MONTHLY
ECONOMIC
UPDATE & OUTLOOK
AUGUST 2026

GOVERNMENT OF PAKISTAN
FINANCE DIVISION
ECONOMIC ADVISER'S WING

Economic Update

Pakistan entered FY2027 on a stronger macroeconomic footing, supported by strengthened fiscal buffers, enhanced economic stability, and improving growth prospects arising from sustained stabilization efforts. Fiscal consolidation was particularly strong. The overall fiscal deficit narrowed to 2.6 percent of GDP, its lowest level in more than two decades, while the primary surplus reached 2.9 percent of GDP, marking the third consecutive annual primary surplus. Prudent expenditure management and lower markup payments contributed significantly to the improved fiscal outturn. At the same time, economic activity strengthened, with Large Scale Manufacturing expanding by 4.98 percent during FY2026.

The positive momentum continued into the opening month of FY2027. CPI inflation moderated to 9.2 percent in July 2026 from 11.1 percent in June, indicating easing price pressures that emerged following the global energy shock. The moderation in inflation, alongside relative exchange rate stability and continued macroeconomic discipline, has helped maintain the policy rate, preserve the gains in overall stability, and provide a more supportive environment for economic activity.

The external sector also made a strong start to FY2027. Workers' remittances increased to $3.63 billion in July 2026, up 13 percent from a year earlier and 4.5 percent from the previous month. According to SBP, goods exports recorded at $3.01 billion in July 2026, increased by 9.4 percent same month last year, while from the previous month, it increased by 16.9 percent. The simultaneous improvement in remittances and exports has reinforced foreign exchange inflows and provided an important buffer to the external account amid continued global uncertainty.

Pakistan's technology sector is also becoming an increasingly important source of export earnings and diversification. IT exports reached $417 million in July 2026, up 17.8 percent from the same month last year, following record earnings of around $4.6 billion in FY2026. Continued investment by major global technology firms, progress in domestic technology manufacturing, policy support for IT exporters, digital payment reforms, and the launch of 5G services are contributing to a stronger digital ecosystem. These developments are creating greater opportunities for skills development, technology services and higher value-added exports.

The improvement in Pakistan's macroeconomic fundamentals also received external recognition in August, as Moody's upgraded the country's rating to B3 from Caa1, with a stable outlook. Risks remain, particularly from geopolitical uncertainty, global energy prices and their potential implications for inflation and the external account. Continued prudent macroeconomic management and reform implementation will therefore remain important to safeguard stability and sustain the growth momentum into FY2027.

Farm Inputs Continued to Rise.

During July FY2027, imports of agricultural machinery and implements increased by 25.9 percent, reaching $18.2 million against $14.4 million last year. Tractor production recorded 1,361 units in July FY2027, while sales increased by 3.9 percent to 1,242 units compared to the same month last year. During Kharif 2026 (April-July), urea offtake remained at 2,054 thousand tonnes (10.5 percent higher than Kharif 2025), whereas DAP offtake was 292 thousand tonnes (29.9 percent less than Kharif 2025). The reduction in DAP offtake may be attributed to its high prices. Agriculture credit disbursement reached Rs. 3,231.6 billion during Jul-Jun FY2026, up 24.7 percent from Rs. 2,592.2 billion last year. The government remains committed to supporting farmers by ensuring timely access to quality seeds, agricultural credit, fertilizers, and modern machinery, though looming climatic threats, including heavy rainfall and floods, pose a risk to achieving the sector's growth targets.

LSM Production Regained During FY2026.

Large-Scale Manufacturing (LSM) witnessed a growth of 4.98 percent during FY2026 against a contraction of 0.7 percent last year. Growth was observed in 16 of 22 sectors, with automobile (1.6 percent), food (1.2 percent), wearing apparel (0.9 percent), and coke & petroleum products (0.7 percent), among others, contributing most to overall growth. In June 2026, LSM declined by 3.5 percent on a year-on-year (YoY) basis and by 6.1 percent on a month-on-month (MoM) basis. The monthly decline in LSM was largely driven by contractions in wearing apparel, textiles, and pharmaceuticals, which together contributed about 4.6 percentage points and accounted for over three-fourths of the overall decline.

