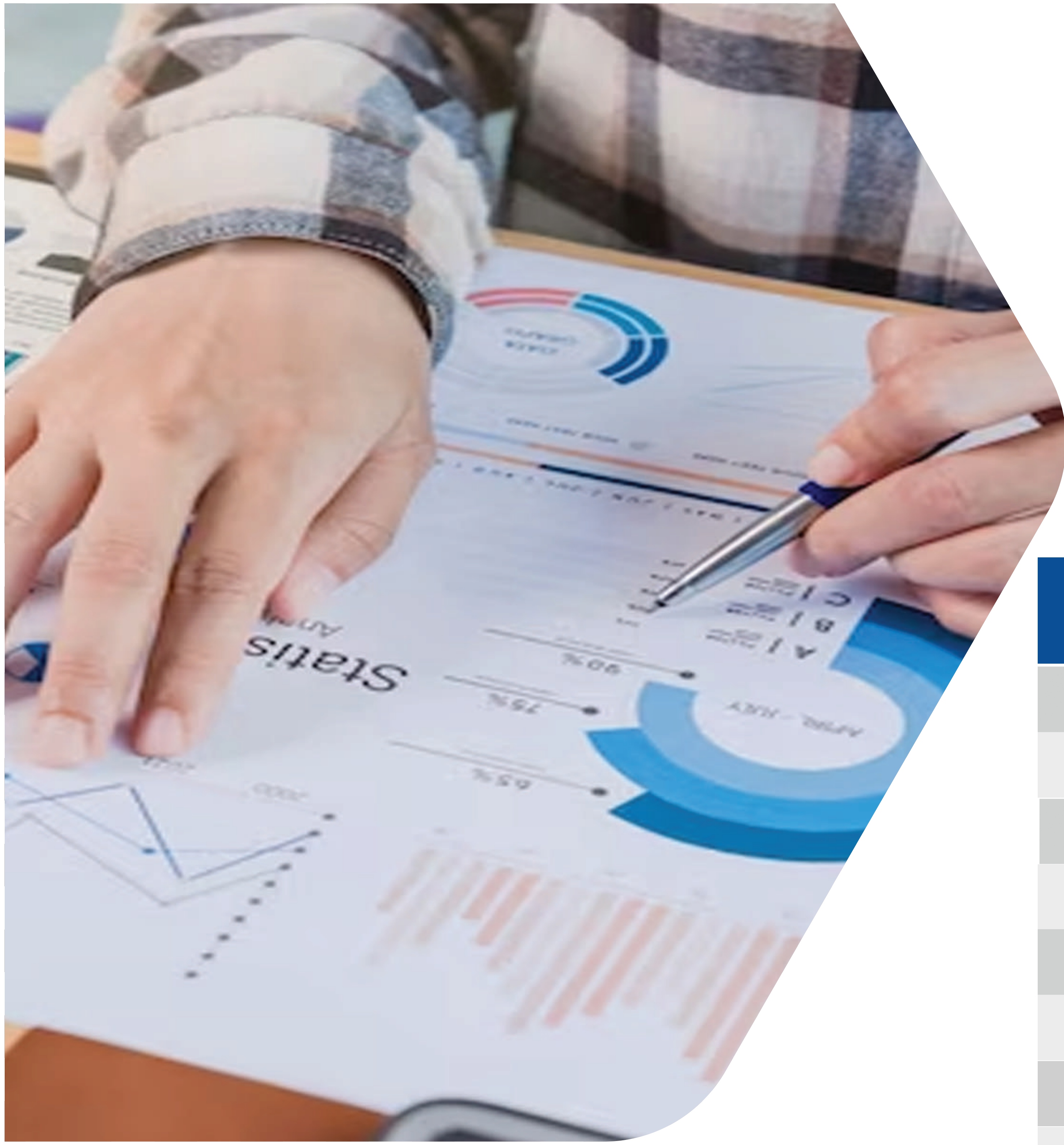
The Currency in circulation stock from 1st July 2025 to 10th Dec 2026 has expanded by PKR 495 billion, compared to a expansion of PKR 245 billion during the same period last year.

According to the PBS, the pace of Consumer Price Index ("CPI") inflation has clocked at 5.9% on a Y-o-Y basis in December 2025 vs. 4.1% same month last year.

Pakistan's net FDI has plunged by 76.4% or $617 million to $808 million provisionally during the Jul-Dec period of FY26, as compared to $1,425 million during the same period of FY25.

The total Net Foreign Investment plunged by 548 times or $1,140 million to $207 million on a Y-o-Y basis in Jul-Dec period of FY26 as against the amount of $1,343 million in the same period of FY25.

Pakistan reported a CAD of $1,174 million during the Jul-Dec Period of FY26, compared to a Current Account Surplus of $957 million in the same period of FY25.



