

Pakonomics

February 2026



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HIGHLIGHTS

The State Bank of Pakistan's Monetary Policy Committee ("MPC") decided to keep the policy rate unchanged at 10.5% in its latest meeting held on the 9th of March 2026.

The MPC noted that the Middle East conflict has increased global fuel, freight, and insurance costs, while disrupting trade and travel, creating uncertainty for the domestic economy. However, Pakistan's macroeconomic fundamentals, including inflation and external and fiscal buffers, are stronger than during the Russia-Ukraine war period. While FY26 projections remain broadly unchanged, risks to the macroeconomic outlook have increased significantly.

According to the valuation of Tola Associates ("TA"), the value of PKR is 252.2/USD after incorporating the Current Account Deficit ("CAD") of the Jul-Feb period of FY26.

In the inter-bank market, the value of the national currency stands at PKR 279.2/USD as of 24th March 2025. Over the past month, the USD to PKR parity rate has slightly declined from 280/USD.

According to the Pakistan Bureau of Statistics ("PBS"), Pakistan's LSM sector showed an expansion of 10.5% in January 2026 on a Year-on-Year ("Y-o-Y") basis vs. January 2025.



According to the State Bank of Pakistan ("SBP"), Pakistan received a monthly remittance inflow of \$3.29 billion in February 2026, recording a decrease of 5.1% compared to \$3.46 billion in January 2025 on a M-o-M basis.

The Net foreign currency reserves held by the SBP stood at \$16.35 billion as of 13th March 2026.

The Currency in circulation stock from 1st July 2025 to 7th March 2026 has expanded by PKR 955 billion, compared to an expansion of PKR 613 billion during the same period last year.

According to the PBS, the pace of Consumer Price Index ("CPI") inflation has clocked in at 7.0% on a Y-o-Y basis in February 2026 vs. 1.5% in the same month of the previous year.

Pakistan's net FDI has plunged by 33% or \$600 million to \$1,195 million provisionally during the Jul-Feb period of FY26, as compared to \$1,793 million during the same period of FY25.

The total Net Foreign Investment plunged by 56% or \$878 million to \$704 million on a Y-o-Y basis in the Jul-Feb period of FY26 as against the amount of \$1,582 million in the same period of FY25.

Pakistan reported a CAD of \$700 million during the Jul-Feb Period of FY26, compared to a Current Account Surplus of \$479 million in the same period of FY25.



ECONOMY AT A GLANCE

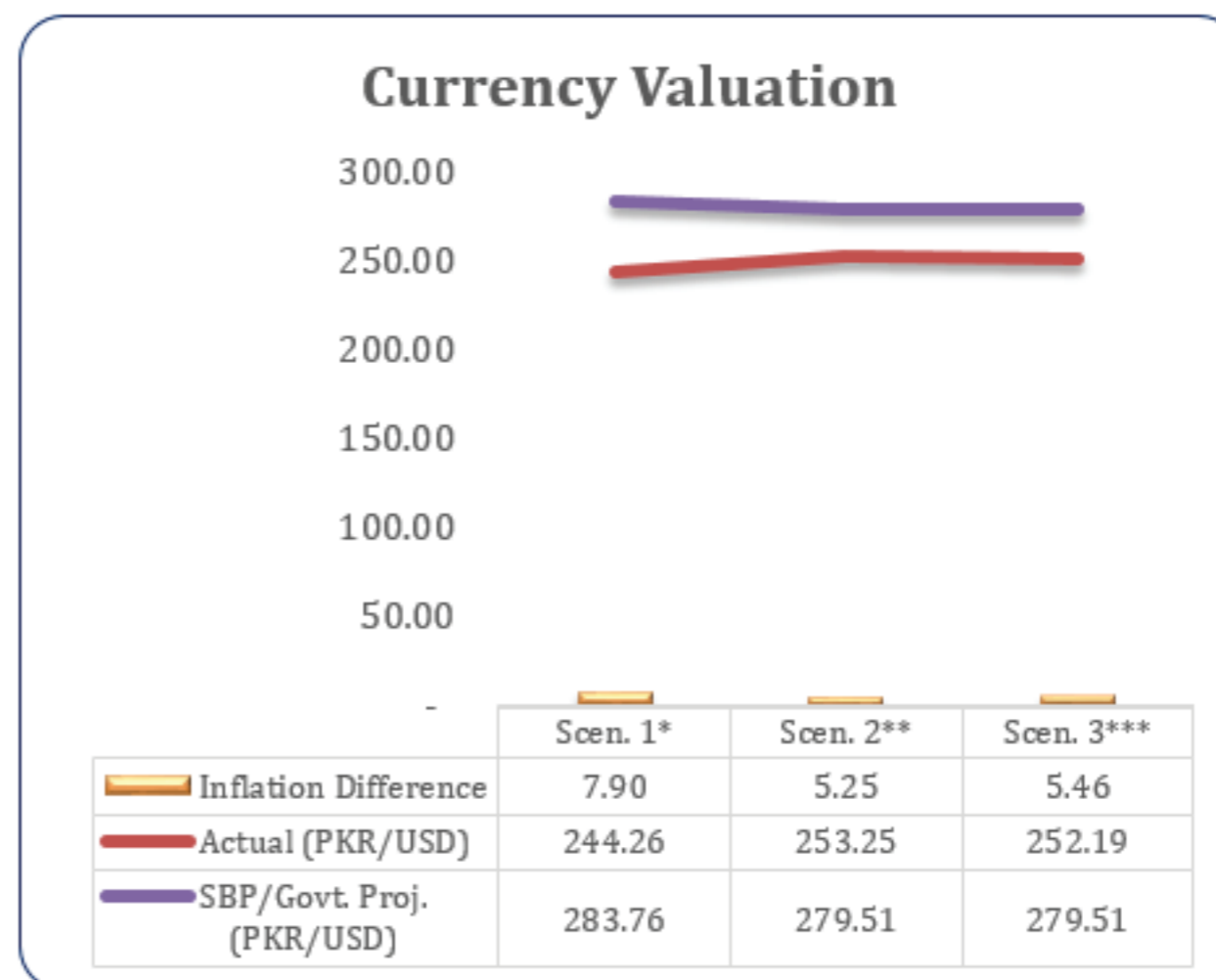


Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	January	↑	10.54 %	(0.91) %
Central Government Debt	January	↑	PKR 79,322 Billion	PKR 72,124 Billion
Credit to Private Sector	Jul – 7th March	↑	PKR 888 Billion	PKR 574 Billion
Worker's Remittances	February	↑	US \$3,288 Million	US \$3,127 Million
Broad Money (M2)	Jul – 7th March	↑	PKR 1,411 Billion	PKR 39 Billion
Net Government Sector borrowing	Jul – 7th March	↑	PKR 628 Billion	PKR (29) Billion
National CPI (Base Year 2015-16)	February	↑	7.0 %	1.5 %
FBR Tax Collection	Jul-Feb	↑	PKR 8,121 Billion	PKR 7,334 Billion
Foreign Exchange Reserves with SBP	As of 13th March	↑	\$16.35 Billion	\$11.15 Billion
Foreign Direct Investments	Jul-Feb	↓	\$1,582 Million	\$1,793 Million
Trade Deficit in Goods	Jul-Feb	↑	US\$ (25,042) Million	US\$ (20,037) Million
Current Account Deficit	Jul-Feb	↑	\$ (700) Million	\$479 Million

1. VALUATION OF THE PAKISTANI RUPEE PARITY

According to the valuation of TA, the value of PKR is 252.2/USD after adjusting the CAD of the period of Jul-Feb the FY26 (Note: This estimation also includes two major factors of CAD, i.e., Primary Income Balance and Secondary Income balance). The PKR has been kept artificially undervalued at PKR 279.3/USD, as the present value of PKR currency would have been 252.2/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-Feb 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 is restricted to its targeted value of \$2.11 billion for FY26.