The automobile sector continued to outperform in July FY2027, supported by a substantial increase in the production of trucks & buses by 100.4 percent, cars by 75.6 percent, and 2/3 wheelers by 40.7 percent. Similarly, cumulative cement dispatches increased by 6.02 percent in July 2026, with total volumes reaching 4.5 million tonnes compared to 4.2 million tonnes during the same month last year. Domestic dispatches grew by 17.3 percent to 3.8 million tonnes in July 2026 from 3.2 million tonnes in July 2025. However, exports fell sharply by 29.9 percent to 705,341 tonnes from 1.007 million tonnes in the same period last year.

Headline CPI Inflation Eased in July 2026.

CPI inflation stood at 9.2 percent on a YoY basis in July 2026, compared to an increase of 11.1 percent in the previous month and 4.1 percent in July 2025. On a monthly basis, it stood at 1.2 percent, up from a 0.3 percent decline in the previous month. YoY major contributing factors of inflation includes transport (15.1 percent), housing, water, electricity, gas & fuels (7.1 percent), non-perishable food items (11.6 percent), clothing & footwear (9.2 percent), education (9.0 percent), health (7.8 percent), restaurants & hotels (5.7 percent), furnishing & household equipment maintenance (6.9 percent), alcoholic beverages &tobacco (3.2 percent), perishable food (5.2 percent), communication (13.6 percent) and recreation & culture (1.3 percent). The Sensitive Price Indicator for the week ending August 27th, 2026, increased by 0.05 percent. During the week, out of 51 items, prices of 20 items increased, 11 items decreased and 20 items remained stable.

Fiscal Deficit Further Narrowed.

FY2026 concluded with a notable improvement in Pakistan's fiscal position, supported by strong revenue growth and prudent expenditure management. Total revenue increased by 9.9 percent to reach Rs. 19,773.9 billion during the year, while expenditures declined by 4.5 percent to Rs. 23,087.4 billion. Current expenditure fell by 3.91 percent, mainly due to a 21.8 percent decline in mark-up payments. Development expenditure rose 14.9 percent, contributing to an uptick in economic growth.

Consequently, the fiscal deficit narrowed to 2.6 percent of GDP (Rs. 3,313.4 billion), down from 5.4 percent of GDP (Rs. 6,168 billion) last year. The primary surplus was 2.9 percent of GDP (Rs. 3,634.2 billion), up from 2.4 percent of GDP (Rs. 2,719.4 billion) last year. During July FY2027, FBR's tax collection recorded a growth of 8.4 percent and stood at Rs. 820.9 billion. Both direct and indirect taxes grew by 3.0 percent and 11.9 percent, respectively. Within indirect taxes, sales tax and federal excise duty rose 18.3 percent and 3.4 percent, respectively, while customs duties fell 2.4 percent.

Improved External Account Position.

External sector performance remained resilient in July 2026, supported by stronger exports and improved services and primary income balances. Goods and services exports increased to $3.94 billion from $3.48 billion a year earlier, with goods exports rising by 9.4 percent to $3.01 billion. Key export gains were recorded in petroleum products, cotton yarn and readymade garments. Imports of goods and services rose to $7.31 billion from $6.46 billion, with goods imports up 13.4 percent to $6.15 billion. The increase was largely driven by machinery, transport equipment and metal imports, while petroleum imports declined by 5.2 percent.

With imports growing faster than exports, the goods and services trade deficit widened to $3.37 billion from $2.98 billion a year earlier. However, the services balance improved, with its deficit narrowing to $228 million from $304 million, while the primary income deficit also eased. These improvements partly offset the wider merchandise trade gap. Workers' remittances continued to provide a strong buffer to the external account, increasing by 13.0 percent YoY to $3.6 billion. Higher secondary income, along with improvements in the services and primary income balances, helped narrow the current account deficit to $328 million in July 2026, compared with $529 million in the same month last year.

Financial inflows remained positive in July 2026. Total FDI inflows stood at $304.0 million, while net FDI amounted to $178.6 million after accounting for investment outflows. Portfolio investment also recorded a net inflow of $25.9 million, reversing the outflow recorded a year earlier. Foreign exchange reserves remained at a comfortable level of $22.6 billion as of August 21, 2026, including $17.1 billion held by SBP.