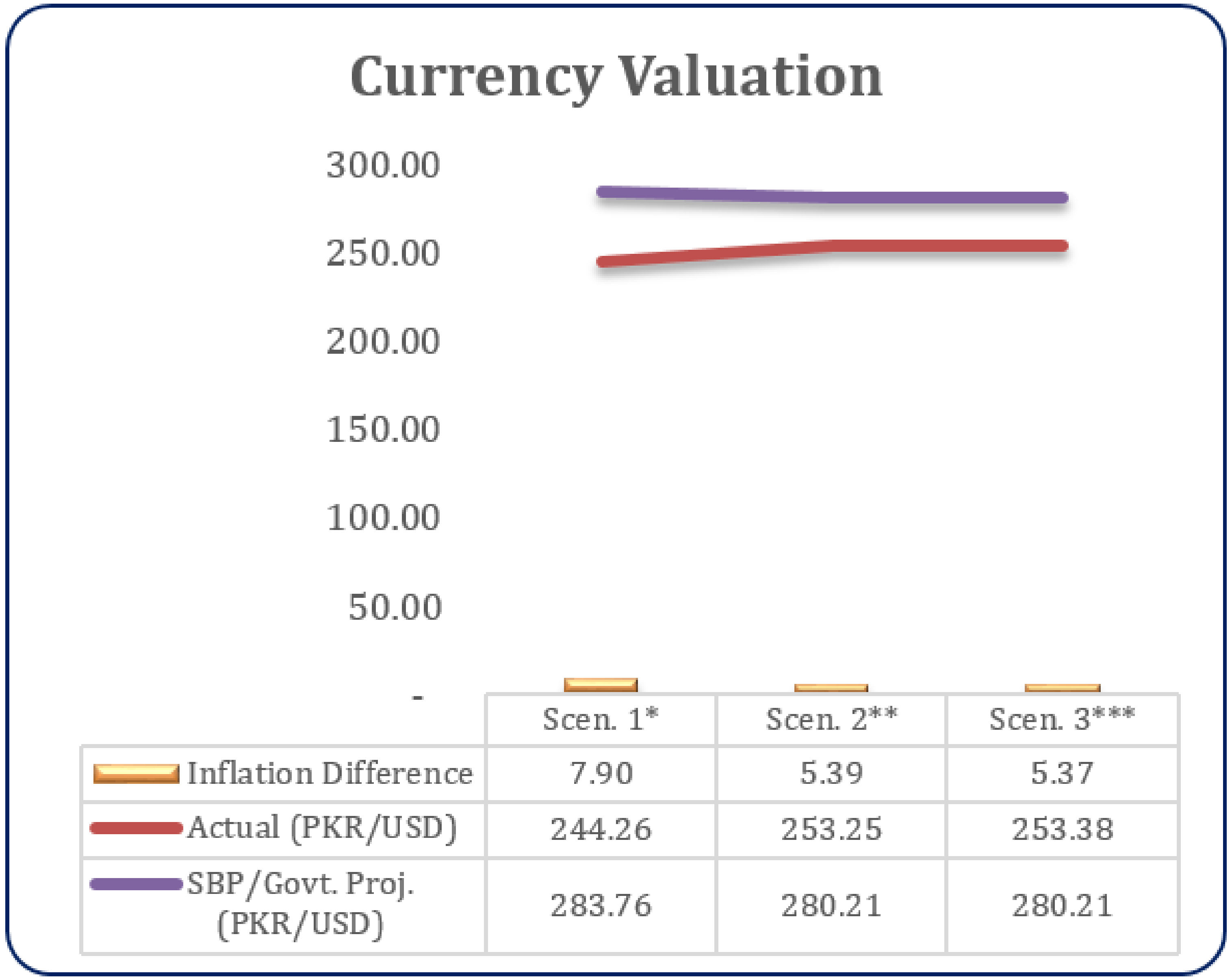
ECONOMY AT A GLANCE

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	November	↑	10.37 %	(4.53) %
Central Government Debt	November	↑	PKR 77,543 Billion	PKR 70,365 Billion
Credit to Private Sector	Jul – 9th January	↓	PKR 578 Billion	PKR 1,521 Billion
Worker's Remittances	December	↑	US $3,589 Million	US $3,080 Million
Broad Money (M2)	Jul – 9th January	↑	PKR 165 Billion	PKR (675) Billion
Net Government Sector borrowing	Jul – 9th January	↑	PKR (218) Billion	PKR (2,078) Billion
National CPI (Base Year 2015-16)	December	↑	5.9 %	4.1 %
FBR Tax Collection	Jul-Dec	↑	PKR 6,159 Billion	PKR 5,618 Billion
Foreign Exchange Reserves with SBP	As of 16th January	↑	$16.09 Billion	$14.45 Billion
Foreign Direct Investments	Jul-Dec	↓	$808 Million	$1,424 Million
Trade Deficit in Goods	Jul-Dec	↑	US$ (19,204) Million	US$ (14,271) Million
Current Account Deficit	Jul-Dec	↑	$(1,174) Million	$957 Million

1. VALUATION OF THE PAKISTANI RUPEE PARITY

According to the valuation of TA, the value of PKR is 253.38/USD after adjusting the CAD of first half 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 279.86/USD, as the present value of PKR currency would have been 253.38/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-Dec 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	5.39	5.37
Actual (PKR/USD)	244.26	253.25	253.38
SBP/Govt. Proj. (PKR/USD)	283.76	280.21	280.21

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

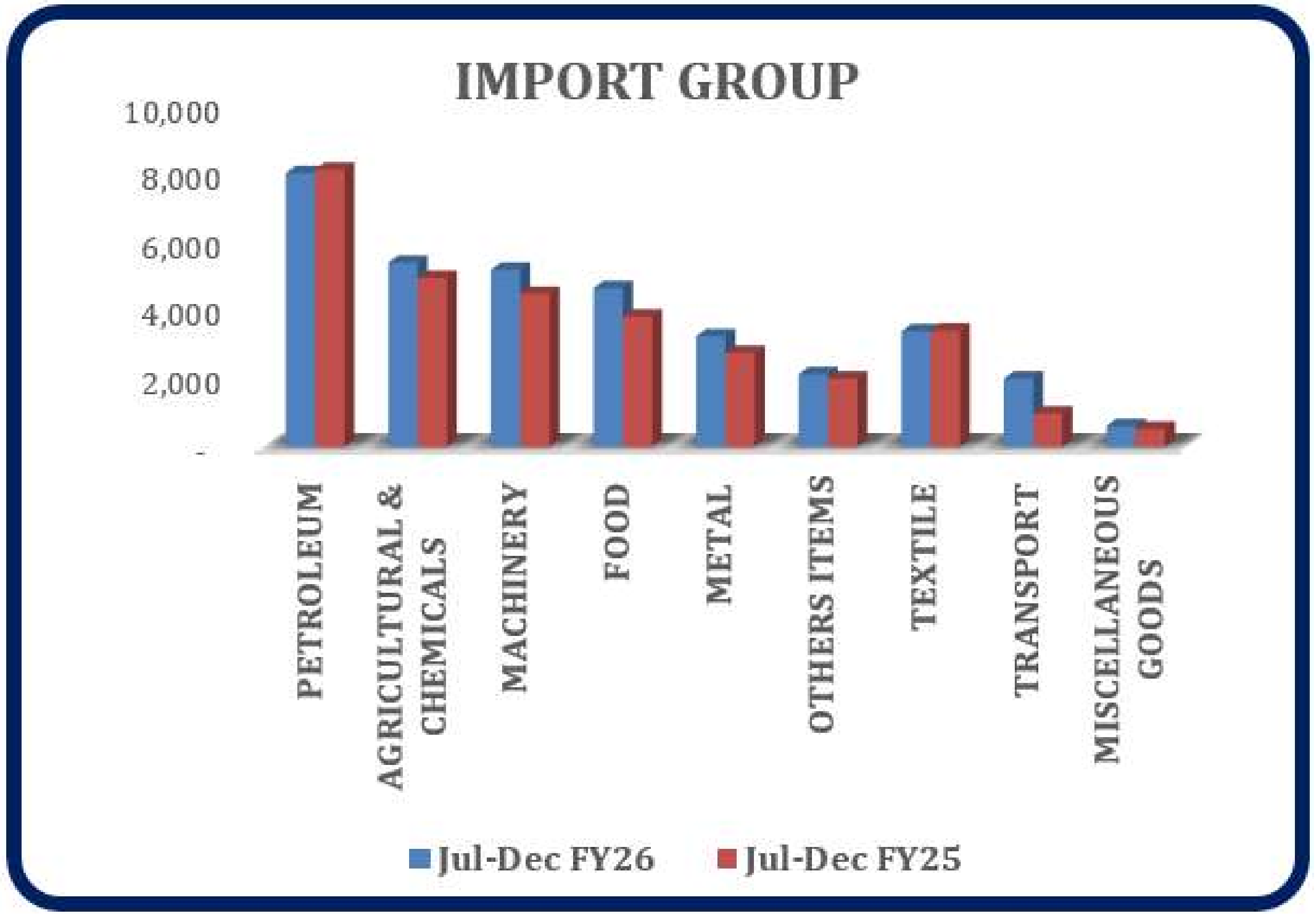
2. CURRENT ACCOUNT ("CA"):

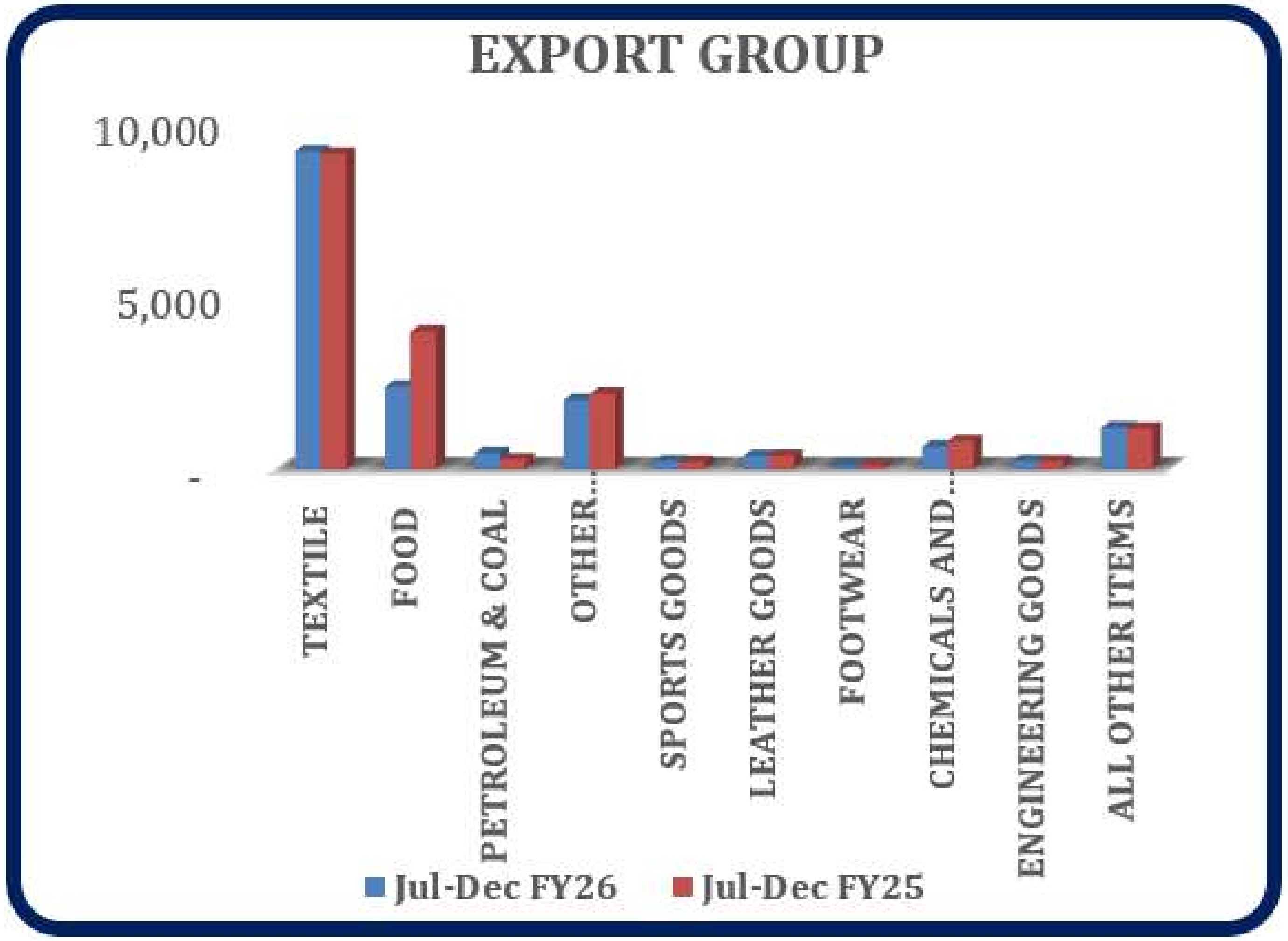
The CA stood at a $244 million deficit in the month of December 2025, for the third time in this FY26; which is a decrease of almost 3.5 times from a deficit of $244 million in the previous month of November 2025. On a Year on Year ("Y-o-Y") basis, the CAD has declined by 1.53 times compared to previous FY25's same month.

CA FLOWS	Dec-25	Nov-25	Dec-24	MoM (%)	YoY (%)
Exports of goods FOB	2,751	2,277	3,107	20.82	(11.46)
Imports of goods FOB	5,737	4,716	4,891	21.65	17.30
(i) Balance on trade in goods	(2,986)	(2,439)	(1,784)	22.43	67.38
Exports of services	936	806	807	16.13	15.99
Imports of services	1,306	974	1,057	34.09	23.56
(ii) Balance on trade in services	(370)	(168)	(250)	120.24	48.00
Primary Income Credit	97	86	83	12.79	16.87
Primary Income Debit	844	817	872	3.30	(3.21)
(iii) Balance in Primary Income	(747)	(731)	(789)	2.19	(5.32)
Secondary Income Credit	3,903	3,466	3,390	12.61	15.13
Worker Remittances	3,589	3,188	3,080	12.58	16.53
Secondary Income Debit	44	30	113	46.67	(61.06)
(iv) Balance on secondary income	3,859	3,436	3,277	12.31	17.76
Current Account Surplus/ (Deficit) "i + ii + iii + iv"	(244)	98	454	(348.98)	(153.74)

3.BALANCE OF TRADE IN GOODS

According to the PBS, Pakistan's trade deficit has increased by a huge margin of 28.4% to $3.70 billion in Dec of FY26, compared to $2.89 billion in the same month of FY25. Moreover, the exports went down by 4.3% to $2.32 billion during the sixth month of FY26 compared to $2.42 billion in the same month of last FY25. Further, the imports increased by 13.5% to $6.02 billion in Dec of FY25 compared to $5.32 billion in the same period of FY25. Additionally, on a M-o-M basis, exports went down by 20.4% compared to $2.91 billion in Nov 2025. Furthermore, the country's trade deficit increased by 23.8% compared to $3.00 billion in Nov 2025 on a M-o-M basis.





4. LARGE SCALE MANUFACTURING

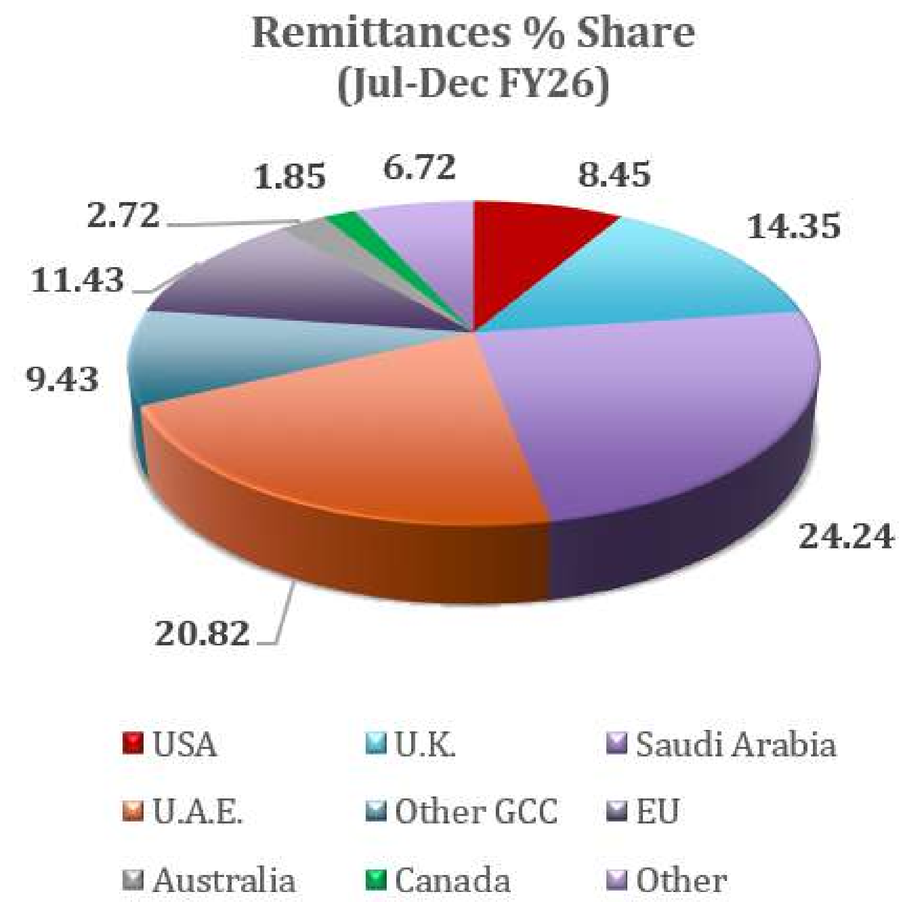
According to the PBS, Pakistan's LSM sector showed an expansion of 10.4% in Nov 2025 on a Y-o-Y basis vs. Nov 2024. Likewise, on a M-o-M basis, the overall output growth rose by just 0.2%, compared to the month of Oct 2025. Additionally, Sector-wise, important groups such as cotton yarn, cotton cloth, garment sector, and cement industry showed a growth of 1.9%, 0.2%, 7.4%, and 18.1% respectively, in the month of Nov of FY26.

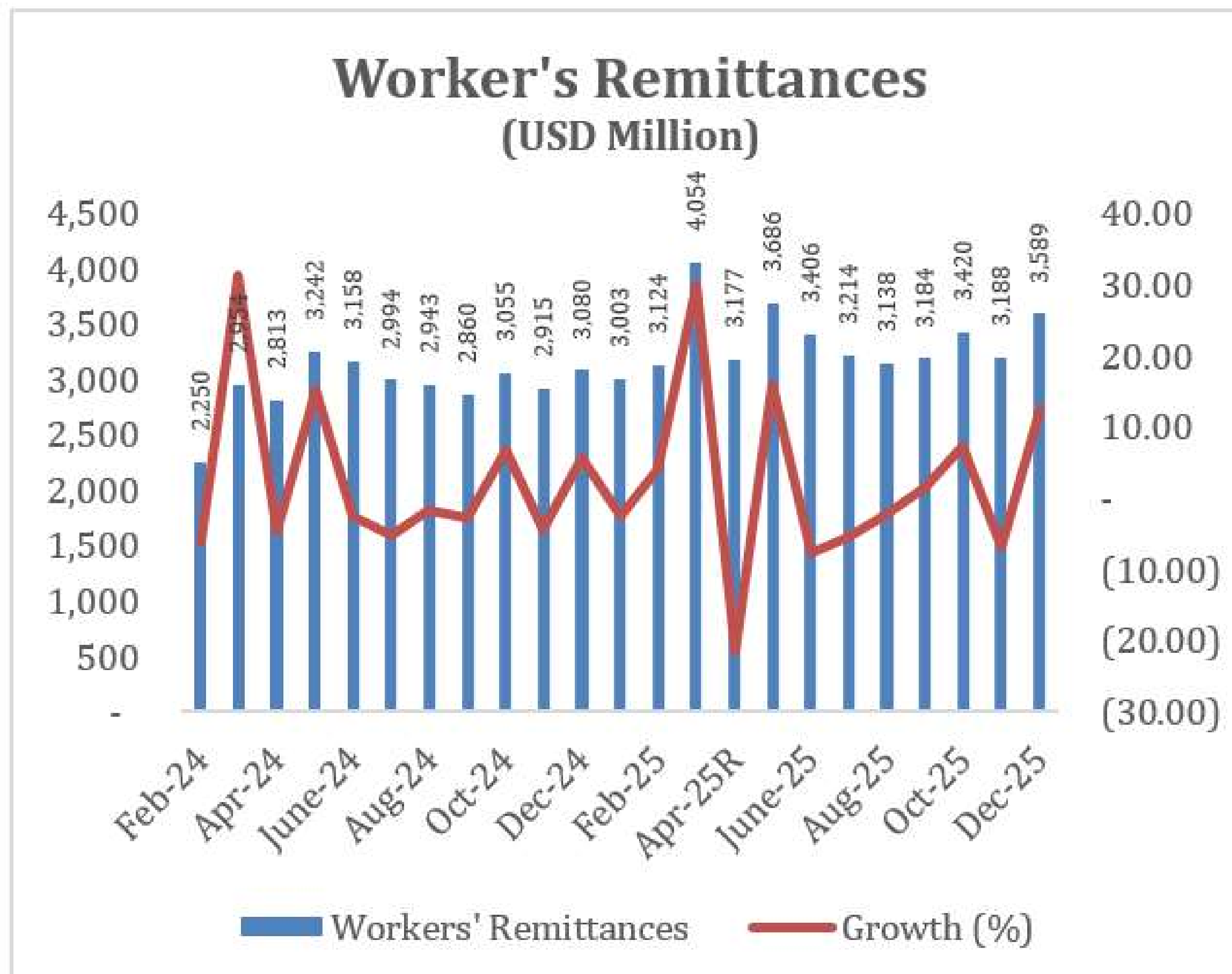
LSM (%)	Weight	Nov-25	Nov-24	Jul-Nov FY26 (%)
Food	10.69	0.70	(0.26)	3.43
Beverages	3.84	32.61	(4.76)	5.88
Tobacco	2.07	8.56	22.58	3.44
Textile	18.16	2.52	1.04	1.77
Wearing Apparel	6.08	18.43	(5.67)	7.14
Paper & Board	1.63	(1.37)	1.51	2.96
Coke & Petroleum Products	6.66	43.66	(-16.03)	18.06
Rubber Products	0.24	6.10	4.96	10.79
Non Metallic Mineral Products	5.01	7.30	(9.91)	12.26
Fabricated Metal	0.42	13.37	(17.51)	9.88
Computer, electronics and Optical products	0.03	0.94	1.72	1.45
Electrical Equipment	2.05	(13.96)	(13.96)	1.45
Automobiles	3.10	61.35	89.06	75.15
Other transport Equipment	0.69	42.81	46.27	39.16
Other Manufacturing (Football)	0.32	17.39	(13.33)	25.94
Leather Products	1.23	(2.35)	1.23	0.00
Wood Products	0.18	0.17	(7.68)	(0.00)
Chemicals	6.48	0.60	(7.04)	(0.12)
Pharmaceuticals	5.15	0.33	1.21	(0.34)
Iron & Steel Products	3.45	(5.99)	(11.25)	(0.17)
Machinery and Equipment	0.39	(16.37)	(5.40)	(0.05)
Furniture	0.51	6.33	(53.25)	(0.19)
LSM Growth for Nov 2025 (Y/Y)				**10.37%**
LSM Growth of Nov 2025 vs. Oct 2025 (M/M)				**0.16%**
LSM Jul-Nov FY26 (Cumulative)				**6.01%**

(Source: PBS)

5. WORKER'S REMITTANCES

As per the SBP, Pakistan received a monthly remittance inflow of $3.60 billion in December 2025, recording a increase of 12.6% compared to $3.19 billion in Nov 2025 on a M-o-M basis. Similarly, on a Y-o-Y comparison, the remittance inflows went up by 16.5% when compared to $3.08 billion received a year ago in the same month.



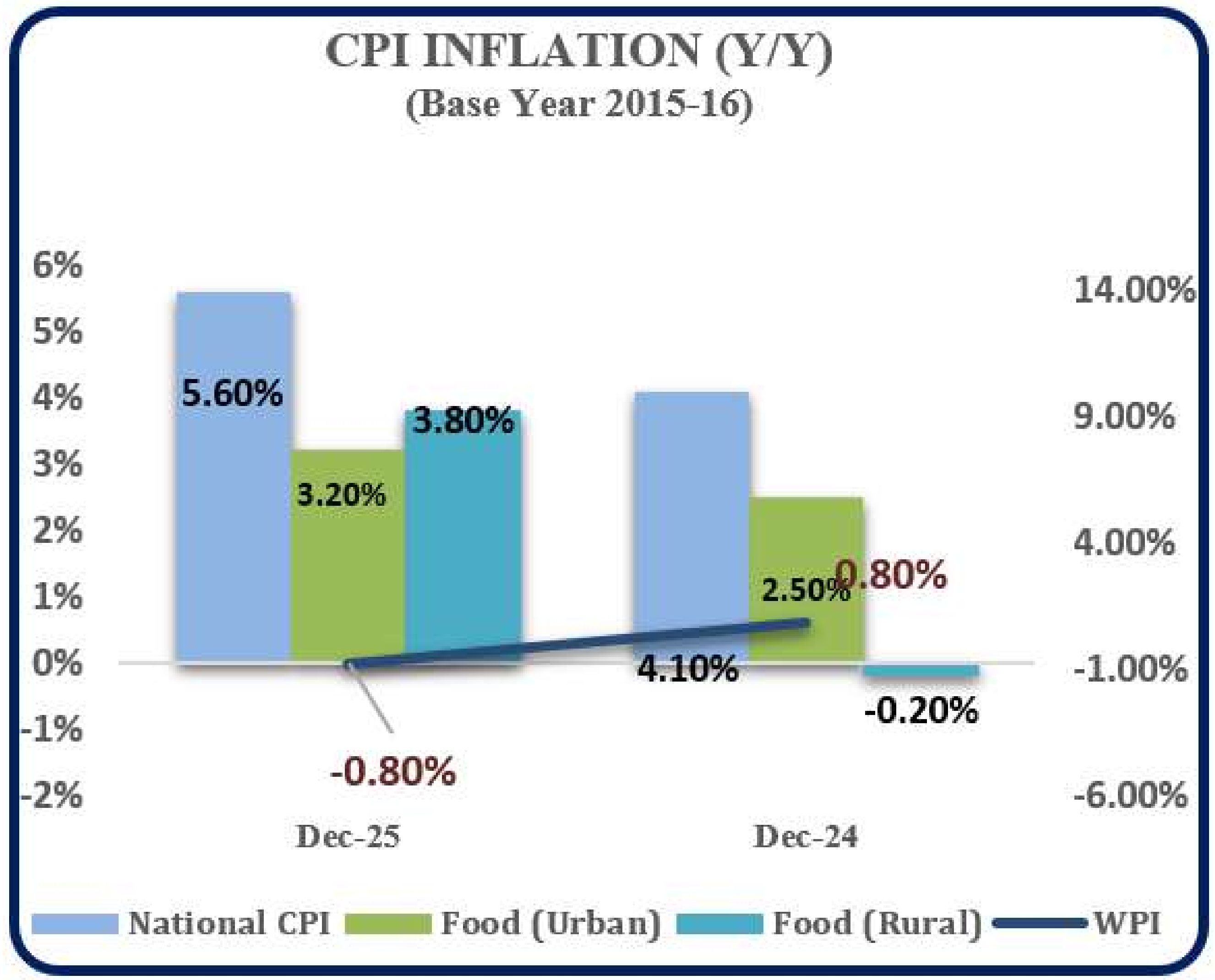


6. CONSUMER PRICE INDEX INFLATION

According to the PBS, the monthly inflation rate in Dec 2025 is reported at 5.9% on a Y-o-Y basis. The increase in inflation is due to non perishable food items and health, and utility sector seeing a rise in prices. Additionally, the food inflation rates in both the urban and rural areas rose up to a level of 3.2% and 3.8%, respectively. The Wholesale Price Index ("WPI") declined by 0.8% on a Y-o-Y basis in FY26, which was recorded 0.8% in the same month of FY25. On a monthly basis, the National CPI has recorded a deflation of 0.4%. Similarly, the Food inflation rate has fallen by 1.7% and 1.9% in both the urban and the rural areas, respectively. 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.

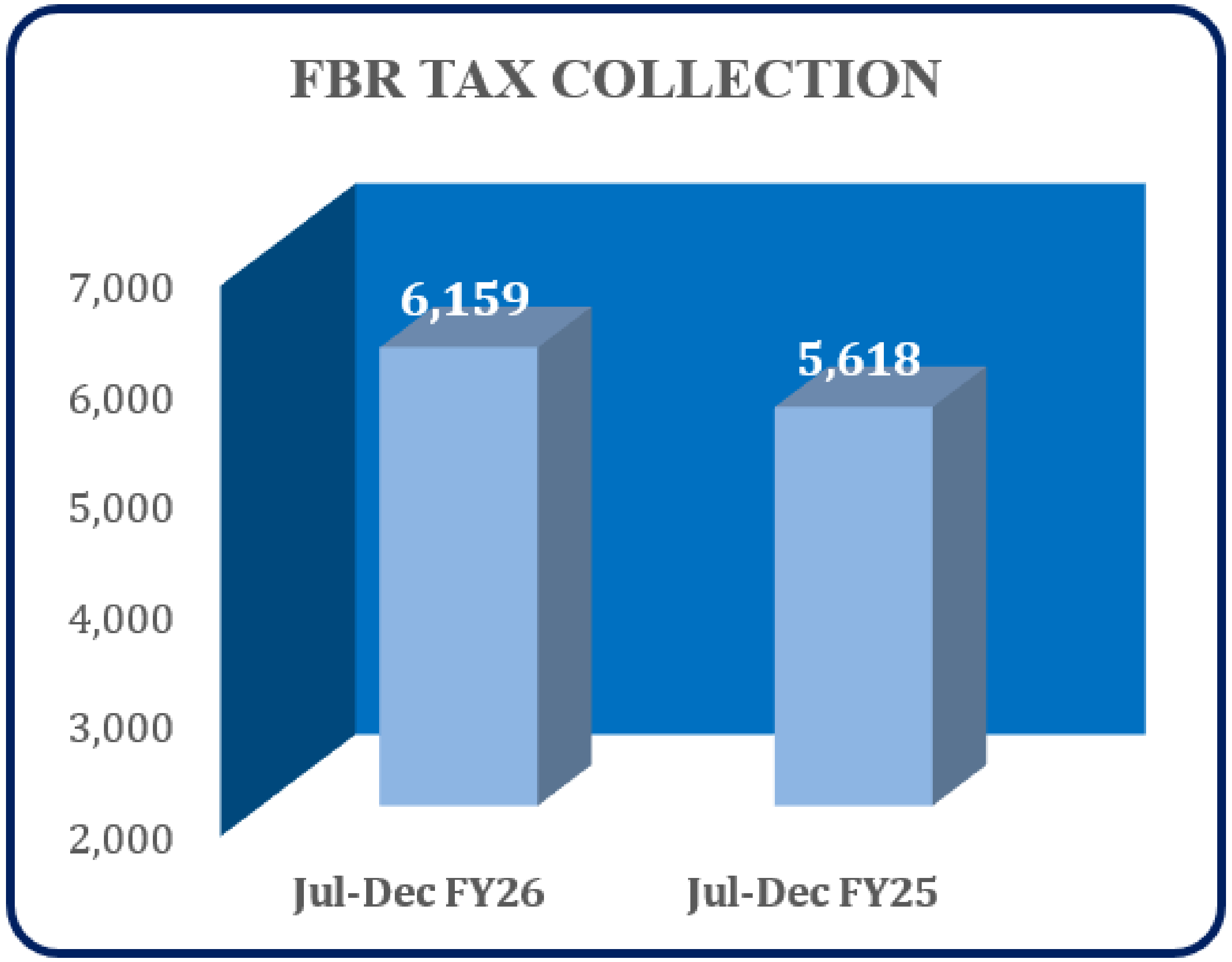
Group	Weight (%)	% Change over	
		Nov-25	Dec-24
Food	34.58	(2.16)	3.24
Non-perishable	29.60	0.42	7.49
Perishable	4.99	(17.74)	(20.07)
Utility	23.63	0.67	6.86
Health	2.79	0.38	7.74
Transport	5.91	(0.06)	4.94
Education	3.79	0.88	9.90
Restaurants & Hotels	6.92	0.57	5.57

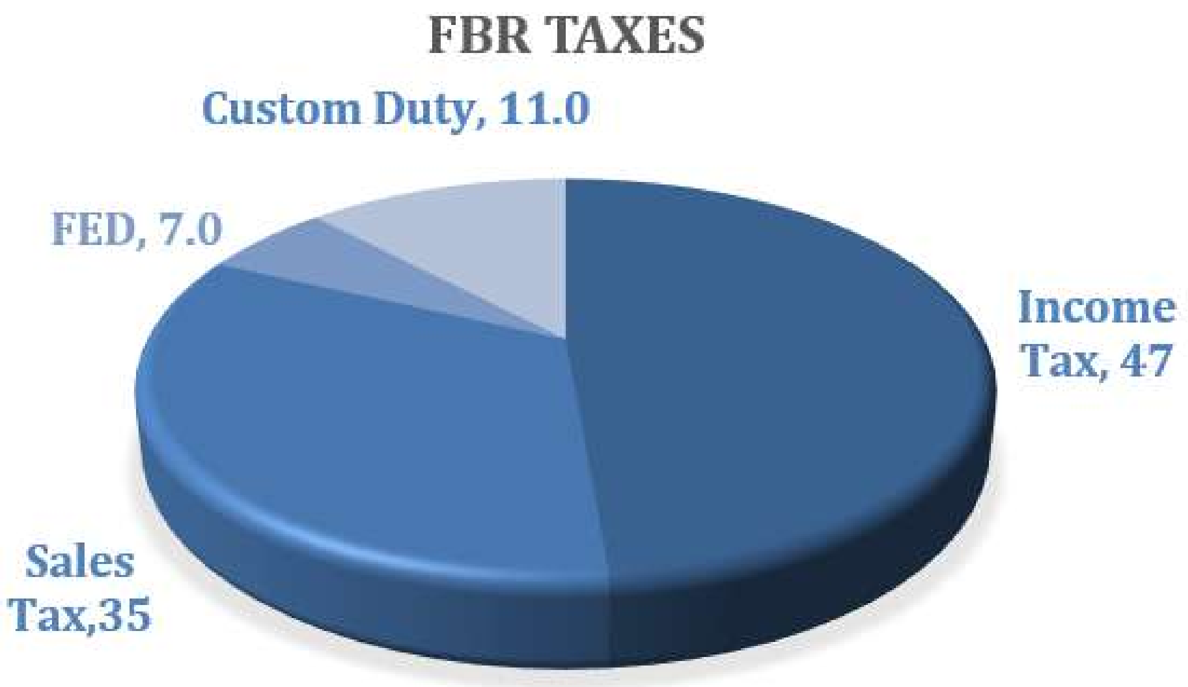
(Source: PBS)



7. FBR TAX REVENUE COLLECTION

As per the data published by the FBR, the FBR collected PKR 6,159 billion worth of tax revenue in the Jul-Dec period of FY26 and failed to achieve its target of PKR 6,490 billion. As per the article by Shahbaz Rana, published in Express tribune titled, 'FBR misses tax target by Rs330b', "Against a target of Rs3.3 trillion, FBR collected Rs3.03 trillion in income tax, reflecting 9% growth. Sales tax reached Rs2.09 trillion below target but up 10%. Federal excise duty stood at Rs400 billion with 11% growth, while customs duty totaled Rs642 billion, missing the target but recording an 8% increase."

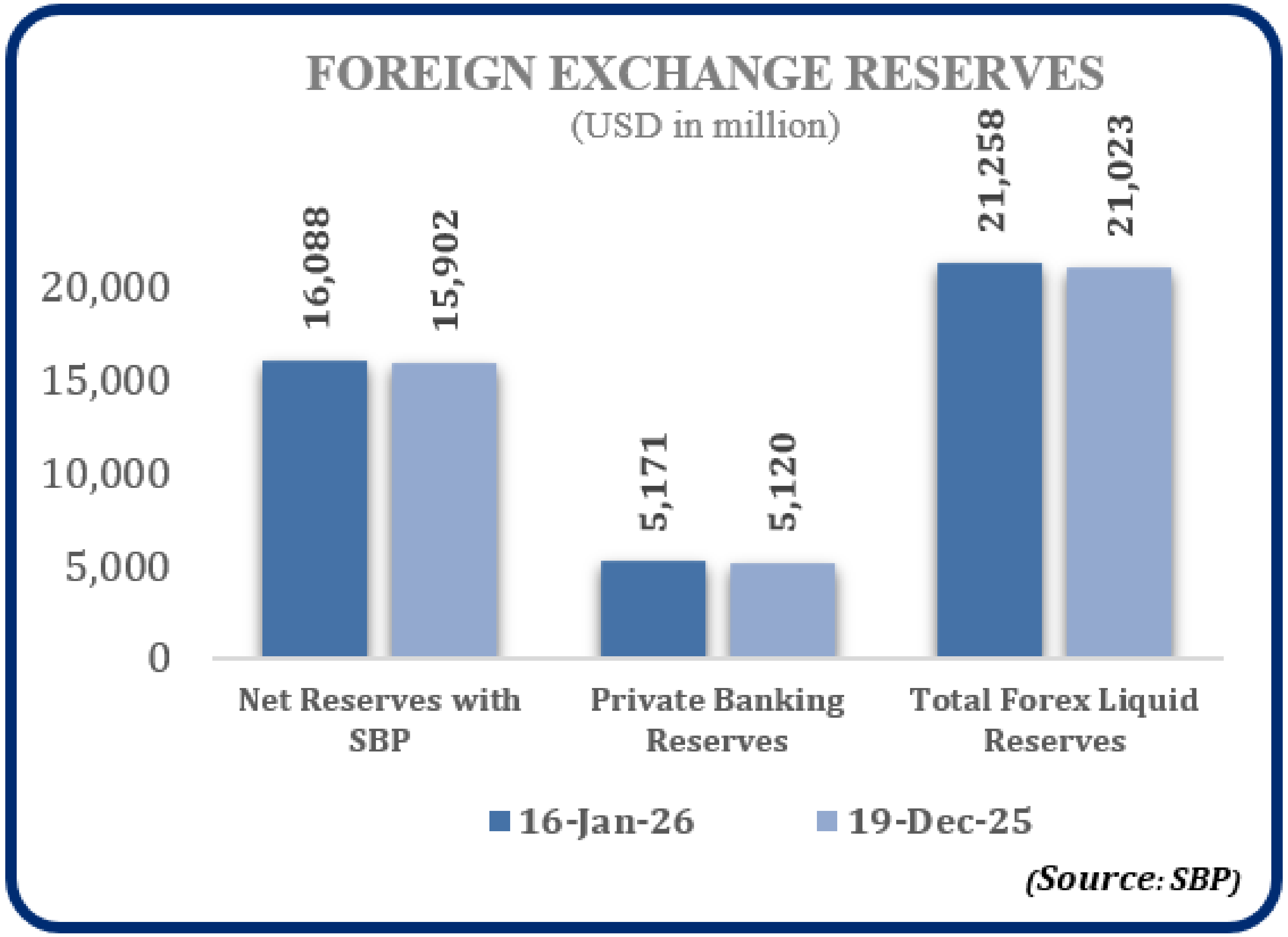




(Source: Express Tribune)

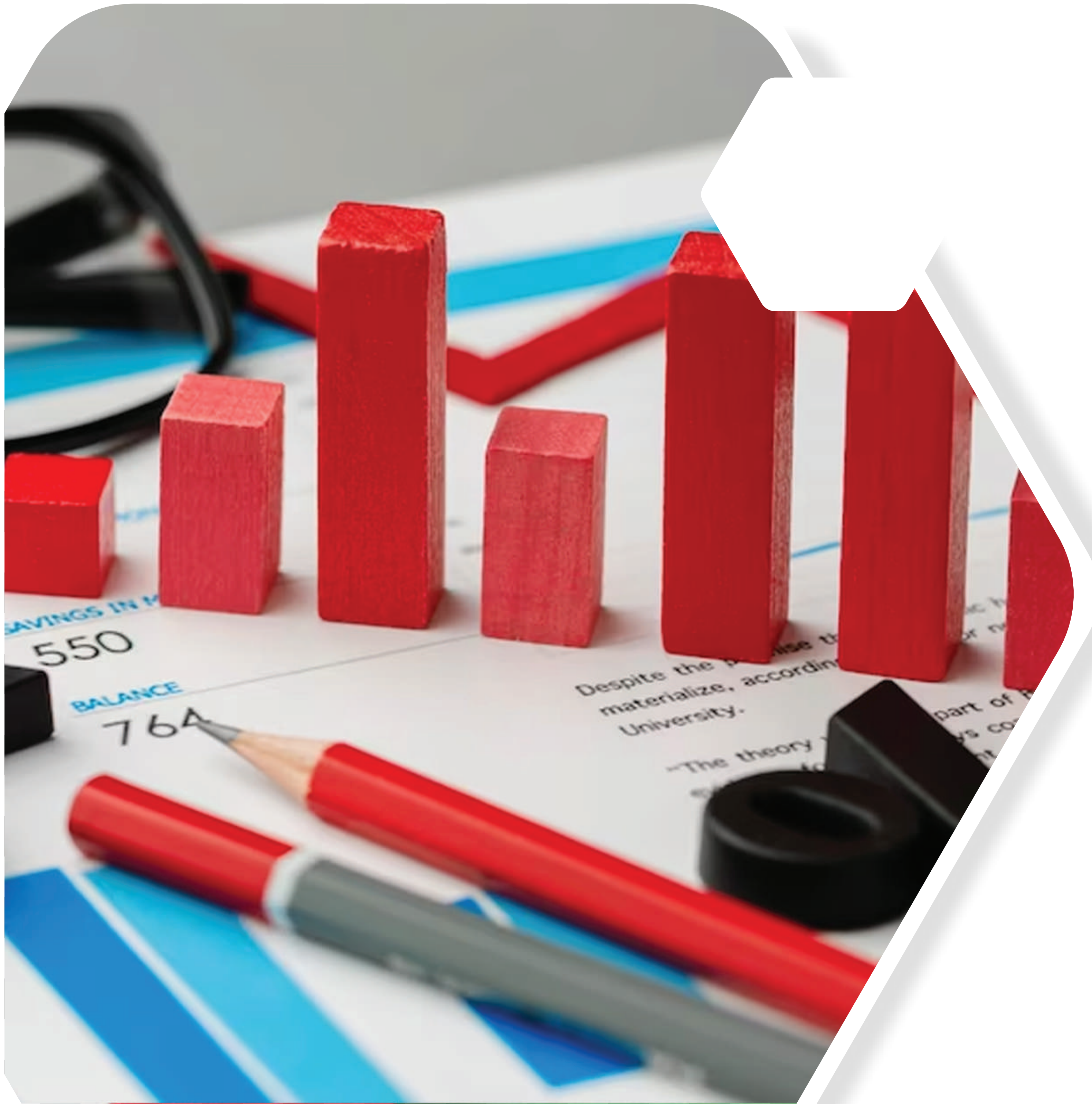
8. FOREIGN EXCHANGE RESERVES

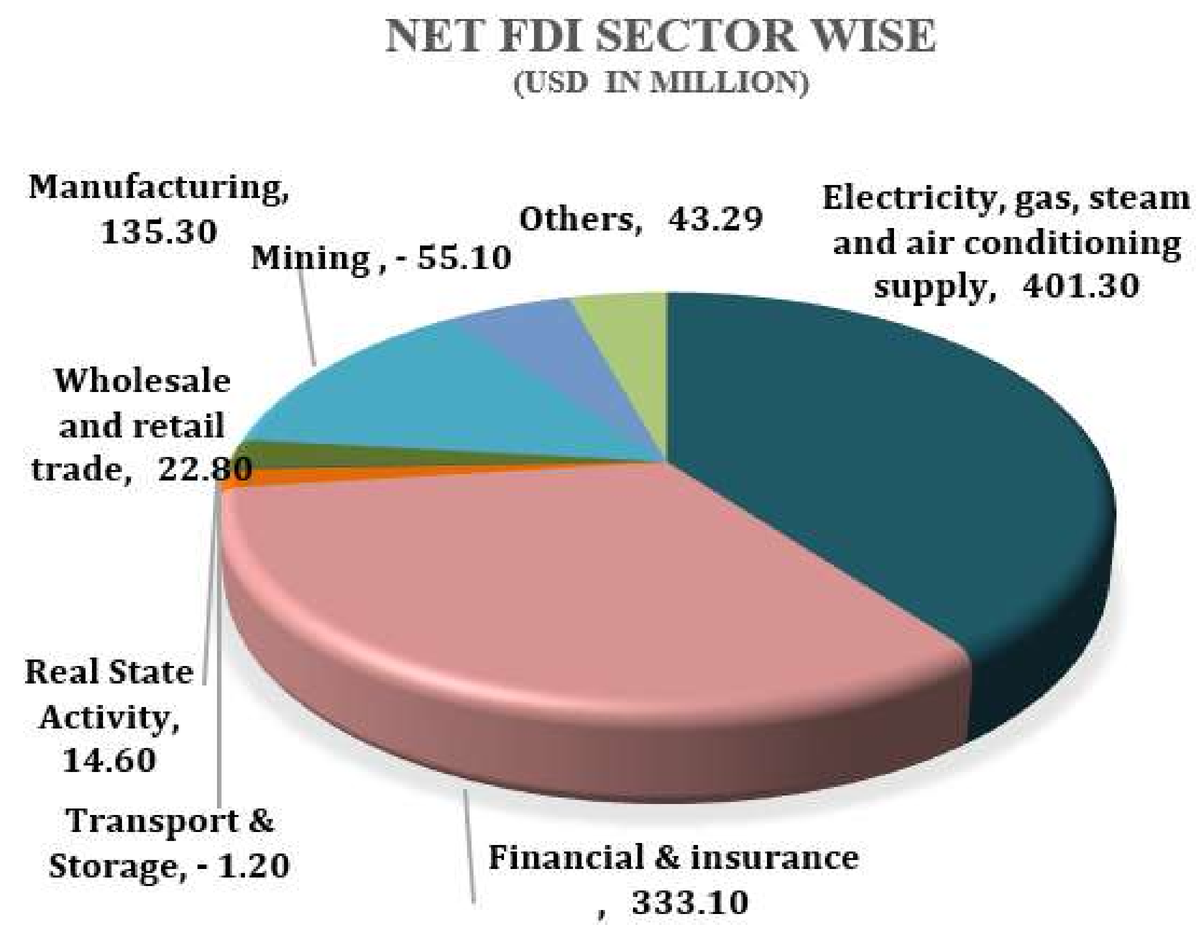
The Net foreign exchange reserves of the SBP stood at $16.09 billion as of Jan 16th, 2025, representing an increase of 1.2%, or $185 million, compared to previous month reserves of $15.90 billion on Dec 19th, 2025.



9. FOREIGN DIRECT INVESTMENT

Pakistan's net FDI has plunged by 76.4% or $617 million to $808 million provisionally during the Jul-Dec period of FY26, as compared to $1,425 million during the same period of FY25. Whereas, the total Net Foreign Investment plunged by 548 times or $1,140 million to $207 million on a Y-o-Y basis in Jul-Dec period of FY26 as against the amount of $1,343 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-Nov period of FY26.





10.DEBT PROFILE

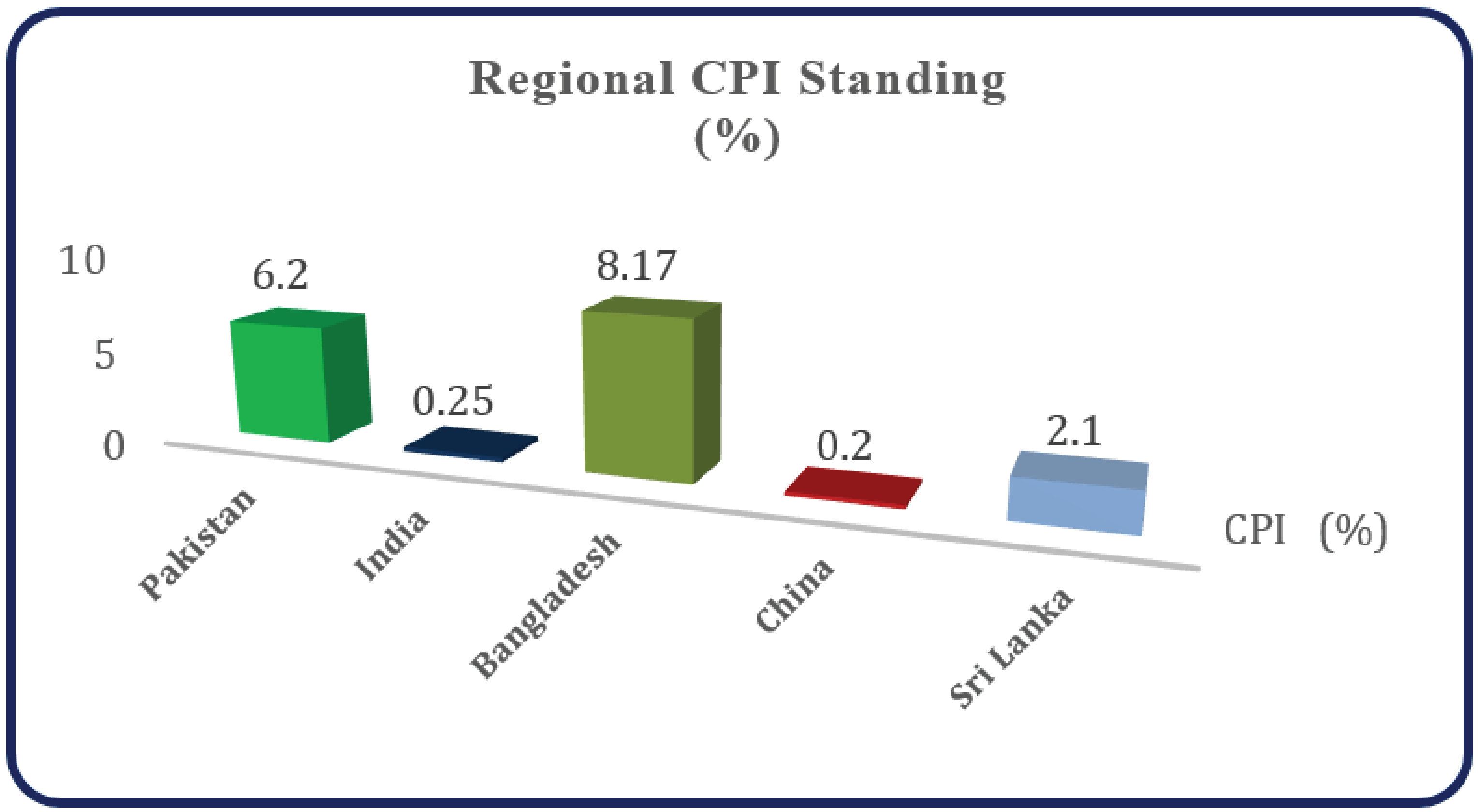
The total central Government debt, comprising of the Government's domestic debt and external debt, has surged to PKR 77.5 trillion in Nov 2025, marking a substantial increase of 10.2% compared to the same month of the previous Fiscal Year. These figures underscore the significant escalation in the country's debt burden, signaling challenges in debt management and fiscal sustainability.

Pakistan's Total Debt & Liabilities			
(PKR in billion)	Nov-25	Nov-24	% change
Domestic Debt	54,619	48,584	12.4%
% of GDP	**47.6%**	**46.2%**	
External Debt	22,925	21,780	5.3
% of GDP	**22,925**	**20.7%**	
Total Debt	77,543	70,365	10.2
% of GDP	**67.6**	**67.0%**	
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 stable against the USD over the past month. Further, the inflation in Bangladesh has been steady at 8.5%. In Sri Lanka, the CPI has recorded inflation for the second consecutive months and recorded 2.1% in December, influenced by the slight increase in aggregate demand in the Sri Lankan economy. Meanwhile, India's inflation has risen up to 1.3% from 0.7%, primarily driven by increasing prices of food articles and food products. Additionally, China has experienced an inflation in December 2025 which is recorded at 0.8%.



(Source: Trading Economics)

Country	Local Currency Units per USD (As of 25th Jan)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	279.9	(1.84)
India	91.8	(6.53)
Bangladesh	122.3	(0.8)
China	7.0	3.9
Sri Lanka	309.8	(3.8)

(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 inflation stable at 5.2% in the H1FY26 period, 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. 546 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