*** Actual CAD of Jul-Feb FY2025-26 cumulated in the Projection (adjusted on a monthly basis)

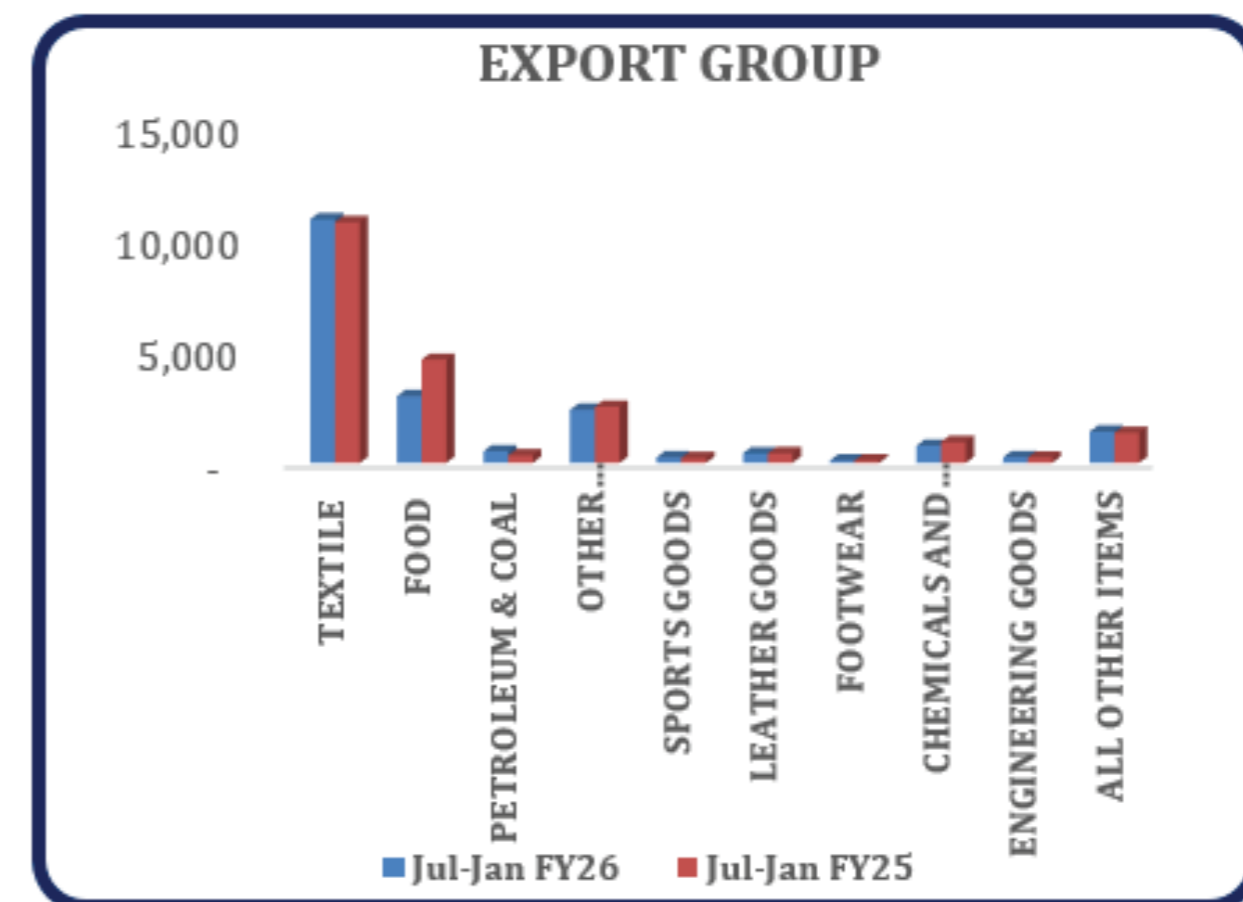
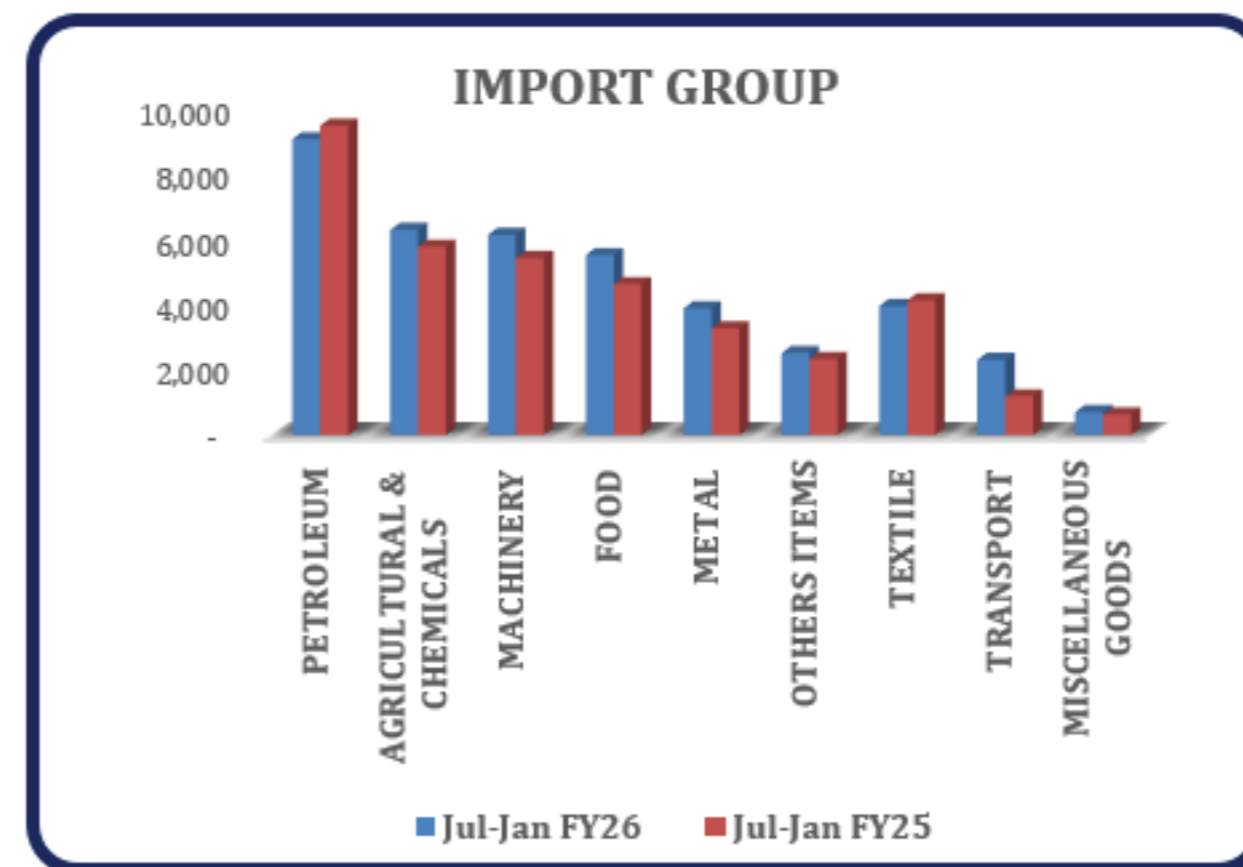
2. CURRENT ACCOUNT ("CA"):

The CA recorded a \$427 million surplus in the month of February 2026, marking the second consecutive month of surplus in FY26. This represents an increase of almost 5.3 times from a deficit of \$85 million in January 2026. On a year-on-year ("Y-o-Y") basis, the CAD has declined by more than six times compared to the same month in FY25.

CA FLOWS	Feb-26	Jan-26	Feb-25	MoM (%)	YoY (%)
Exports of goods FOB	2,482	2,745	2,609	(9.58)	(4.87)
Imports of goods FOB	5,152	5,346	5,050	(3.63)	2.02
(i) Balance on trade in goods	(2,670)	(2,601)	(2,441)	2.65	9.38
Exports of services	811	879	695	(7.74)	16.69
Imports of services	910	1,148	952	(20.73)	(4.41)
(ii) Balance on trade in services	(99)	(269)	(257)	(63.20)	(61.48)
Primary Income Credit	80	91	76	(12.09)	5.26
Primary Income Debit	407	789	673	(48.42)	(39.52)
(iii) Balance in Primary Income	(327)	(698)	(597)	(53.15)	(45.23)
Secondary Income Credit	3,588	3,680	3,257	(2.50)	10.16
Worker Remittances	3,288	3,464	3,127	(5.08)	5.15
Secondary Income Debit	65	44	47	47.73	38.30
(iv) Balance on secondary income	3,523	3,636	3,210	(3.11)	9.75
Current Account Surplus/ (Deficit) "i + ii + iii + iv"	427	68	(85)	527.94	(602.35)

3. BALANCE OF TRADE IN GOODS

According to the PBS, Pakistan's trade deficit has increased by a margin of 4.6% to \$2.98 billion in Feb of FY26, compared to \$2.85 billion in the same month of FY25. Moreover, the exports went down by 8.8% to \$2.27 billion during Feb month of FY26 compared to \$2.49 billion in the same month of last FY25. Further, the imports decreased by 1.6% to \$5.25 billion in Feb of FY26 compared to \$5.34 billion in the same period of FY25. Additionally, on a M-o-M basis, exports went down by almost 26.0% compared to \$3.06 billion in Jan 2026. Furthermore, the country's trade deficit increased by 8.4% compared to \$2.75 billion in Jan 2026 on a M-o-M basis.



4. LARGE SCALE MANUFACTURING

According to the PBS, Pakistan's LSM sector showed an expansion of 10.5% in Jan 2026 on a Y-o-Y basis vs. Jan 2025. Likewise, on a M-o-M basis, the overall output growth rose by 12.1%, compared to the month of Dec 2025. Additionally, Sector-wise, important groups such as cotton yarn, cotton cloth, the garment sector, and the cement industry showed a growth of 2.4%, 0.2%, 8.4%, and 11.5% respectively, in the month of January of FY26.

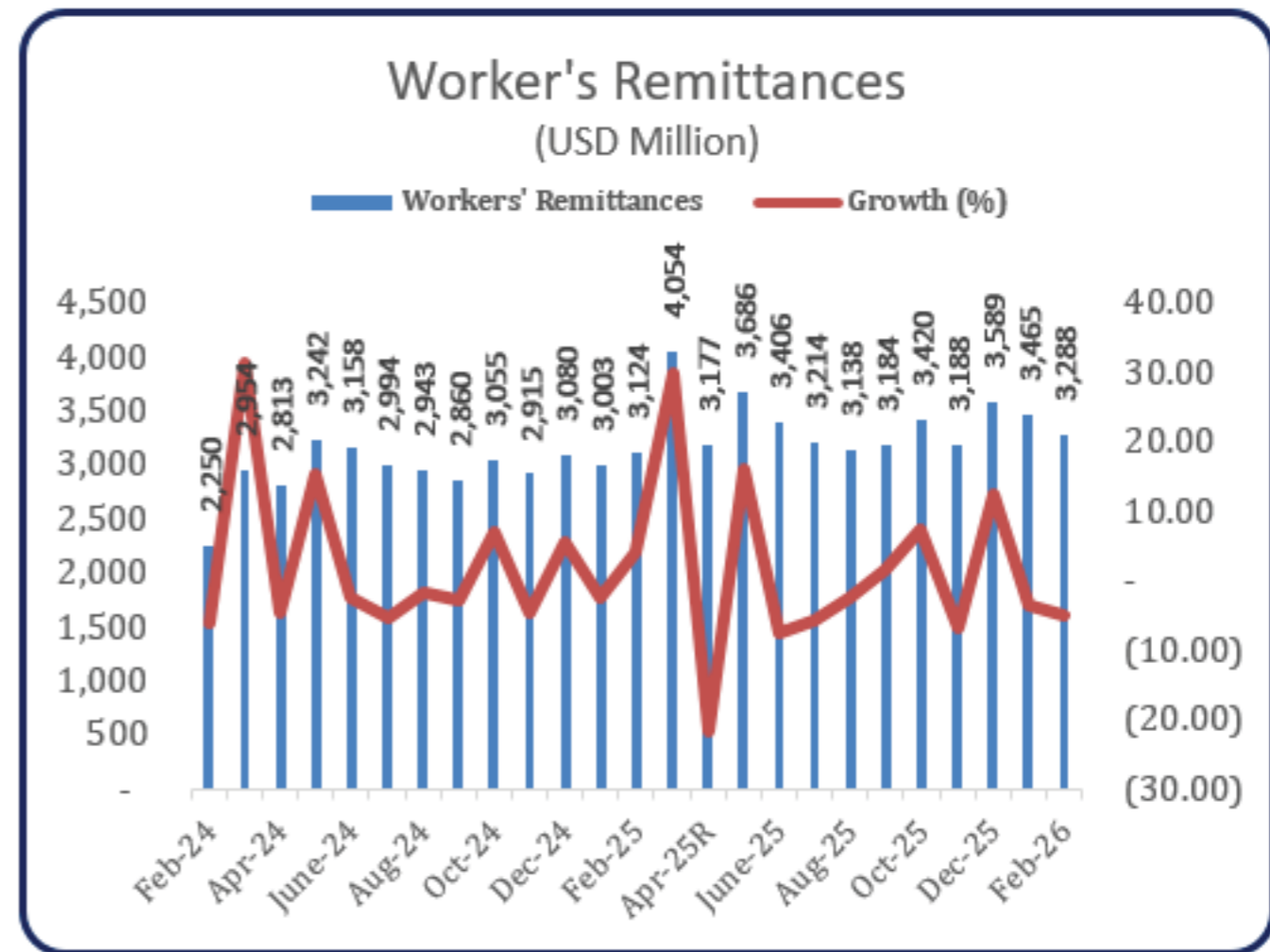
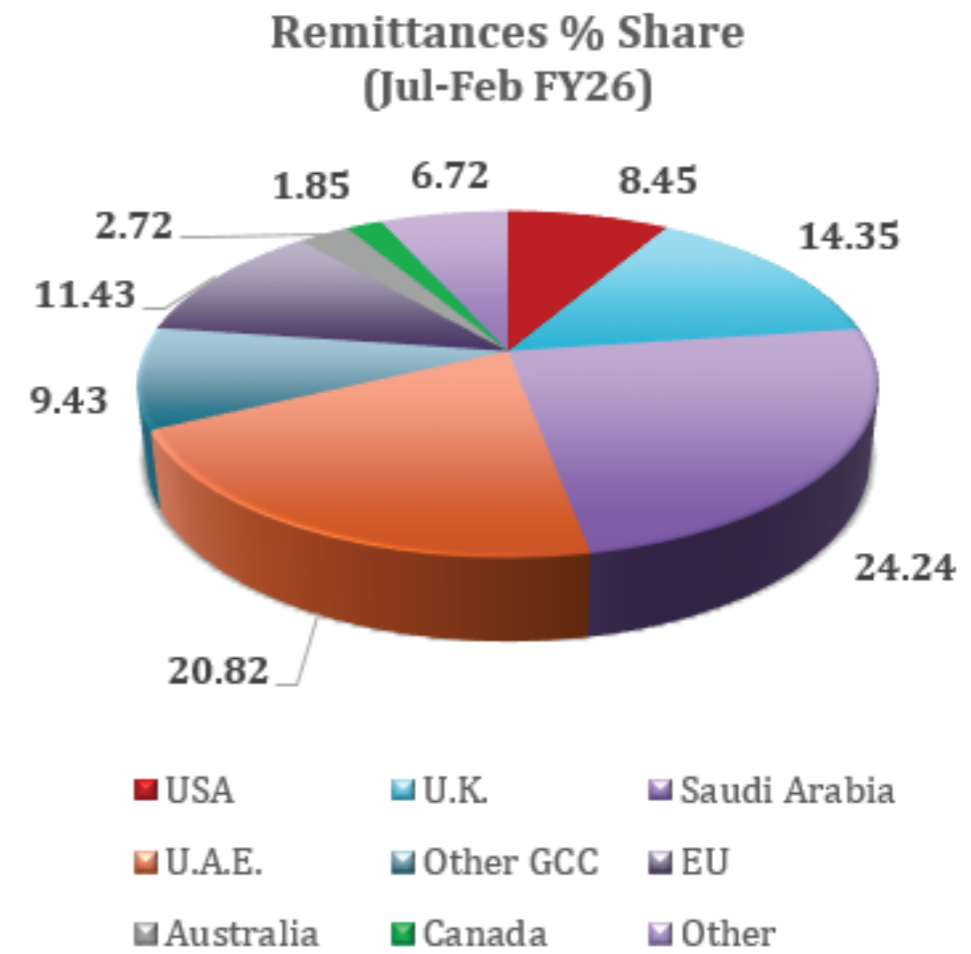
LSM (%)	Weight	Jan-26	Jan-25	Jul-Jan FY26 (%)
Food	10.69	12.07	(7.62)	3.28
Beverages	3.84	8.53	4.33	5.54
Tobacco	2.07	24.65	27.64	10.71
Textile	18.16	2.63	1.72	1.65
Wearing Apparel	6.08	10.82	15.05	8.02
Coke & Petroleum Products	6.66	2.36	19.70	11.71
Rubber Products	0.24	2.36	(1.38)	8.99
Non Metallic Mineral Products	5.01	9.97	(4.41)	10.44
Fabricated Metal	0.42	9.48	1.43	8.95
Computer, electronics and Optical products	0.03	3.23	2.88	1.93
Electrical Equipment	2.05	17.02	(11.40)	9.97
Automobiles	3.10	67.31	28.76	67.38
Other transport Equipment	0.69	36.31	40.13	40.59
Furniture	0.51	186.27	(66.00)	13.05
Other Manufacturing (Football)	0.32	59.11	(15.90)	24.99
Leather Products	1.23	(2.94)	1.55	(1.02)
Wood Products	0.18	(4.14)	(1.36)	(1.42)
Paper & Board	1.63	7.82	(2.21)	(1.58)
Chemicals	6.48	2.51	(12.39)	(1.35)
Pharmaceuticals	5.15	(1.63)	2.66	(4.82)
Iron & Steel Products	3.45	(8.87)	(11.52)	(5.10)
Machinery and Equipment	0.39	(19.41)	(20.92)	(18.83)
LSM Growth for Jan 2026 (Y/Y)				10.54%
LSM Growth of Jan 2026 vs. Dec 2025 (M/M)				12.08%
LSM Jul-Jan FY26 (Cumulative)				5.75%

(Source: PBS)



5. WORKER'S REMITTANCES

As per the SBP, Pakistan received a monthly remittance inflow of \$3.29 billion in February 2026, recording a decrease of 5.1% compared to \$3.46 billion in January 2025 on a M-o-M basis. Similarly, on a Y-o-Y comparison, the remittance inflows went up by 5.2% when compared to \$3.13 billion received a year ago in the same month.

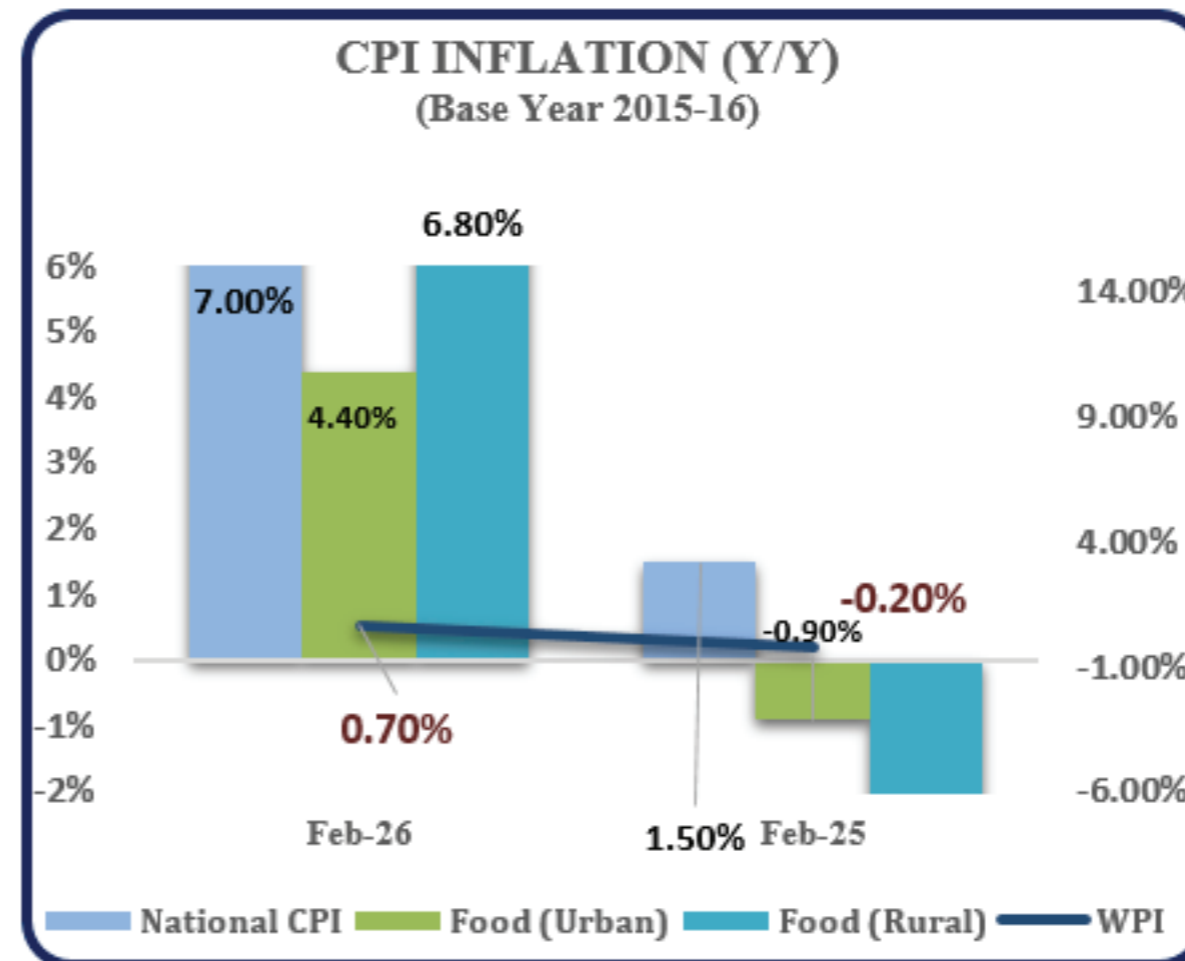


6. CONSUMER PRICE INDEX INFLATION

According to the PBS, the monthly inflation rate in February 2026 is reported at 7.0% on a Y-o-Y basis. The increase in inflation is due to non-perishable food items and the health, education, and utility sectors seeing a rise in prices. Additionally, the food inflation rates in both the urban and rural areas rose to a level of 4.4% and 6.8%, respectively. The Wholesale Price Index (“WPI”) increased at a rate of 0.7% on a Y-o-Y basis in FY26, which was recorded at -0.2% in the same month of FY25. Moreover, on a month-on-month (“M-o-M”) basis, the national CPI increased by 0.3%. Ironically, the Food inflation rate has fallen by 0.8% in urban areas and 0.5% in rural areas, respectively on a M-o-M basis. In February 2026, Core inflation, which is calculated by excluding energy and food items, rose by 7.1% and 8.3% in urban and rural areas on a Y-o-Y basis.

Group	Weight (%)	% Change over	
		Jan-26	Feb-25
Food	34.58	(0.85)	5.82
Non-perishable	29.60	(1.18)	6.91
Perishable	4.99	1.97	(2.57)
Utility	23.63	1.86	9.65
Health	2.79	0.61	7.19
Transport	5.91	(1.89)	0.37
Education	3.79	0.06	9.64
Restaurants & Hotels	6.92	0.35	4.93

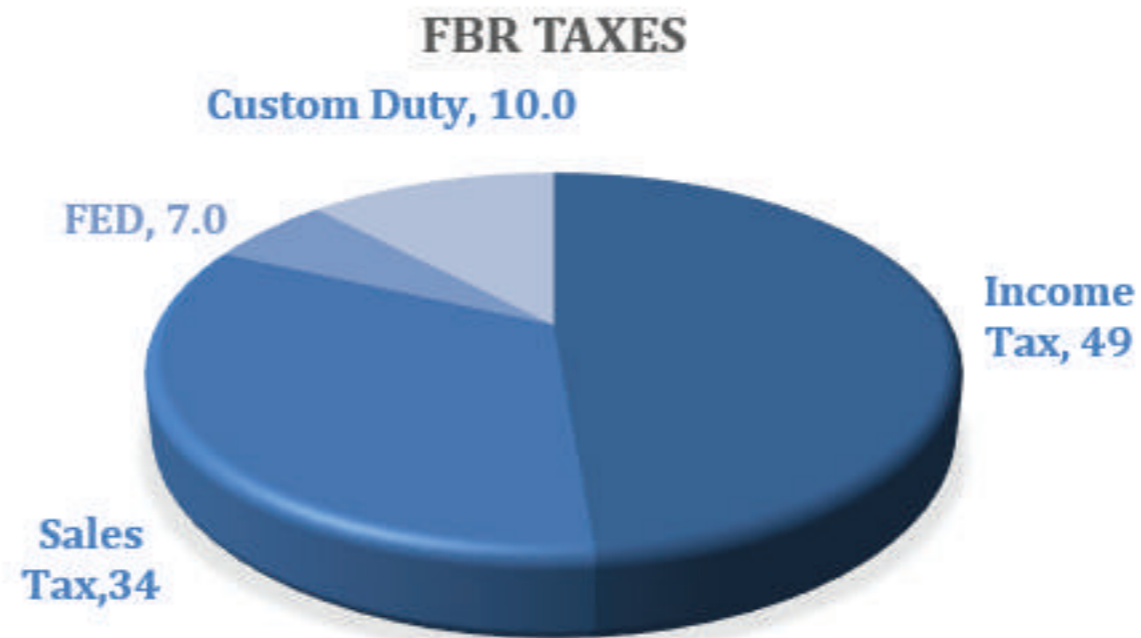
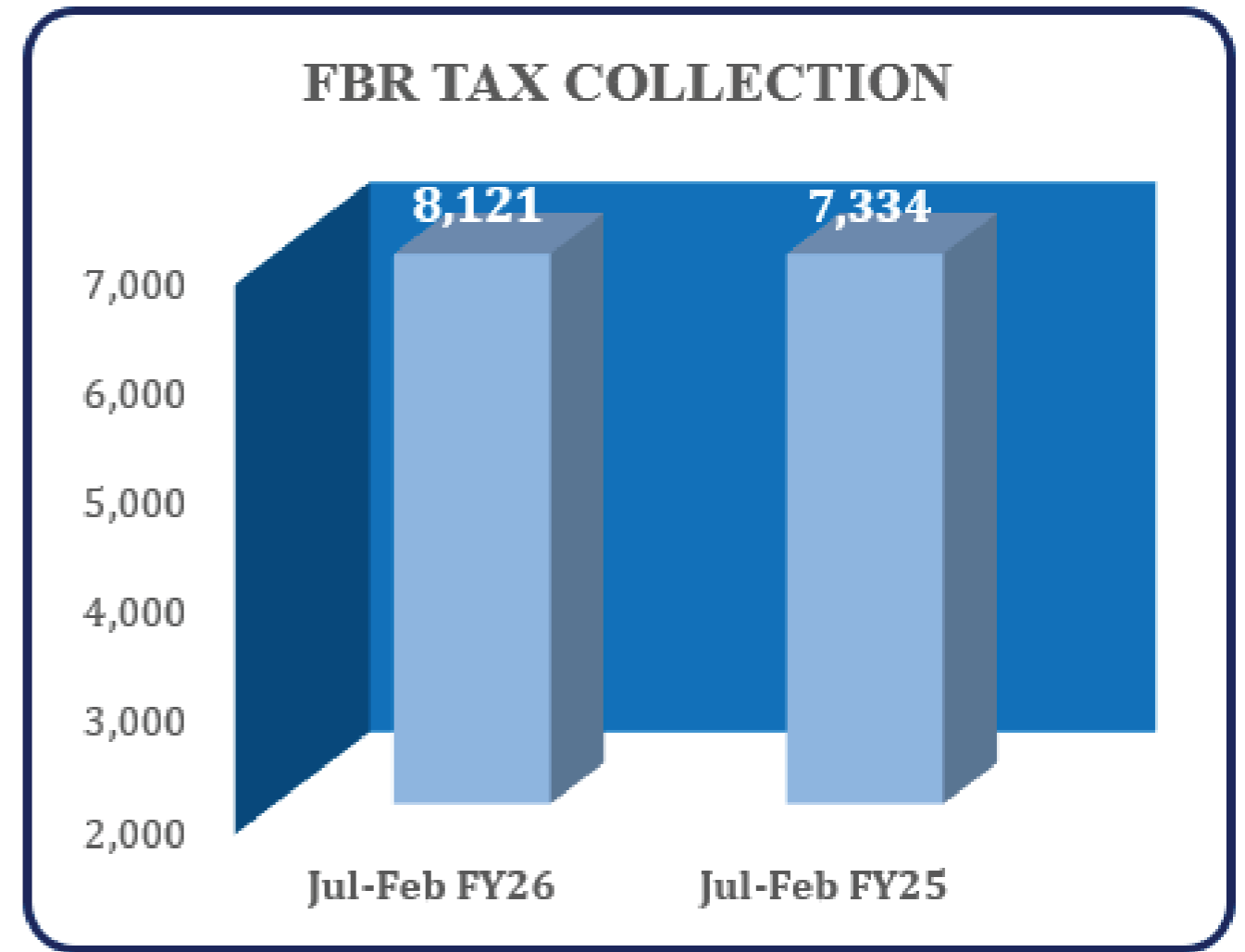
(Source: PBS)





7. FBR TAX REVENUE COLLECTION

As per the data published by the FBR, the FBR collected PKR 8,121 billion worth of tax revenue in the Jul-Feb period of FY26 and failed to achieve its target of PKR 8,550 billion. As per the article by Mubarak Zeb Khan, published in Dawn titled, 'FBR misses collection target by Rs429bn in eight months', "The FBR had set a revenue collection target of Rs8.550tr for 8MFY26. The revenue shortfall is primarily attributed to a slowdown in domestic sales tax collection, suspension of super tax and several other factors."

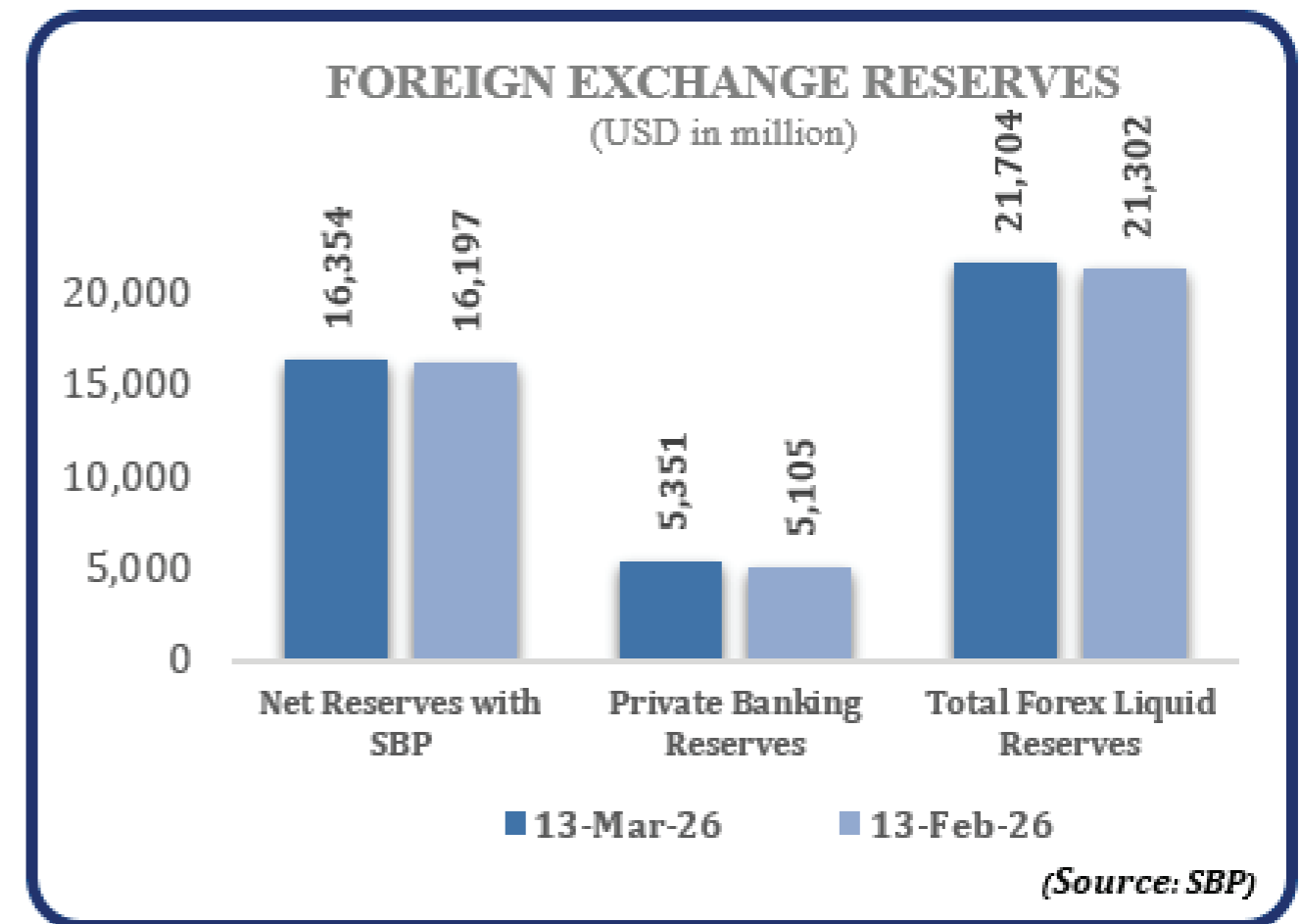


(Source: Dawn)



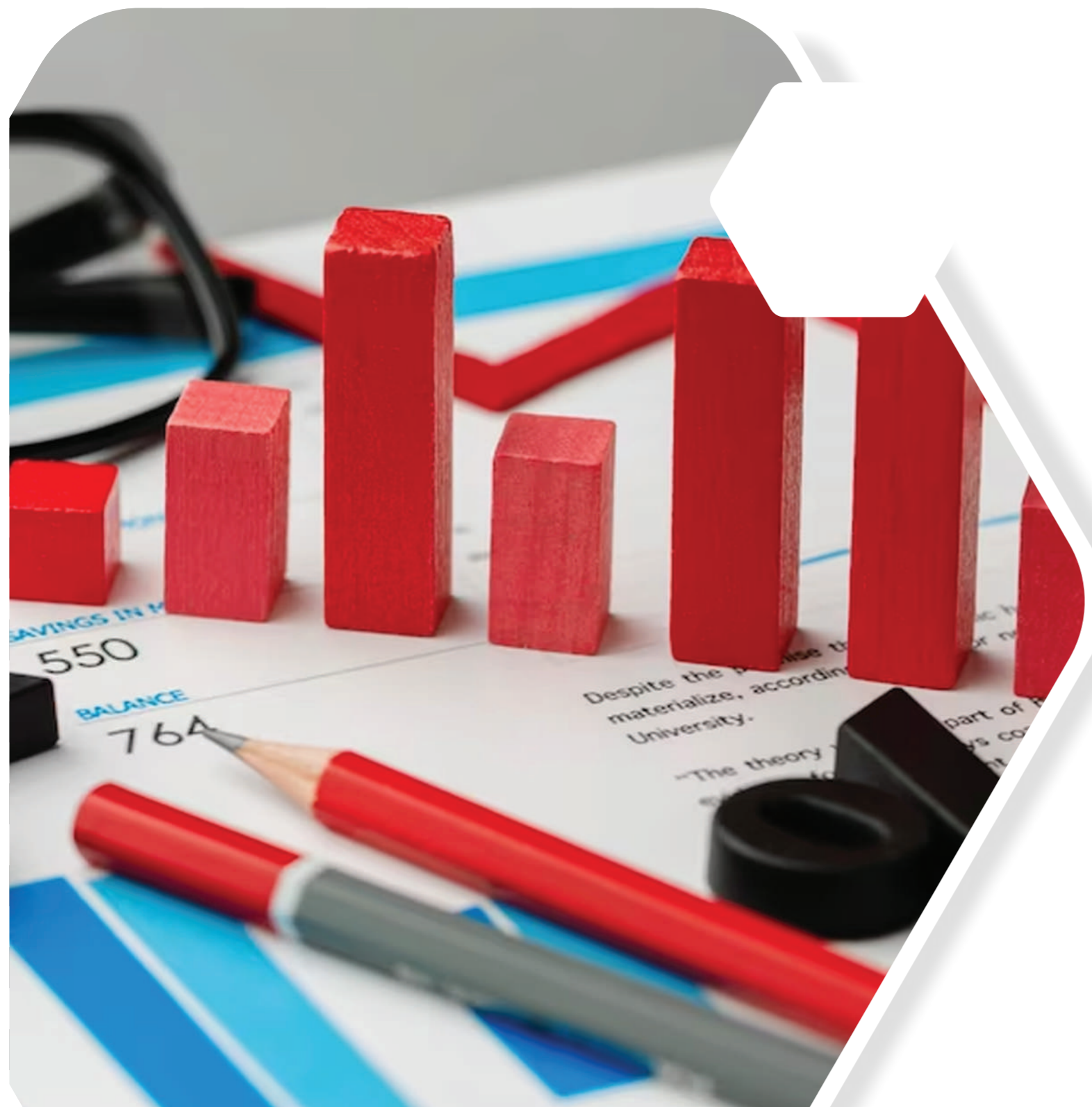
8. FOREIGN EXCHANGE RESERVES

The Net foreign exchange reserves of the SBP stood at \$16.35 billion as of March 13th, 2026, representing an increase of 1.0%, or \$157 million, compared to the previous month's reserves of \$16.20 billion on Feb 13th, 2026.

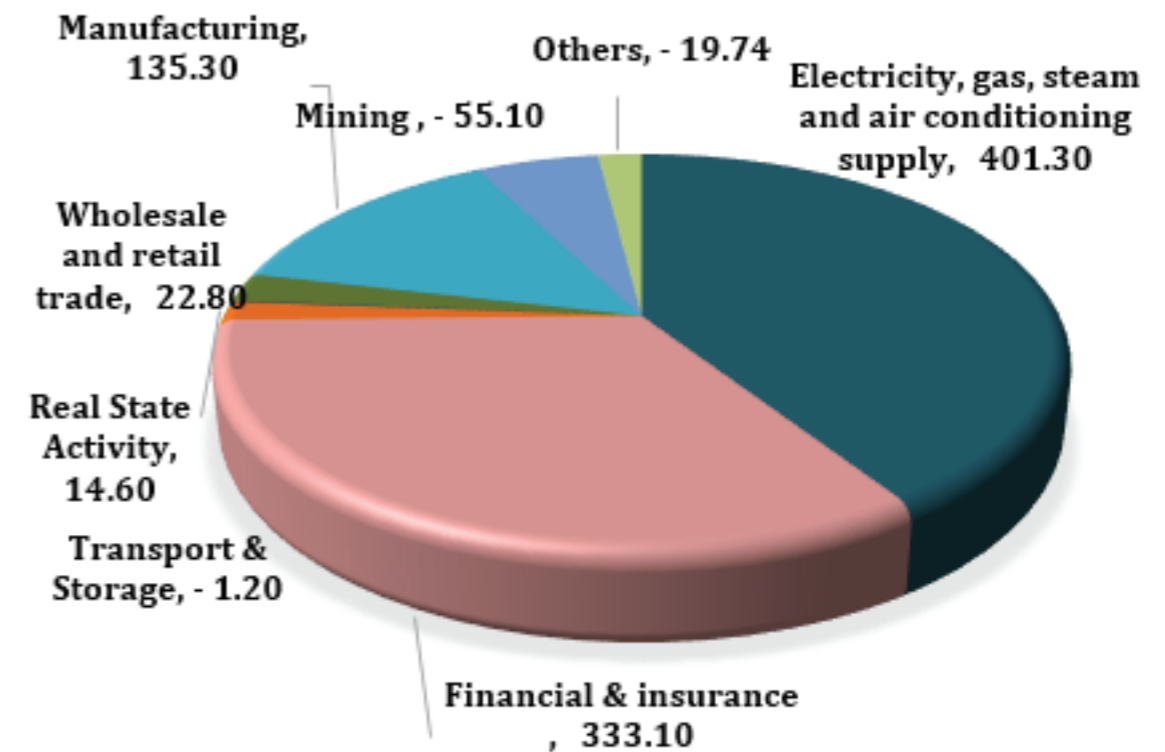


9. FOREIGN DIRECT INVESTMENT

Pakistan's net FDI has plunged by 33% or \$600 million to \$1,195 million provisionally during the Jul-Feb period of FY26, as compared to \$1,793 million during the same period of FY25. Whereas, the total Net Foreign Investment plunged by 56% or \$878 million to \$704 million on a Y-o-Y basis in the Jul-Feb period of FY26 as against the amount of \$1,582 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-Feb period of FY26.



NET FDI SECTOR WISE
(USD IN MILLION)



10. DEBT PROFILE

The total central Government debt, comprising of the Government's domestic debt and external debt, has surged to PKR 79.3 trillion by the end of January 2026, marking a substantial increase of almost 10.0% 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.

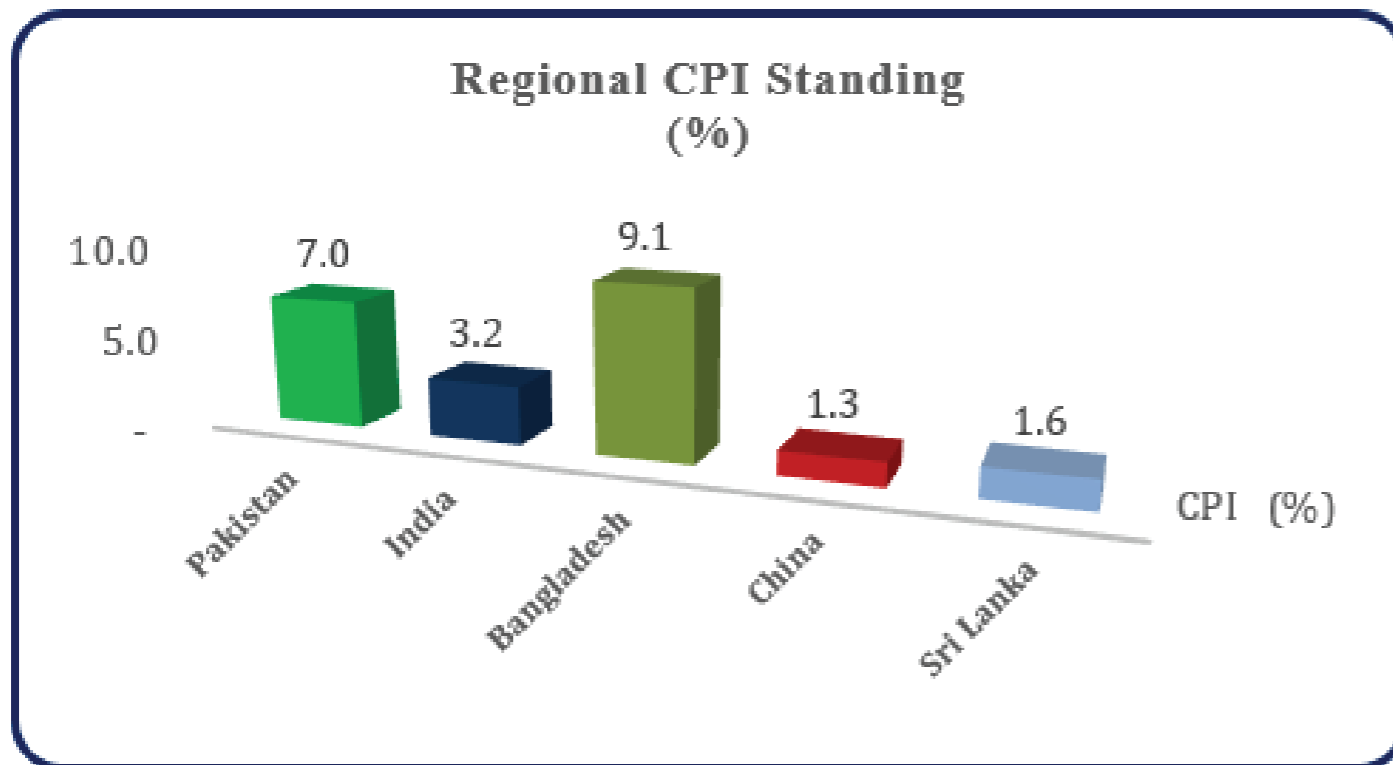


Pakistan's Total Debt & Liabilities			
(PKR in billion)	Jan-26	Jan-25	% change
Domestic Debt	55,978	50,244	11.4%
% of GDP	48.8%	47.8%	
External Debt	23,344	21,880	6.7%
% of GDP	20.4%	20.8%	
Total Debt	79,322	72,124	10.0%
% of GDP	69.2	68.6%	
Nominal GDP	114,694	105,143	9.08

(Source: SBP & MOF)

11. REGIONAL ANALYSIS

Compared to other countries in the region, the Pakistani rupee has remained stable against the USD over the past month; however, inflation may escalate due to tensions in the Gulf region, given Pakistan's dependence on oil imports. Inflation in Bangladesh has risen to 9.1%. In Sri Lanka, the CPI has recorded inflation for the third consecutive month, reaching 1.6% in February 2026, driven by a slight increase in aggregate demand. Meanwhile, India's inflation has increased to 3.2% from 2.8%, primarily due to rising food prices. Additionally, China recorded inflation of 1.3% in February 2026.



(Source: Trading Economics)

Country	Local Currency Units per USD (As of 24th March)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	279.2	(0.7)
India	93.7	(9.5)
Bangladesh	122.7	(1.4)
China	6.9	5.1
Sri Lanka	309.3	(4.8)

(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 stable inflation of 5.5% during the first seven months of FY26, there is a strong justification for rationalizing the exchange rate and further reducing the policy rate by 3-4 percent to provide immediate relief to fiscal space and CPI inflation. For a more detailed analysis, please refer to the article titled "Crisis in Gulf," published in Business Recorder by our respected Chairman, Mr. Ashfaq Tola.

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.



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