Monetary Indicators Reflect Seasonal Trends.

From July 1 to August 14, FY2027, broad money (M2) contracted by Rs. 2,629.5 billion, compared with a decline of Rs. 1,362.0 billion over the same period a year earlier. The contraction reflected decreases in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system, which fell by Rs. 260.1 billion and Rs. 2,369.4 billion, respectively. Government borrowing for budgetary support recorded a net retirement of Rs. 413.7 billion, compared with retirement of Rs. 76.3 billion last year. Private sector credit also recorded a seasonal retirement of Rs. 393.4 billion, against Rs. 232.1 billion a year earlier. The Pakistan Stock Exchange remained under pressure during July 2026 amid renewed geopolitical tensions. The KSE-100 Index declined by 4,208 points to close at 176,094. Market capitalization decreased by Rs. 442 billion to Rs. 19,755.7 billion by end-July.

Expanding Jobs, Livelihoods and Social Protection Progress.

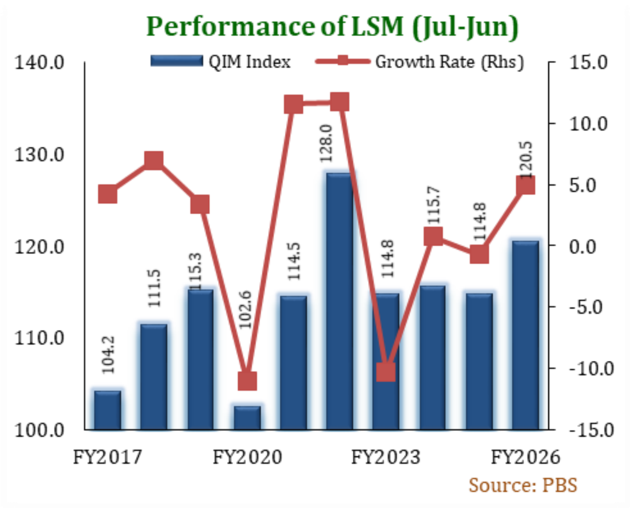
In July 2026, the Bureau of Emigration & Overseas Employment registered 39,159 Pakistani workers for overseas employment, highlighting continued access to international labour market opportunities. During the same month, the Pakistan Poverty Alleviation Fund (PPAF), in partnership with 24 organizations, disbursed 5,778 interest-free loans worth Rs. 413 million, supporting financial inclusion, self-employment and sustainable livelihoods. Since 2019, cumulative loan disbursements have reached Rs. 126.67 billion. Meanwhile, during FY2026, Rs. 706 billion was disbursed under the Benazir Income Support Programme (BISP), reaffirming the Government's commitment to providing targeted social assistance and strengthening the social safety net for vulnerable households.

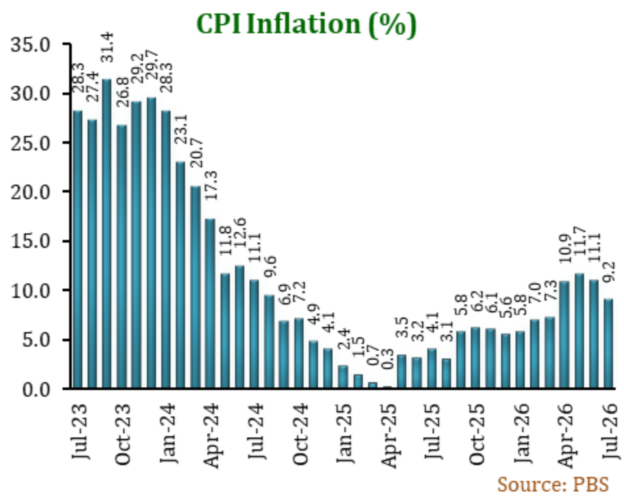
Economic Outlook

Pakistan's economy is expected to maintain its recovery momentum in the coming months, supported by stronger macro-economic fundamentals, continued fiscal discipline and a stable financial environment. Inflation may remain somewhat elevated in the near term as recent price pressures and movements in international commodity and energy prices pass through to the domestic economy. For August 2026, CPI inflation is expected to remain in the range of 10 to 11 percent.

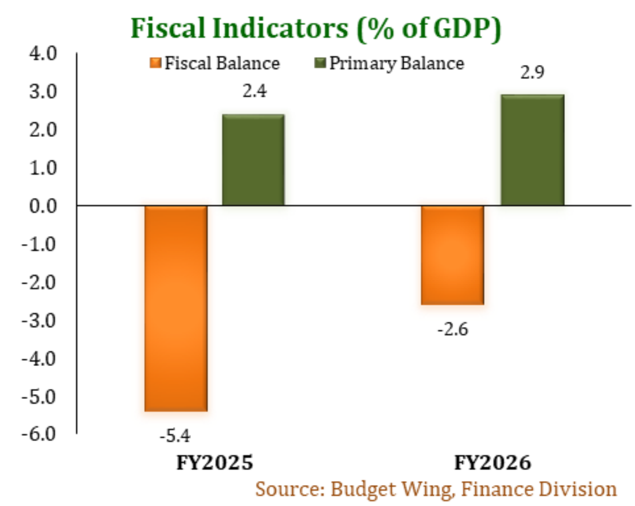
External sector developments are expected to remain broadly supportive, underpinned by improved exports, particularly textiles, sustained remittance inflows and continued export facilitation measures. These trends should help contain pressures on the balance of payments and support reserve adequacy. Going forward, maintaining policy discipline and advancing structural reforms will be important for sustainable and inclusive growth, strengthen the economy's resilience to external shocks, and preserve the gains of macroeconomic stability.

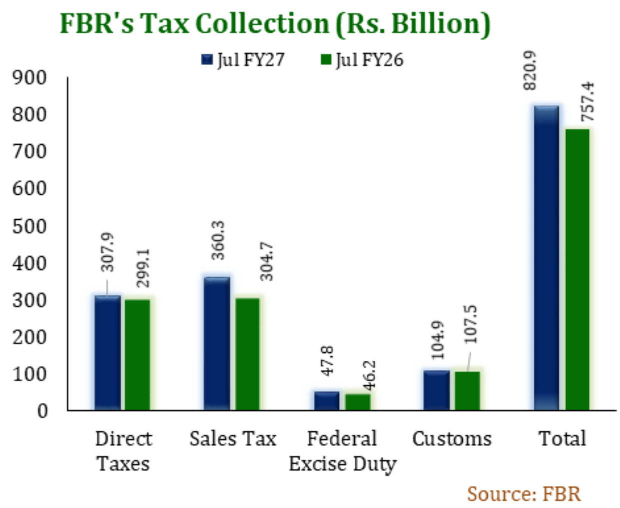
The industrial rebound marked yearly improvement in sectoral growth. Inflation moderated, easing the pressure.





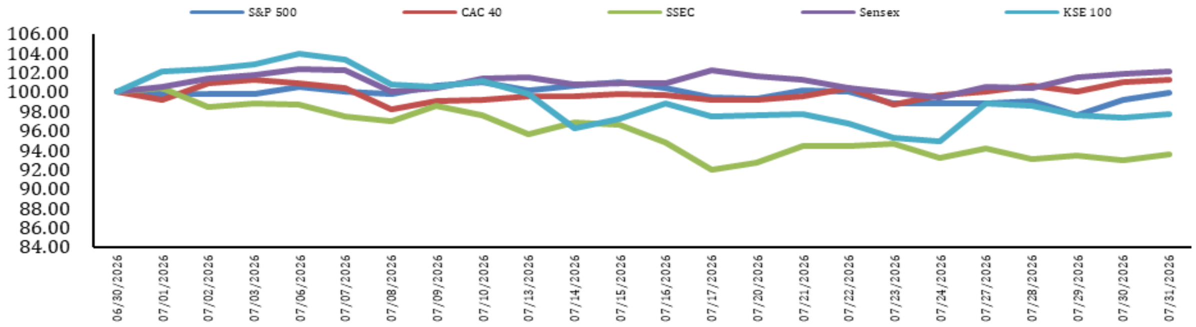
Sound fiscal performance strengthened fiscal balance.





