MONTHLY

ECONOMIC UPDATE & OUTLOOK

JULY 2026

GOVERNMENT OF PAKISTAN
FINANCE DIVISION
ECONOMIC ADVISER'S WING

Economic Update

Pakistan's economy entered FY2027 with an improved macroeconomic environment, as the stabilization gains of FY2026 continued to support economic recovery and strengthen prospects for sustainable growth. In FY2026, average CPI inflation remained within the targeted range despite elevated global oil prices and supply chain disruptions. Large-scale manufacturing rebounded and agriculture maintained moderate growth despite weather-related challenges. Improved revenue mobilization and prudent expenditure management further strengthened the fiscal position.

The external sector remained broadly balanced, with the current account recording a marginal deficit of US$0.14 billion. Record-high workers' remittances and higher foreign exchange reserves helped offset the import recovery, associated with the strengthening of domestic economic activity. Meanwhile, IT exports reached a record US$4.6 billion (up 20.6 percent from last year), underscoring Pakistan's growing potential in technology and digital services.

Keeping in view all these positive developments, S&P Global Ratings recently upgraded Pakistan's long-term sovereign credit rating to B from B-, indicating improved institutional capacity, sustained implementation of reforms, improved fiscal performance, and a significant rebuilding of foreign exchange reserves. With these gains continue advancing the foundations for sustained economic growth, real GDP growth is targeted at 4.0 percent in FY2027.

The Government continued to advance its reform agenda by deepening financial markets, broadening the domestic investor base, strengthening debt sustainability and the country's presence in the global capital market. Recent initiatives include the launch of InvestPak and the introduction of government Treasury bills through the JazzCash application, providing retail investors with convenient digital access to government securities. InvestPak allows individuals and corporate investors to invest through a web portal or mobile application, while the JazzCash facility enables eligible investors to purchase three-month Treasury bills with a minimum investment of Rs 5,000. In parallel, the Government maintained its proactive debt-management strategy, in order to further reduce refinancing risks and future debt-servicing costs.

Furthermore, the Government successfully appointed consortiums of leading international banks to support future issuances of Eurobonds, international Sukuk and PKR-denominated, US dollar-settled bonds. The appointments, made for three years which reflect the Government's commitment to a disciplined, diversified and market-oriented sovereign financing strategy to support Pakistan's regular and orderly presence in international capital markets.

Nevertheless, renewed U.S-Iran hostilities once again pose downside risks through global energy prices, trade and financial market volatility. However, stronger macroeconomic fundamentals, improved external buffers, government readiness and continued policy vigilance have enhanced Pakistan's capacity to manage such shocks effectively.

Agriculture Inputs Improve but Climate Risks Persist.

The availability of key agricultural inputs improved during the ongoing Kharif 2026 season. Agricultural credit disbursement reached Rs. 2,791.1 billion during Jul-May FY2026, registering a 21.4 percent increase over the corresponding period of last year. The imports of agricultural machinery and implements rose by 23.1 percent to US$ 135.3 million during Jul-Jun FY2026. Tractor production increased by 3.6 percent year-on-year (YoY) to 29,633 units during Jul-Jun FY2026, while sales reached 28,791 units. During Kharif 2026 (Apr-Jun), Urea offtake remained at 1,474 thousand tonnes (17.8% higher than Kharif 2025) whereas DAP offtake was 194 thousand tonnes (37.3% less than Kharif 2025). Reduction in DAP offtake may be attributed to its high prices.

In view of the prevailing climatic conditions, the forecast of below-normal rainfall during July-September 2026 in most parts of the country (as per PMD's seasonal outlook for JAS report, dated 30th June 2026) indicates an elevated risk of water stress for major Kharif crops (sugarcane, rice, cotton, and maize), thereby increasing irrigation requirements. In addition, spatial temperature gradients may also generate strong winds, dust storms, thunderstorms and hailstorms, potentially affecting seasonal crops, vegetables and orchards.

LSM Records Robust Recovery.

Large-Scale Manufacturing (LSM) grew by 5.8 percent during Jul-May FY2026 compared with a contraction of 1.1 percent last year. During the period, 16 out of 22 sectors recorded growth, with the largest contribution coming from automobiles (1.5%), food (1.4%), wearing apparel (1.2%) and coke & petroleum products (0.8%). In May 2026, LSM witnessed a growth of 1.2 percent on a month-on-month (MoM) basis while on a YoY basis it declined by 1.0 percent mainly due to lower production of pharmaceuticals, textile and iron & steel products. During FY2026, the performance of the automobile production remained strong, with trucks & buses increasing by 64.6 percent, cars by 42.0 percent, jeeps & pick-ups by 33.4 percent, 2/3 wheelers by 30.4 percent and tractors by 3.6 percent. Cumulative cement dispatches reached 50.5 million tonnes during FY2026, up 7.2 percent from 47.1 million tonnes in the corresponding period last year. Domestic dispatches increased by 9.5 percent to 41.5 million tonnes, from 37.9 million tonnes last year, while exports declined by 2.2 percent and reached 9.0 million tonnes.

Headline CPI Inflation Eases in June 2026.

Headline CPI inflation stood at 11.1 percent on YoY basis in June 2026 easing from 11.7 percent in May FY2026, but remained above 3.2 percent in June FY2025. Average inflation in FY2026 stood at 7.1 percent compared to 4.5 percent during the same period last year. YoY major contributing factors of inflation included transport (25.7%), housing, water, electricity, gas & fuels (15.5%), non-perishable food items (10.2%), clothing & footwear (9.3%), education (8.3%), health (7.6%), restaurants & hotels (5.4%), furnishing & household equipment maintenance (5.9%), alcoholic beverages & tobacco (3.3%), perishable food (3.6%), communication (0.9%) and recreation & culture (0.1%). The Sensitive Price Indicator for the week ending 23rd July 2026, increased by 0.9 percent. During the week, out of 51 monitored items, prices of 22 increased, 08 declined and 21 items remained stable.

Fiscal Deficit Contained due to Effective Resource Mobilization and Prudent Spending.

FBR tax revenue reached Rs. 13,010 .4 billion during Jul-Jun FY2026 (10.3% tax to GDP ratio) with increase of 10.8 percent as direct and indirect taxes grew by 13.7 percent and 7.9 percent, respectively. Within indirect taxes, sales tax, customs duties and federal excise duty increased by 9.0 percent, 3.6 percent and 9.6 percent, respectively. During Jul-May FY2026, net federal revenue receipts increased by 7.3 percent to Rs. 9,385.4 billion, supported by higher tax and non-tax revenues. Federal non-tax revenue rose by 6.3 percent to Rs. 4,852.0 billion. Total

expenditures declined by 9.4 percent to Rs. 12,732.9 billion. Within total, current expenditures reduced by 9.4 percent mainly due to decline in markup payments by 21.7 percent, while development spending declined by 8.9 percent. Consequently, the fiscal deficit narrowed to 1.6 percent of GDP (Rs. 2,032.8 billion) during Jul-May FY2026 as compared to a deficit of 3.8 percent of GDP (Rs. 4,278.0 billion) during the corresponding period last year. Primary surplus was recorded at 3.3 percent of GDP (Rs. 4,130.8 billion) compared to 3.2 percent of GDP (Rs. 3,594.6 billion) in FY2025.

External Account Remained Broadly Balanced.

The current account recorded a deficit of $649 million in June 2026, bringing the cumulative FY2026 deficit to modest $139 million. Exports of goods and services recorded at $40.9 billion broadly unchanged from $40.8 billion in the same period last year, with goods exports amounting to $30.8 billion and services exports reaching to $10.0 billion (18.7 percent increase on YoY basis).

Import of goods and services recorded at $76.4 billion compared to $70.4 billion last year, of which goods imports were $64.5 billion. Consequently, the goods and services trade deficit widened to $35.5 billion, up from $29.6 billion a year earlier. According to PBS data, gains in key exports were raw cotton (199.2%), cotton yarn (12.4%), petroleum products (54.8%) and sports goods (10.1%), while major imports rose in transport sector (66.4%) in FY2026 over the previous fiscal year.

Workers' remittances reached US$ 3.5 billion in June 2026, up 2.0 percent from the same month last year. On a cumulative basis, inflows in FY2026 reached US$41.6 billion, up 8.6 percent from the previous year. The major corridors of workers' remittances in June 2026 were Saudi Arabia (US$ 829.6 million) with a total share of 24 percent, followed by the United Arab Emirates (US$ 792.2 million) with a 23 percent share and the United Kingdom (US$ 514.9 million). Total FDI inflows during FY2026 were recorded at $3.6 billion, while net FDI amounted at $1.6 billion, with inflows from China ($862.0 million), Hong Kong ($339.4 million) and the U.A.E ($235.9 million) as the main sources.

By sector, power ($958.3 million) and financial services ($805.5 million) attracted the most FDI, while private and public FPI recorded net outflows of $594.8 million and $591.4 million, respectively. As of July 17th, 2026, foreign exchange reserves stood at $22.7 billion, including $17.3 billion held by the SBP.

Monetary Conditions Remained Broadly Stable while the KSE-100 Index Advanced.

The Monetary Policy Committee (MPC), in its meeting held on 27th July 2026, decided to keep the policy rate unchanged at 11.5 percent. The Committee assessed that the macroeconomic outlook has improved, supported by recent high-frequency indicators, the transmitted impact of earlier de-escalation through declining global oil prices, and the relative easing of supply chain disruptions. These factors have contributed to an improvement in recent economic indicators, including inflation. However, the outlook remains susceptible to heightened risks, particularly due to the resurgence of conflict in the Middle East.

During FY2026, broad money (M2) grew by 14.7 percent (Rs. 5,957.0 billion), compared with growth of 12.9 percent (Rs. 4,624.5 billion) in FY2025. Within M2, Net Foreign Assets (NFA) of the banking system increased by Rs. 1,673.2 billion, compared with Rs. 1,602.8 billion last year. Net Domestic Assets (NDA) of the banking sector increased by Rs. 4,283.8 billion, compared with Rs. 3,021.7 billion increase last year. Government borrowing for budgetary support amounted to Rs. 2,251.4 billion, lower than Rs. 4,354.4 billion in last year. Private sector credit increased by Rs. 1,463.3 billion, compared with Rs. 1,081.9 billion last year. Within total credit, loans to private sector business observed net borrowing of Rs. 1,176 billion in FY2026 as compared to net borrowing of Rs. 1,007 billion in FY2025. Within total loans, working capital loans witnessed net borrowing of Rs. 632 billion against net

borrowing of Rs. 617 billion in last year. Major borrowers include: sugar sector, rice and wheat processing, pharmaceutical, electrical equipment, wholesale of retail trade, construction and cement sector. On the other hand, demand for fixed investment loans increased to Rs. 625 billion against net borrowing of Rs. 414 billion in last year. Major demand was driven by the textile, chemical, cement, construction and transport & storage sectors.

The Pakistan Stock Exchange remained bullish in June 2026. The KSE-100 Index gained 6,339 points to close at 180,302, supported by ample liquidity, attractive valuations across key sectors, and resilient investor sentiment despite intermittent geopolitical volatility. Market capitalization increased by Rs. 1,031.5 billion to Rs. 20,197.8 billion by end-June FY2026.

Focus on Poverty Alleviation and Social Protection Continued.

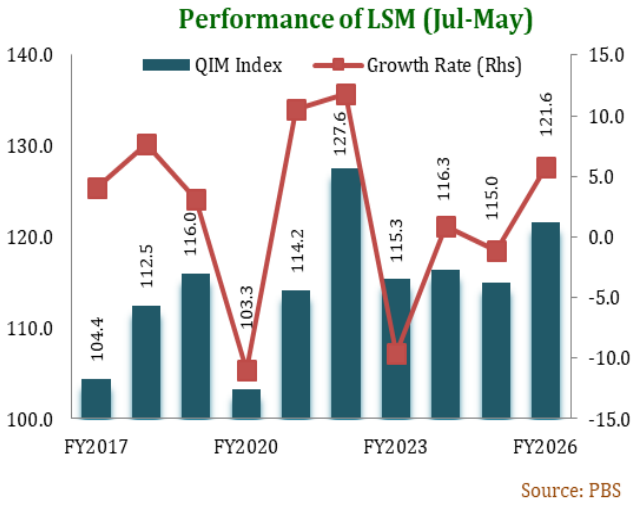
In June 2026, the Bureau of Emigration & Overseas Employment registered 38,410 workers for overseas employment, reflecting continued opportunities for Pakistani workers in international labor markets. The Pakistan Poverty Alleviation Fund, in partnership with 24 organizations, disbursed 7,482 interest-free loans worth Rs. 535 million during June 2026, reinforcing its commitment to expanding financial inclusion and supporting sustainable livelihoods. Since 2019, cumulative disbursements have reached Rs. 126.2 billion. During Jul-May FY2026, Rs. 519.5 billion was spent under the BISP, reaffirming the government's commitment to protecting vulnerable households through targeted social assistance.

Economic Outlook

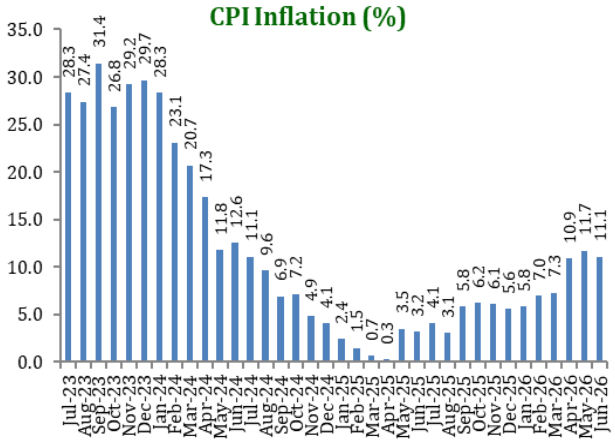
With macroeconomic stabilization largely achieved in FY2026, Pakistan's economy is expected to maintain its growth momentum in the current fiscal year. The momentum is expected to be supported by improving macroeconomic fundamentals, continued expansion in the manufacturing sector, fiscal consolidation, resilience in agriculture and a stable financial environment. Manufacturing activity is likely to maintain its positive trajectory, underpinned by stable energy availability, easing financial conditions, improving domestic demand, and continued export-oriented production. Inflation, however, is expected to remain elevated in the near term, with CPI inflation projected in the range of 9.0-10.0 percent in July 2026, primarily reflecting higher international oil prices and their potential pass-through to domestic energy and transport costs.

The external sector is expected to remain resilient, supported by government measures to facilitate exports and sustain the strong momentum in remittance inflows. Nevertheless, renewed geopolitical tensions in the Middle East pose downside risks to inflation and the external outlook. Overall, prudent macroeconomic management, fiscal discipline, ongoing structural reforms, stronger industrial activity, and improved external buffers are expected to sustain the recovery in economic activity while preserving macroeconomic stability.

LSM indicates revival in industrial production. Whereas inflation eased out modestly.

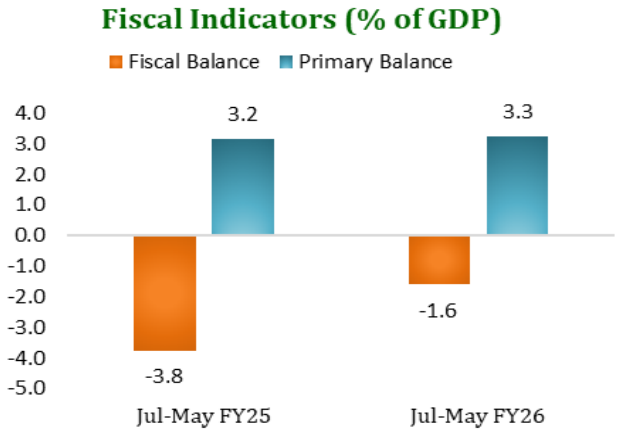


Source: PBS

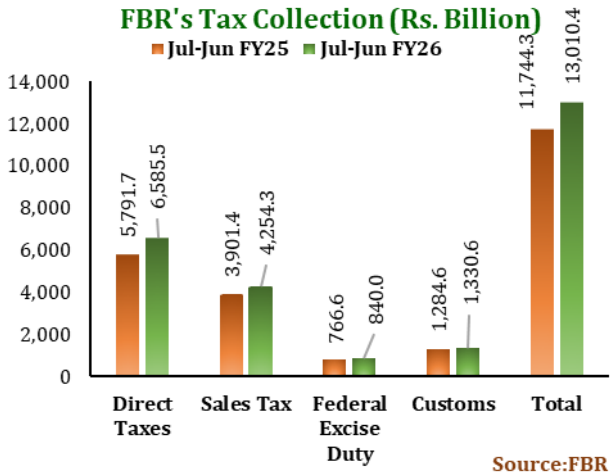


Source: PBS

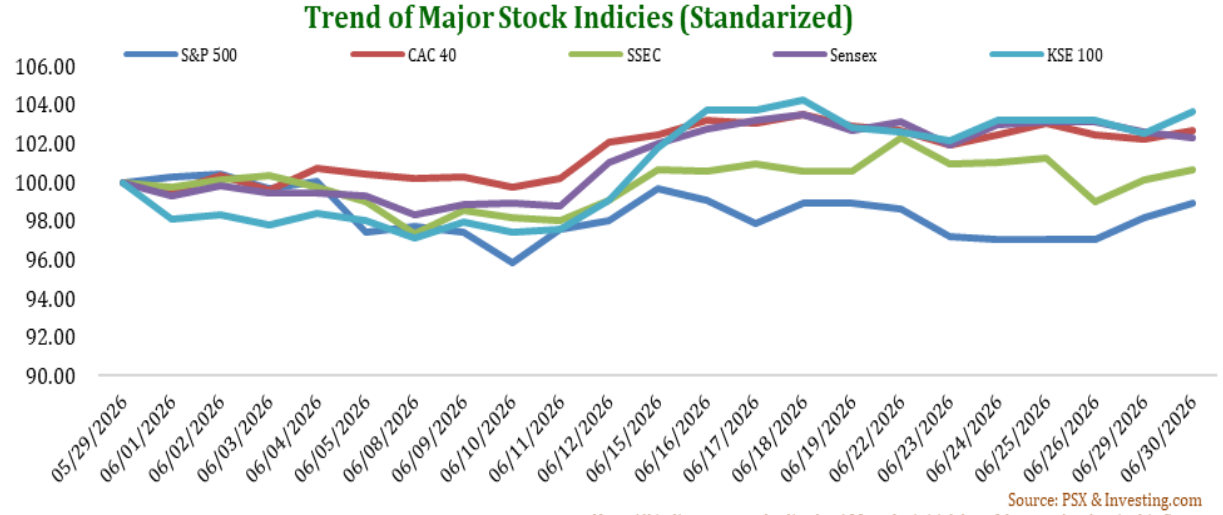
Fiscal position improved on the back of prudent management. Whereas, economic optimism fueled a bullish run in the stock market.



Source: Budget Wing, Finance Division



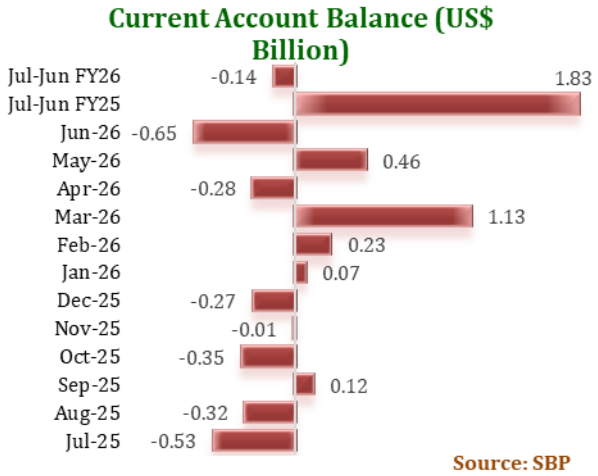
Source:FBR

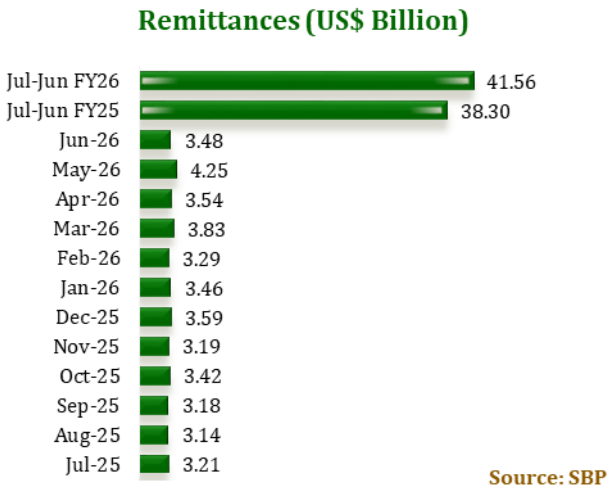


Source: PSX & Investing.com

Note: All indices are standardized to 100 on the initial day of the sample taken in this figure

Remittances continued to maintain high and sustained growth, being the vital cushion for the external account during FY2026.





Global Economic Update & Outlook

According to the World Economic Outlook (July 2026), global growth is projected at 3.0 percent in 2026 and 3.4 percent in 2027. The growth outlook remains uneven across countries, as war-related shocks continue to weigh on energy importers and vulnerable economies, while AI-driven demand is lifting countries integrated into global technology value chains. Although, the balance of risks has improved relative to the April outlook, yet downside risks from renewed conflict and financial market repricing persist.

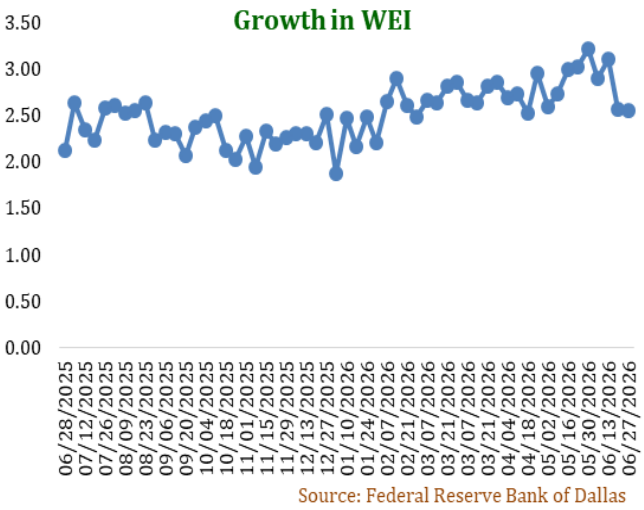
Despite these challenges, global business activity strengthened further in June, supported by a higher output, rising new orders and improved business confidence. J.P Morgan Global Composite PMI Output Index edged up to 52.0 in June from 51.9 in May, signaling a modest expansion in global private sector activity. The improvement, however, reflected divergent sectoral trends with signs of rotation in the performance began to emerge in June. Manufacturing, which had consistently outperformed services since the onset of the Middle East conflict, eased to a three-month low. By contrast, services sector recorded improved expansion since February 2026, offsetting the moderation in manufacturing and supporting overall global activity.

Global disinflation stalled in 2026, with inflationary pressures broadening beyond energy sector. Rising energy prices, elevated logistics and freight costs, supply chain disruptions and higher fertilizer prices have increased production costs across industries, transmitting earlier commodity price shocks into food and core inflation. However, the ceasefire and the subsequent announcement of a framework agreement between U.S and Iran eased concerns over near-term energy supply disruptions and contributed to a decline in global commodity prices. As a result, inflationary pressures have shown signs of easing.

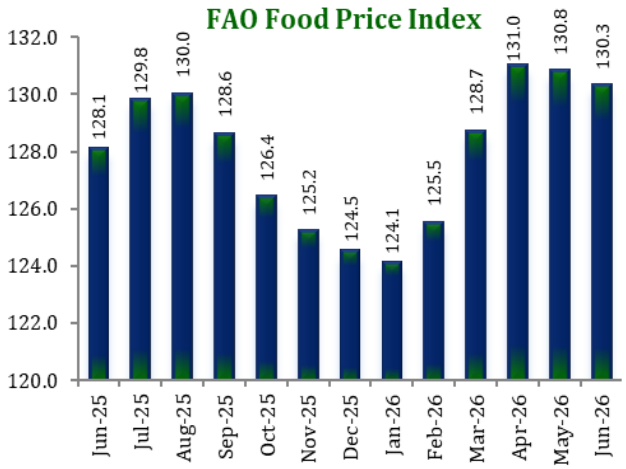
The FAO Food Price Index averaged 130.3 points in June (down 0.4 points on MoM basis), as lower prices for sugar, cereals and dairy products more than offset increases in vegetable oils and meat. Nevertheless, the index remained 2.2 points (1.7%) above its level a year earlier. Similarly, the World Bank's non-energy commodity price index

declined by 3.2 percent in June, reflecting lower food and fertilizer prices, while the energy price index fell by 17.7 percent, largely driven by a 20.6 percent decline in Brent crude oil prices in June. However, recently renewed U.S-Iran tensions pushed global oil prices higher, with Brent crude reaching US$ 100.7 per barrel on July 23rd, highlighting volatility in energy prices. Thus, normalization of global energy prices remains contingent on a durable and lasting peace agreement between the U.S and Iran.

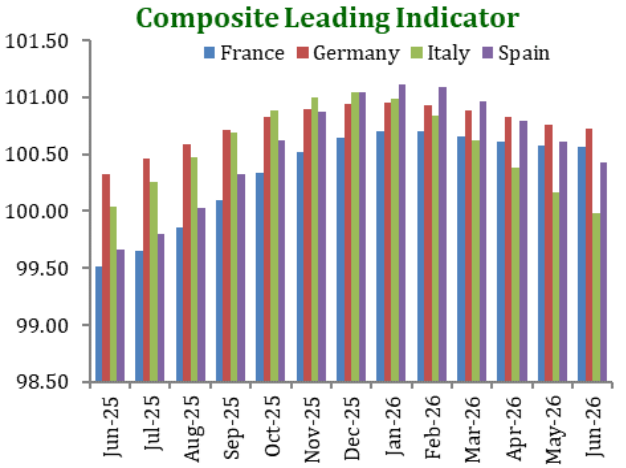
Among high-frequency indicators, the U.S Weekly Economic Index (WEI), which measures real-time economic activity, stood at 2.9 percent for the week ended July 18th, while its 13-week moving average of at 2.87 percent. Likewise, the Composite Leading Indicator suggests that Pakistan's major export markets (OECD economies, U.K and U.S) remain broadly aligned with their long-term potential of 100, indicating continued support from external demand, although renewed geopolitical tensions could pose downside risks.



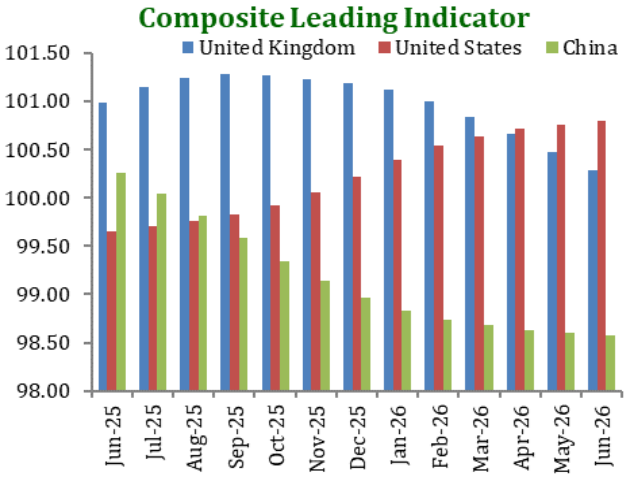
Source: Federal Reserve Bank of Dallas



Source: FAO.org



Source: OECD



Source: OECD

Economic Indicators

(30-07-2026)

External Sector

	FY2025 (Jul-Jun)	FY2026 (Jul-Jun)	% Change	FY2025 (Jun)	FY2026 (Jun)	% Change
Remittances ($ billion)	38.3	41.6	↑8.6	3.4	3.5	↑2.0
Exports FOB ($ billion)	32.3	30.8	↓4.6	2.59	2.60	↑0.2
Imports FOB ($ billion)	59.1	64.5	↑9.0	5.0	6.1	↑22.5
Current Account Balance ($ million)	1,838	-139	↓	-737	-649	↑
FDI ($ million)	2,477.3	1,636.8	↓33.9	210.0	13.5	↓
Portfolio Investment- ($ million)	-730.8	-1,186.2	↓	-25.8	-40.5	↓
Total Foreign Investment ($ million)	1,746.5	450.6	↓	184.2	-27	↓
Forex Reserves ($ billion)	19.9 (SBP: 14.4) (Banks: 5.5) (On 18th Jul 2025)	22.7 (SBP: 17.3) (Banks: 5.4) (On 17th Jul 2026)				
Exchange rate (PKR/US$)	283.05 (On 29th Jul 2025)	277.8 (On 29th Jul 2026)				

Source: SBP

Fiscal (Rs. Billion)

	FY2025 (Jul-May)	FY2026 (Jul-May)	% Change	FY2025 (Jun)	FY2026 (Jun)	% Change
FBR Tax Revenue (Jul-Jun)	11,744.3	13,010.4	↑10.8	1,510.3	1,781.6	↑18.0
Federal Non-Tax revenue	4,564.6	4,852.0	↑6.3			
Fiscal Balance	-4,277.9	-2,032.8	↑			
Primary Balance	3,594.6	4,130.8	↑			

Source: Finance Division

Monetary Sector

	FY2026	FY2027	% Change
Agriculture Credit (Jul-May)	2,298.7 (FY2025)	2,791.1 (FY2026)	↑21.4
Credit to private sector (Flows)	-248.7 (1st Jul to 18th July 2025)	-327.5 (1st Jul to 17th July 2026)	↓
Growth in M2 (percent)	-4.29 (1st Jul to 18th July 2025)	-5.74 (1st Jul to 17th July 2026)	
Policy Rate (percent)	11.0 (30-Jul-2025)	11.5 (27-Jul-2026)	

Source: SBP

Real Sector

	FY2025	FY2026
CPI (National) (percent)	3.2 (Jun) 4.5 (Jul-Jun)	11.1 (Jun) 7.1 (Jul-Jun)
Large Scale Manufacturing (LSM) (percent) (Jul-May)	-1.1 (Jul-May)	5.8 (Jul- May)

Source: PBS

Financial Sector

	FY2026	FY2027	% Change
PSX Index*	137,984 (On 29th Jul 2025)	176,042 (On 29th Jul 2026)	↑27.6
Market Capitalization (Rs. trillion)	16.57 (On 29th Jul 2025)	19.78 (On 29th Jul 2026)	↑19.4
Market Capitalization ($ billion)	58.54 (On 29th Jul 2025)	71.19 (On 29th Jul 2026)	↑21.6
Incorporation of Companies	35,087 (FY2025)	43,559 (FY2026)	↑24.1

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP