MONTHLY

ECONOMIC UPDATE & OUTLOOK

OCTOBER 2026

GOVERNMENT OF PAKISTAN
FINANCE DIVISION
ECONOMIC ADVISER'S WING

Economic Update

Pakistan's economy continued to consolidate macroeconomic stability during the first quarter of the fiscal year 2027, as stronger external inflows helped sustain the recovery amid the ongoing Middle East crisis and higher international energy prices. The quarter's most encouraging development was improved external financing, marked by successful sovereign Eurobond issuance and higher foreign direct investment. Strong growth in workers' remittances and services exports underpinned these inflows with a durable stream of non-debt earnings. Backed by these buffers, the rupee remained stable, reinforcing confidence in the economy's ability to meet its external obligations and absorb external shocks.

This stronger external cushion has allowed the domestic economy to absorb the energy shock while sustaining activity. Kharif harvests are markedly better, while buoyant automobile production and domestic cement demand reflects durable activity in assembly and construction. Public finances have remained disciplined as tax collection exceeded its quarterly target and the budget stayed in overall and primary surplus. The fiscal surpluses and external financing are reducing the government's reliance on bank borrowing. The staff level agreement with the IMF recognized continued program implementation and progress in revenue administration, public financial management and energy reform, providing further assurance on the policy course.

The revised national accounts show that the economy sustained growth during FY2026, with agriculture contributing more than earlier estimated. Real GDP growth is now placed at 3.65 percent, marginally below the earlier estimate of 3.70 percent. Agriculture was revised up to 3.50 percent from 2.89 percent, while industry and services grew by 3.34 percent and 3.81 percent, respectively. The first quarter indicators suggest a continuation of growth momentum into FY2027, although the outlook remains contingent on evolving global economic conditions. The persistent geopolitical tensions, recurring conflict in the Gulf region, volatile oil prices, trade disruptions and elevated global inflation can be considered as a downside risk for the economy. Against this backdrop, the gover-nment remains committed to consolidating macroeconomic stability, anchoring inflation expectations and reinforcing fiscal and external resilience. Alongside these efforts, targeted fuel subsidies help cushion vulnerable households against higher energy costs, while structural reforms support investment, productivity and durable growth.

Stronger Kharif Harvests Lift Agricultural Activity.

The Kharif 2026 season has delivered strong results for the major crops. Maize production is provisionally estimated at 9.98 million tonnes, up 12.1 percent from last year, and sugarcane production at 97.3 million tonnes, up 8.8 percent. Rice production is estimated at 10.2 million tonnes, up 1.8 percent. However, the cotton production declined by 4.8 percent to 6.71 million bales compared to last year. Larger harvests feed directly into sugar and food processing industries, supporting rice export prospects and raising farm incomes that sustain rural demand for manufactured goods and services. Building on these results, the government has fixed

wheat price at Rs. 4,500 per maund for Rabi 2026-27.

Activity in the agriculture sector is supported by improved access to finance and mechanization. Agricultural credit disbursements rose 32.7 percent year-on-year (YoY) to Rs. 540.5 billion in Jul-Aug FY2027, compared with Rs. 407.2 billion a year earlier. Urea offtake during Kharif 2026 (Apr-Sep) rose 8.4 percent to 3,366 thousand tonnes, while DAP offtake fell 25.4 percent to 485 thousand tones compared to Kharif 2025 (Apr-Sep). Ensuring timely availability and balanced fertilizer application during wheat sowing will help consolidate the Kharif 2026 gains and support a strong Rabi 2026-27 harvest. Tractor sales increased by 37.8 percent to 4,109 units during Jul-Sep FY2027, and imports of agricultural machinery and implements rose 6.1 percent to $41.7 million. Taken together, these developments provide a solid foundation for Rabi 2026-27 season and significant contribution from the agriculture sector to FY2027 economic growth prospects.

Manufacturing Expands Unevenly as Automobiles and Construction Lead.

Large Scale Manufacturing (LSM) expanded by 1.9 percent during Jul-Aug FY2027, compared with 4.8 percent in the corresponding period last year. In August, output increased by 0.7 percent year on year but declined by 5.0 percent from July. Lower production in food, chemicals and pharmaceuticals weighed on the monthly result, while coke and petroleum products, wearing apparel, furniture and automobiles provided support. Higher energy prices are creating pressures providing a plausible channel for the moderation in manufacturing, although the monthly movement also reflects seasonal and industry specific factors indicating uneven expansion in the LSM rather than a broad contraction.

Automobile production and domestic cement sales continued to provide support. During Jul-Sep FY2027, truck and bus production rose 54.2 percent, car production rose 31.8 percent, two- and three-wheeler production rose 28.1 percent and jeep and pickup production rose 1.2 percent, while tractor production declined 15.3 percent. Cement dispatches rose 3.9 percent to 13.1 million tonnes, with domestic dispatches up 7.8 percent to 10.8 million tonnes and exports down 11.3 percent to 2.3 million tonnes. Stronger domestic demand in these industries supports manufacturing and construction, with positive spillovers to wholesale and retail trade, transport and other related services.

Headline Inflation Eases in September 2026.

Headline CPI inflation eased to 10.3 percent YoY in September 2026 from 11.1 percent in August, compared with 5.8 percent in September last year. Monthly headline inflation averaged 10.2 percent during Jul-Sep FY2027, compared with 4.3 percent a year earlier. Transport prices rose 27.4 percent YoY, while housing, water, electricity, gas and fuel prices rose 12.4 percent, underscoring the role of energy costs in the inflation picture. Perishable and non-perishable food prices rose 11.8 percent and 7.6 percent, respectively. Easing headline inflation offers some relief, while improved crop supplies can help ease food price pressures. For the week ending October 22, 2026, the Sensitive Price Indicator increased by 0.65 percent, with prices rising for 19 items, falling for 12 and remaining unchanged for 20.

Tax Collection Surpasses Target as Fiscal Surpluses Are Maintained.

Fiscal operations began FY2027 on a positive note, with both the overall and primary fiscal balances recording surpluses during July-August. Net federal revenue amounted to Rs. 2,912.9 billion, exceeding federal expenditure of Rs. 2,124.4 billion and contributing to a federal fiscal surplus equivalent to 0.5 percent of GDP. FBR tax collection registered a growth of 3.6 percent during the period. Total expenditure

increased by 20.7 percent, driven primarily by a 69.5 percent surge in development expenditure, significantly outpacing the 14.7 percent growth in current expenditure. The relatively moderate increase in current expenditure was largely attributable to an 8.1 percent decline in non-interest expenditure, mainly reflecting a sharp 90.0 percent reduction in subsidies. In contrast, mark-up payments increased by 36.6 percent.

The overall fiscal surplus narrowed to 0.8 percent of GDP (Rs. 1,197.9 billion), compared with 1.7 percent of GDP (Rs. 2,123.8 billion) in the corresponding period of the previous fiscal year. Similarly, the primary surplus declined to 1.6 percent of GDP (Rs. 2,311.2 billion), from 2.3 percent of GDP (Rs. 2,938.9 billion) recorded in the same period last year.

During Jul-Sep FY2027, FBR tax collection grew by 7.0 percent to reach Rs. 3,086.2 billion, exceeding the target by Rs. 33.2 billion. Both direct and indirect taxes posted positive growth, increasing by 5.5 percent and 8.3 percent, respectively. Within indirect taxes, sales tax recorded the strongest growth at 11.6 percent, followed by federal excise duty at 3.6 percent and customs duties at 0.5 percent.

Stronger Foreign Inflows and Remittances Reinforce External Buffers.

The current account deficit stood at $874 million during Jul-Sep FY2027, due to higher import payments. However, growth in goods exports and a stronger expansion in services exports helped cushion these pressures, with the services deficit narrowed slightly. Workers' remittances increased by 14.0 percent to $10.9 billion, more than covering the combined goods and services trade deficit. These sustained inflows strengthened foreign exchange availability, helped meet the economy's import and external payment requirements and cushioned the current account against higher energy costs as domestic activity continued to recover.

Goods exports increased by 7.7 percent to $8.5 billion, supported by growth in food and textile exports. Food exports rose 25.3 percent, led by rice, while textile exports increased by 5.3 percent, with gains in cotton yarn, knitwear, towels and readymade garments. Goods imports grew 14.3 percent to $17.8 billion, reflecting higher purchases across machinery, metals and transport equipment, alongside increased energy costs. Machinery imports rose 19.3 percent, metals 24.0 percent and transport equipment 19.2 percent. Petroleum imports increased by 6.5 percent, as higher crude oil and petroleum product imports were partly offset by lower liquefied natural gas imports.

The quarter's significant development was stronger foreign inflows and improved access to international capital markets. Pakistan's successful $3.0 billion sovereign Eurobond issuance in September was central to this improvement, diversifying financing sources and demonstrating international investor participation in the country's financing program. Portfolio investment consequently recorded net inflows of $2.9 billion, compared with net outflows of $633.3 million a year earlier. Foreign direct investment also increased by about 20 percent to $720 million, providing further support to the financial account.

Together, these developments helped deliver an overall balance of payments surplus of $3.1 billion, compared with a deficit of $274 million in the corresponding quarter last year. By October 16, SBP liquid reserves stood at $21.5 billion and total liquid reserves at $26.8 billion. The stronger reserve position and broader financing access enhance Pakistan's capacity to meet external obligations and sustain economic activity despite fluctuations in global energy prices.

Lower Government Borrowing Drives Monetary Contraction and Private Credit Demand Remains Subdued.

Broad money (M2) contracted by 3.9

percent between July 1 and October 16, 2026, compared with a 2.5 percent contraction in the corresponding period last year. Net domestic assets declined by Rs. 2,360.3 billion, more than offsetting the Rs. 537.5 billion increase in net foreign assets. The main domestic counterpart was net retirement of government borrowing for budgetary support of Rs. 2,571.8 billion, compared with Rs. 1,822.9 billion a year earlier. Of the current retirement, Rs. 1,873.9 billion was from scheduled banks and Rs. 697.9 billion from the SBP. The decline in bank financing is consistent with fiscal surpluses and availability of external financing.

Private sector credit recorded a net borrowing of Rs. 5.7 billion through October 16, compared with net retirement of Rs. 21.1 billion a year earlier. The outstanding credit stock nevertheless remained about 15.0 percent above its corresponding level last year. Looking ahead, private sector credit demand is expected to further increase following the arrival of cash crops in the market, driven by seasonal financing needs and increased economic activity.

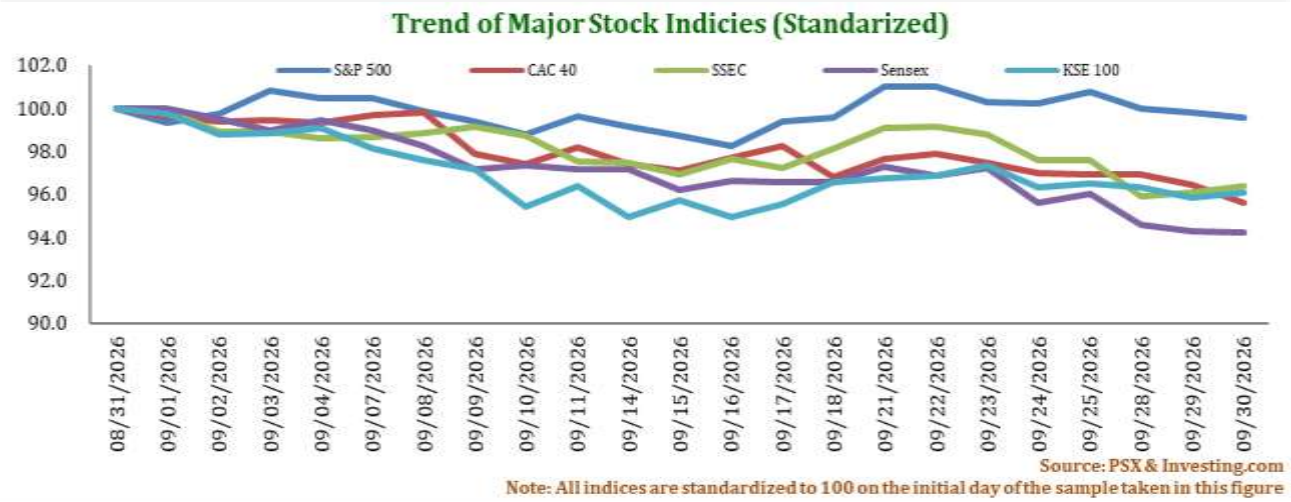
The Monetary Policy Committee increased the policy rate by 50 basis points to 12.0 percent, effective October 27, 2026, to address rising inflationary risks stemming from the intensifying Middle-East conflict and persistently high global energy prices. The decision aims to anchor inflation expectations, contain second-round effects, and keep inflation within the target range while preserving macroeconomic stability and supporting sustainable economic growth.

Equity markets remained sensitive to geopolitical developments and oil prices. The KSE-100 Index fell 7,006 points in September to close at 169,969 and market capitalization declined by Rs. 903 billion to Rs. 18,928 billion, as higher energy costs weighed on earnings expectations and on the outlook for inflation and interest rates.

Interest-Free Financing and Targeted Social Assistance Support Livelihoods.

In September 2026, the Bureau of Emigration and Overseas Employment registered 43,062 Pakistani workers for overseas employment, supporting access to international labour markets and the future remittance base. During the same month, the Pakistan Poverty Alleviation Fund, working with 24 partner organizations, disbursed 5,782 interest free loans worth Rs. 430 million to support self-employment and livelihoods. Cumulative disbursements since 2019 reached Rs. 127.48 billion. Meanwhile, during Jul-Aug FY2027, Rs. 72.0 million was spent under the Benazir Income Support Programme, reaffirming the Government's commitment to providing targeted social assistance and strengthening the social safety net for vulnerable households.

Equity markets remain sensitive to global developments



Source: PSX & Investing.com

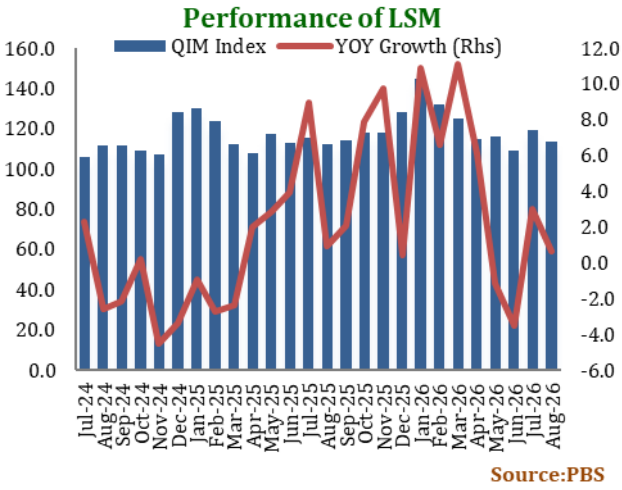
Note: All indices are standardized to 100 on the initial day of the sample taken in this figure

Economic Outlook

The recovery in FY2027 is expected to draw support from improving crop prospects, selected manufacturing industries, domestic construction activity and expanding external earnings. Stronger agricultural output is expected to support food processing, rural incomes and trade, while machinery imports contribute to productive capacity as investment projects are implemented. Rising services exports and remittances provide a further source of foreign exchange and household income. The stronger reserve position and broader access to external financing is creating a more supportive environment.

Fiscal policy remains focused on preserving stability through stronger revenue mobilization, prudent expenditure management and targeted support for the vulnerable segment. The fiscal surplus provides a useful starting point. Headline inflation is projected in the range of 9.5 to 10.5 percent for October 2026, with the subsequent path sensitive to international energy prices, food supplies and base effects. Continued progress on tax administration, energy efficiency, state-owned enterprise reform is expected to support a durable expansion while containing pressures on the external account.

Manufacturing continues to expand unevenly as headline inflation eases in September

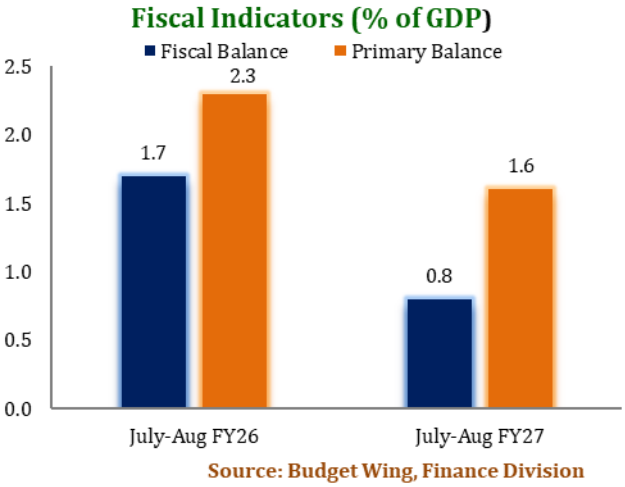


Source:PBS

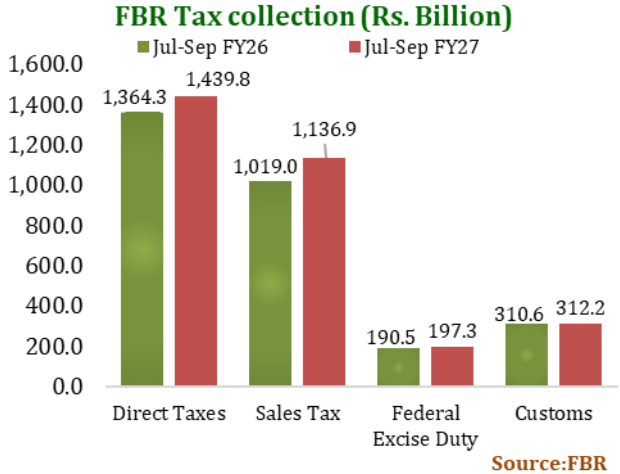


Source: PBS

Fiscal surpluses persist and quarterly tax collection exceeds target

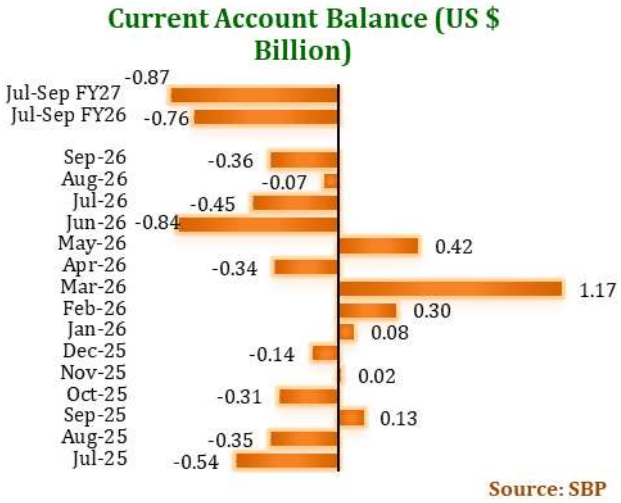


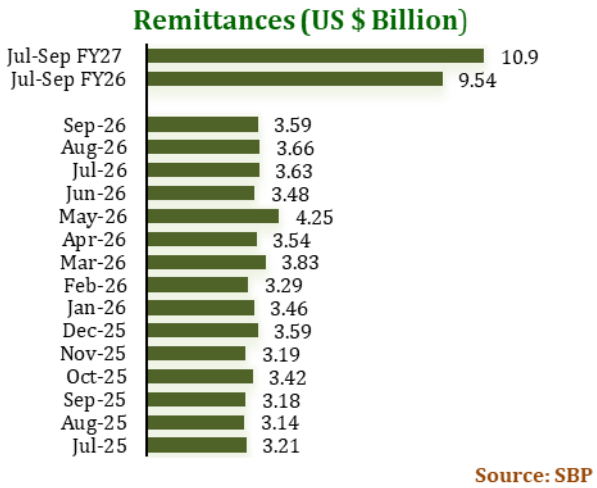
Source: Budget Wing, Finance Division



Source:FBR

Higher remittances and foreign investment strengthen external buffers as import demand increases

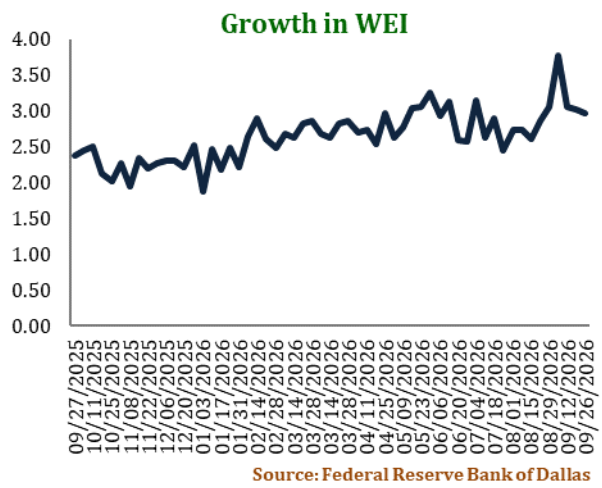


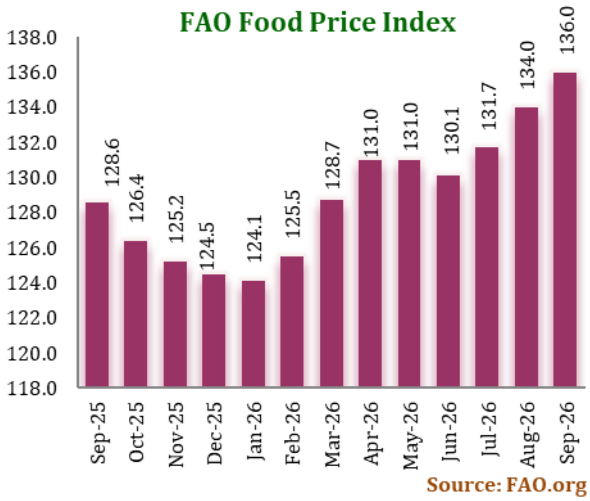


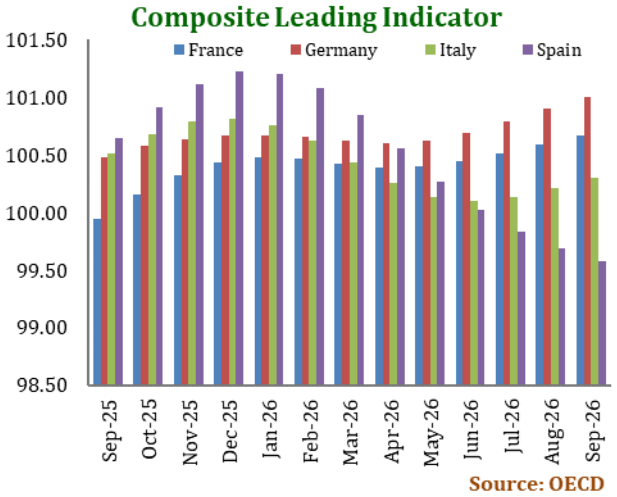
Global Economic Update & Outlook

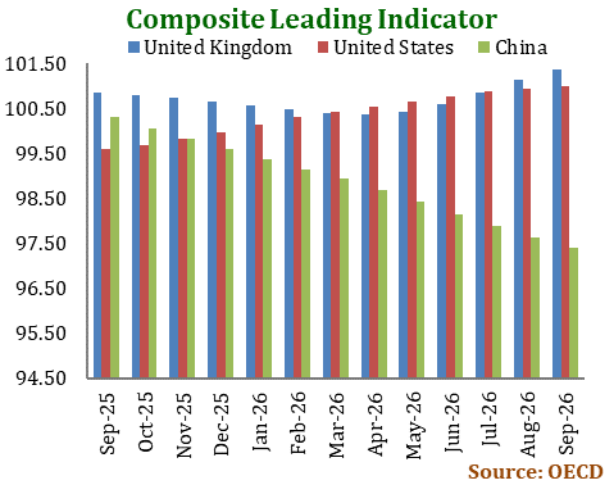
The IMF's October 2026 World Economic Outlook projects global growth of 3.1 percent in 2026 and 3.4 percent in 2027, with global headline inflation rising to 4.7 percent in 2026 before easing to 4.1 percent in 2027. September's high-frequency indicators signal continued expansion. The J.P. Morgan Global Composite PMI rose to 54.3 in September from 53.5 last month, with both services and manufacturing contributing. The U.S Weekly Economic Index stood at 3.3 percent in the week ended October 17 and Composite Leading Indicators of U.S, U.K and the OECD economies remained close to trend. Steady demand in Pakistan's main markets supports the outlook for goods and services exports. Geopolitical tensions, trade disruptions and uncertainty around technology investment remain the principal downside risks.

Commodity prices are the main channel through which global developments reach Pakistan. Brent crude averaged $116.8 per barrel in September, up 28.4 percent from August and natural gas prices also rose. Higher prices raise the oil import bill directly and then pass through transport, production and distribution costs. The FAO Food Price Index also rose 1.5 percent to 136.0 points and World Bank data show higher prices for palm oil and fertilizer, which add to import costs and farm input prices. Better domestic harvests, stronger reserves and diversified financing improve Pakistan's capacity to absorb these pressures. Energy efficiency and export expansion remain essential for reducing this vulnerability over the medium term.


Growth in WEI
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
09/27/2025
10/11/2025
10/25/2025
11/08/2025
11/22/2025
12/06/2025
12/20/2025
01/03/2026
01/17/2026
01/31/2026
02/14/2026
02/28/2026
03/14/2026
03/28/2026
03/14/2026
03/28/2026
04/11/2026
04/25/2026
05/09/2026
05/23/2026
06/06/2026
06/20/2026
07/04/2026
07/18/2026
08/01/2026
08/15/2026
08/29/2026
09/12/2026
09/26/2026
Source: Federal Reserve Bank of Dallas


FAO Food Price Index
138.0
136.0
134.0
132.0
130.0
128.0
126.0
124.0
122.0
120.0
118.0
128.6
126.4
125.2
124.5
124.1
125.5
128.7
131.0
131.0
130.1
131.7
134.0
136.0
Sep-25
Oct-25
Nov-25
Dec-25
Jan-26
Feb-26
Mar-26
Apr-26
May-26
Jun-26
Jul-26
Aug-26
Sep-26
Source: FAO.org


Composite Leading Indicator
France
Germany
Italy
Spain
101.50
101.00
100.50
100.00
99.50
99.00
98.50
Sep-25
Oct-25
Nov-25
Dec-25
Jan-26
Feb-26
Mar-26
Apr-26
May-26
Jun-26
Jul-26
Aug-26
Sep-26
Source: OECD


Composite Leading Indicator
United Kingdom
United States
China
101.50
100.50
99.50
98.50
97.50
96.50
95.50
94.50
Sep-25
Oct-25
Nov-25
Dec-25
Jan-26
Feb-26
Mar-26
Apr-26
May-26
Jun-26
Jul-26
Aug-26
Sep-26
Source: OECD

Economic Indicators

(29-10-2026)

External Sector							
	FY2026	FY2026 (Jul-Sep)	FY2027 (Jul-Sep)	% Change	FY2026 (Sep)	FY2027 (Sep)	% Change
Remittances ($ billion)	41.6	9.5	10.9	↑14.0	3.2	3.6	↑12.7
Exports FOB ($ billion)	30.8	7.9	8.5	↑7.7	2.6	3.0	↑15.5
Imports FOB ($ billion)	64.5	15.6	17.8	↑14.3	5.0	6.2	↑22.7
Current Account Balance ($ million)	-391	-755	-874	↓	133	-356	↓
FDI ($ million)	1,790.7	600.4	719.7	↑19.9	185.3	219.5	↑18.5
Portfolio Investment ($ million)	-1,186	-633.3	2,932.0	↑	-546.7	2,864.3	↑
Total Foreign Investment ($ million)	604.6	-32.9	3,651.7	↑	-361.5	3,083.8	↑
Forex Reserves ($ billion)	23.2 (SBP: 18.4) (Banks: 4.9) (End June 2026)	19.8 (SBP: 14.4) (Banks: 5.4) (On 17th Oct 2025)	26.8 (SBP: 21.5) (Banks: 5.3) (On 16th Oct 2026)				
Exchange Rate (PKR/US$)	278.2 (End June FY2026)	280.97 (On 28th Oct 2025)	276.8 (On 28th Oct 2026)				

Source: SBP

Fiscal (Rs. Billion)							
	FY2026	FY2026 (Jul-Aug)	FY2027 (Jul-Aug)	% Change	FY2026 (Sep)	FY2027 (Sep)	% Change
FBR Tax Revenue (Jul-Sep)	13,010.4	2,884.4	3,086.2	↑7.0	1,222.9	1,363.8	↑11.5
Federal Non-Tax Revenue	5,178.0	2,804.1	2,365.9	↓15.6			
Fiscal Balance	-3,313.4	2,123.8	1,197.9	↓			
Primary Balance	3,634.2	2,938.9	2,311.2	↓			

Source: FBR & Finance Division

Monetary Sector (Rs. Billion)				
	FY2026	FY2026 (October)	FY2027 (October)	% Change
Agriculture Credit (Jul-Aug)	3,231.6	407.2	540.5	32.7
Private Sector Credit Flows	1,463.3	-21.07 (Jul 1 to Oct 17, 2025)	-5.73 (Jul 1 to Oct 16, 2026)	↑
Growth in M2 (percent)	14.7	-2.53 (Jul 1 to Oct 17,2025)	-3.92 (Jul 1 to Oct 16,2026)	
Policy Rate (percent)	11.5	11.0 (27-Oct-2025)	12.0 (26-Oct-2026)	

Source: SBP

Real Sector				
	FY2026	FY2026	FY2027	% Change
CPI Inflation (percent)	7.1	4.3 (Jul-Sep) 5.8 (Sep)	10.2 (Jul-Sep) 10.3 (Sep)	↑
Large Scale Manufacturing (LSM) (percent)	5.01	4.82 (Jul-Aug) 0.91 (Aug)	1.85 (Jul-Aug) 0.67 (Aug)	↓

Source: PBS

Financial Sector				
	FY2026	FY2026 (October)	FY2027 (October)	% Change
PSX Index*	180,301 (End June)	160,101 (On 28th Oct 2025)	165,736 (On 28th Oct 2026)	↑3.52
Market Capitalization (Rs. trillion)	20.19 (End June)	18.46 (On 28th Oct 2025)	18.33 (On 28th Oct 2026)	↓0.70
Market Capitalization ($ billion)	71.17 (End June)	65.70 (On 28th Oct 2025)	66.22 (On 28th Oct 2026)	↑0.79
Incorporation of Companies (Jul-Sep)	43,559	11,247	15,440	↑37.3

*: Formerly Karachi Stock Exchange (KSE)

Source: PSX & SECP