Weak investor sentiment amid the resurgence of the Middle East conflict clouded the stock market.

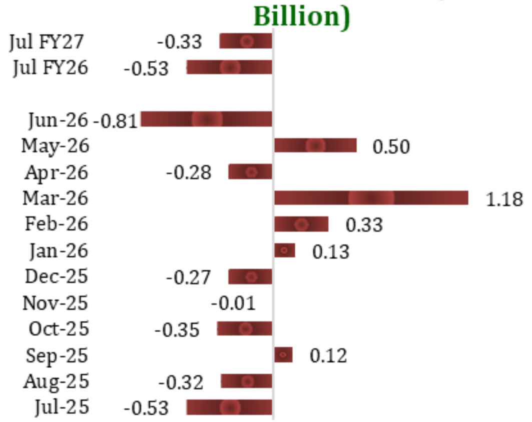
Trend of Major Stock Indicies (Standarized)



Source: PSX & Investing.com
Note: All indices are standardized to 100 on the initial day of the sample taken in this figure

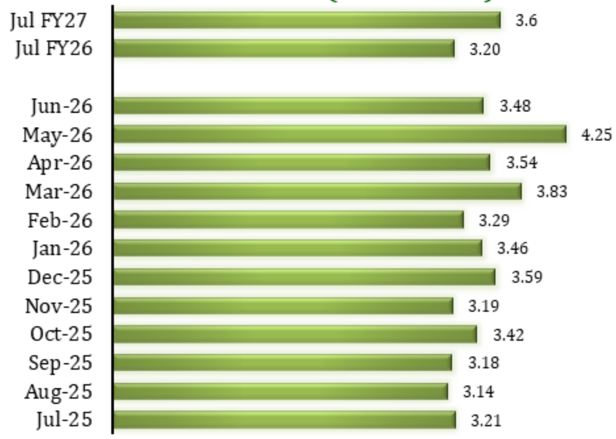
Robust remittance growth and a strong overall balance surplus supported reserve buildup at the start of FY2027.

Current Account Balance (US $ Billion)



Source: SBP

Remittances (US$ Billion)



Source: SBP

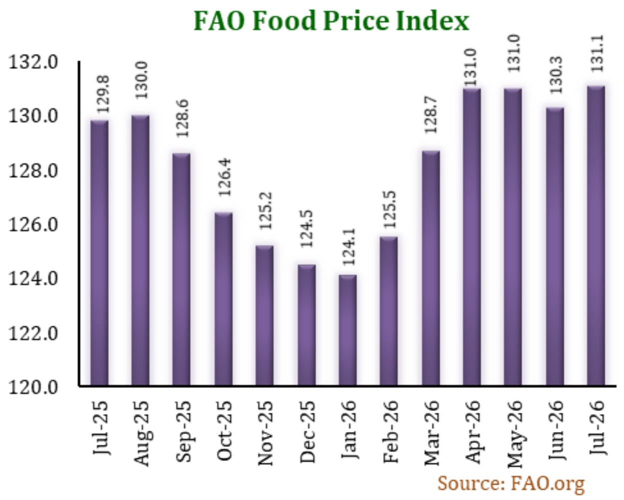
Global Economic Update & Outlook

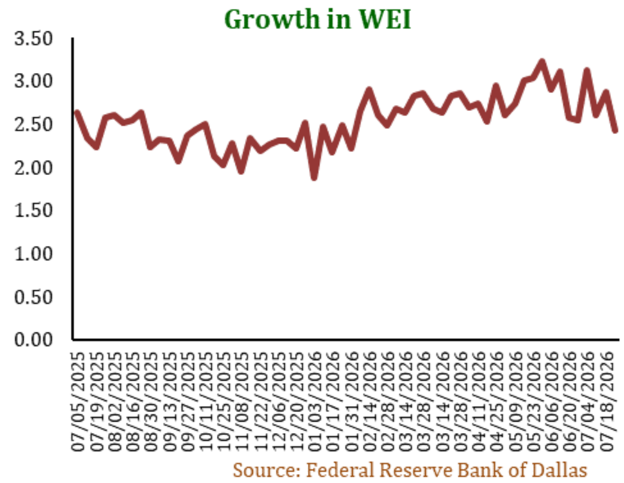
Global economic growth strengthened to a five-month high in July, according to Purchasing Managers' Index (PMI) survey data, signaling GDP growth close to its long-run trend. The J.P. Morgan Global Composite PMI Output Index by S&P Global rose to 52.6 in July (from 52.0 in June), its highest since February and therefore its strongest reading since the outbreak of the Middle East war. The manufacturing sector continued to outperform services, with technology sector output accelerating sharply amid AI and defense-related demand, though the boost from precautionary stock building faded.

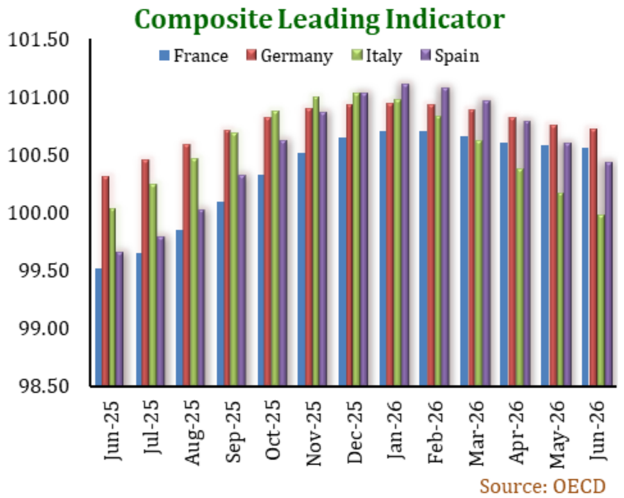
On the trade front, global trade continues to expand amid rising price pressures. According to UNCTAD, global goods trade totaled about $13.7 trillion in the first half of 2026, up 12.5 percent from the same period last year, driven largely by higher prices. Services trade grew more slowly, expanding 10.5 percent from the first half of last year. Trade in electric vehicle goods and AI rose sharply in the first quarter of 2026, and these sectors are expected to remain key drivers of global trade expansion. At the same time, geopolitical uncertainty continued to drive the reconfiguration of global supply chains and trade relationships, leading to shifts and greater diversification in bilateral trade patterns. Overall, global trade growth is expected to remain positive but increasingly uneven. In this context, the latest update on U.S tariffs and trade measures includes new global duties of 10-12.5 percent on imports from 60 countries-including Pakistan (effective from July 24) and an additional 50 percent tariff on Canadian goods (scheduled from August 19), adding another layer of uncertainty to the external trade outlook.

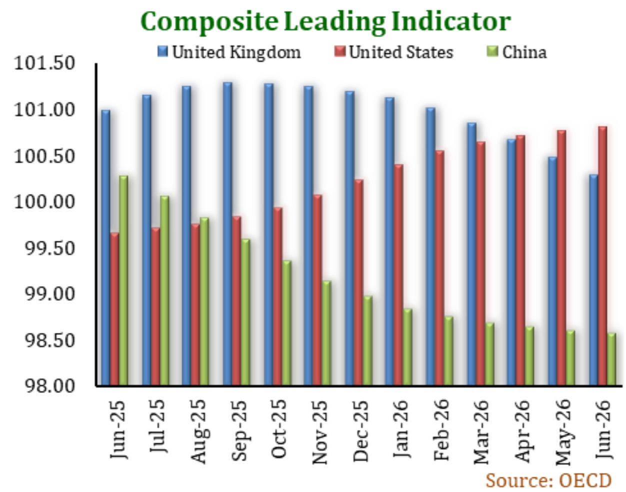
On the inflation side, the FAO Food Price Index averaged 131.1 points in July (up 0.7 points on a MoM basis), as declines in the price indices for meat and dairy products were partially offset by increases in those for cereals, sugar and vegetable oils. On a YoY basis, the index stood 1.3 points (1.0 percent) higher but remained 29.1 points (18.2 percent) below its peak reached in March 2022. In commodity markets, the non-energy index remained broadly stable (with a marginal surge of 0.3 percent). Price indices for fertilizer, raw materials, metals & minerals, and precious metals declined, while beverage prices rose. Meanwhile, the energy price index eased 1.1 percent, weighed down by declines in coal (-4.8 percent) and crude oil (-2.2 percent). However, renewed hostilities and maritime disruptions in July and early August undermined efforts to recover global oil supply. Although the market is projected to return to a surplus global oil balance towards the end of this year, risks remain substantial, and the urgency of reopening the Strait has increased as previously available inventory buffers are rapidly depleting.

Among high-frequency economic indicators, the U.S Weekly Economic Index is currently 2.85 percent for the week ended August 22, while its 13-week moving average is 2.79 percent, suggesting that the economy is gaining momentum in the near term. Meanwhile, the Composite Leading Indicator, which provides early signals of turning points in business cycles, suggests that Pakistan's major export markets (OECD economies, the U.K and the U.S) remain broadly aligned with their long-term potential of 100, except for China, where a slowdown is apparent.









Note: For July, OECD has not yet published CLI estimates

Economic Indicators

(31-08-2026)

External Sector

	FY2026 (Jul-Jun)	FY2026 (Jul)	FY2027 (Jul)	% Change
Remittances ($ billion)	41.6	3.2	3.6	↑13.0
Exports FOB ($ billion)	30.8	2.75	3.01	↑9.4
Imports FOB ($ billion)	64.5	5.43	6.15	↑13.4
Current Account Balance ($ million)	-304	-529	-328	↑
FDI ($ million)	1,672.3	223.5	178.6	↓
Portfolio Investment- ($ million)	-1,186.2	-44.6	25.9	↑
Total Foreign Investment ($ million)	486.1	178.9	204.5	↑
Forex Reserves ($ billion)	23.2 (SBP: 18.4) (Banks: 4.9) (End June 2026)	19.6 (SBP: 14.3) (Banks: 5.3) (On 22nd Aug 2026)	22.6 (SBP: 17.1) (Banks: 5.5) (On 21st Aug 2026)	
Exchange rate (PKR/US$)	283.8 (End June FY2026)	281.8 (On 28th Aug 2025)	277.5 (On 28th Aug 2026)	

Source: SBP

Fiscal (Rs. Billion)

	FY2025	FY2026	% Change	FY2026 (Jul)	FY2027 (Jul)	% Change
FBR Tax Revenue (Jul)	-	-	-	757.4	820.9	↑8.4
Federal Non-Tax revenue	5,056.4	5,178.0	↑2.4			
Fiscal Balance	-6,168.0	-3,313.4	↑			
Primary Balance	2,719.4	3,634.2	↑			

Source: Finance Division

Monetary Sector

	FY2026	FY2026 (July)	FY2027 (July)	% Change
Agriculture Credit	3,231.6	-	-	-
Credit to private sector (Flows) Rs. million	1,463.3	-232.1 (1st Jul to 15th Aug 2025)	-393.4 (1st Jul to 14th Aug 2026)	↓
Growth in M2 (percent)	14.7	-3.36 (1st Jul to 15th Aug 2025)	-5.66 (1st Jul to 14th Aug 2026)	
Policy Rate (percent)	11.5	11.0 (30-Jul-2025)	11.5 (27-Jul-2026)	

Source: SBP

Real Sector

	FY2026	FY2026 (July)	FY2027 (July)
CPI (National) (percent)	7.1	4.1 (Jul)	9.2 (Jul)
Large Scale Manufacturing (LSM) (percent)	4.98	-	-

Source: PBS

Financial Sector

	FY2026	FY2026 (August)	FY2027 (August)	% Change
PSX Index*	180,301 (End June)	147,345 (On 28th Aug 2025)	177,696 (On 28th Aug 2026)	↑20.6
Market Capitalization (Rs. trillion)	20.19 (End June)	17.53 (On 28th Aug 2025)	19.88 (On 28th Aug 2026)	↑13.4
Market Capitalization ($ billion)	71.17 (End June)	62.22 (On 28th Aug 2025)	71.65 (On 28th Aug 2026)	↑15.1
Incorporation of Companies (Jul)	43,559	4,065	5,438	↑33.8

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP