

Pakistan Economic Insights

(October - November 2025)

Executive Summary

Pakistan's economy in the first six months of FY2025-26 shows a mixed picture of resilience amid **mounting strain**. Though fiscal consolidation, monetary steadiness, and growth in manufacturing (*e.g., automobiles, cement*) indicated fundamental fortitude, noteworthy vulnerabilities are increasing. The most serious compression point is the **weakening agriculture sector**, which grew merely at 0.56% in FY25, intimidating food security and inflation. Simultaneously, the **external sector is fading**, with a broadening current account deficit determined by rising imports (*particularly consumer durables and food*) and deteriorating exports. Inflationary burdens are re-developing, and political ambiguity complements the risks. The economy's optimistic course is therefore confronted by structural weaknesses in agriculture and a mounting trade disparity, necessitating crucial policy emphasis to endure stability.

Key Points

1. Durable Macroeconomic Essentials Under Stress:

- **Fiscal & Monetary Policy:** Fiscal consolidation endures with a condensed deficit, and the policy rate is lowered to 10.5%. Public debt has declined.
- **Growth Sectors:** Large-Scale Manufacturing (LSM) grew by 4.1% (Q1), driven by the auto industry (84.8%) and cement (15.3%). Services exports are depicting abrupt progress.
- **Developing Burdens:** The current account deficit has broadened to \$733 million (Jul-Oct), inflation is rising (6.1% in Nov 2025), and political ambiguity poses a risk.

2. Serious Weakness: The Deteriorating Agriculture Sector:

- **Stagnant Growth:** Sector growth was only 0.53% in FY25, upheld exclusively by the livestock sector (*based on out-of-date 2006 data*).
- **Systemic Failure:** Crop failure is because of mounting input costs, unproductive research, archaic seeds (*e.g., Bt cotton*), an obsolete extension service department, and manipulative middlemen.
- **Tactical Risk:** The sector contributes with 37% of employment and is a vital input for industry. Its deprived performance directly fuels food inflation (*rising milk and meat prices*) and import dependence.

3. Worsening External Situation:

- **Broadening Imbalance:** A rush in imports (+9.6%), predominantly consumer durables (+83.3%) and food, outperformed uncertain export growth (+2%), deteriorating the trade deficit.
- **Export Challenges:** Crucial exports like rice fell by 46% because of India's re-entrance into the global marketplace. The economy excessively relies on textile exports.
- **Financing Move:** The problem of financing the shortfall is fluctuating from non-debt generating arrivals (*like FDI*) to amplified debt.

4. Outlook & Perils:

- **Optimistic Pointers:** LSM regaining, fiscal discipline, and exchange rate steadiness deliver a footing.
- **Noteworthy Challenges:** The feeble agricultural position, increasing inflation, vibrant imports, and geopolitical worries (*particularly trade with Afghanistan*) pose grave headwinds.



Section 1

Fundamental Macroeconomic Indicators of Pakistan's Economy

Pakistan's economy continued its steady path of gaining strength on the back of fiscal consolidation. Main indicators showed a marked improvement, such as LSM growth picked up, IT exports witnessed record growth, remittances remained buoyant, public debt especially external, showed marked improvement on the back of lower translation impact of stronger dollar; however, political uncertainty is jeopardizing some gains, and external sector vulnerability has increased. Inflation started accelerating to some extent, but is still lower than the SBP long-run policy goal. Substantial reduction in interest rates helped maintain the fiscal surplus and also reprofiling of public debt to reduce the share of shorter-end maturing debt, thereby reducing refinancing and rollover risks. Exchange rate stability remained the linchpin of macroeconomic stability. Imports are growing at a faster pace than exports, resulting in a widening of the trade deficit and a worsening of the current account.

Agriculture

Over the last few years, fluctuating weather patterns, pest infestations, declining yields in major cotton-growing areas, and low economic returns have urged farmers to shift to alternative crops. An increasing trend of sesamum, rice, and autumn maize was observed in several parts of central and southern Punjab.

Cotton arrivals reached 4.4 million bales (of 155kg) as of November 15, which shows a slower cumulative pace than both FY24 and FY25 at this stage. Cotton rarely recovers after mid-November, and historically, at this point in the season, more than four-fifths of annual arrivals are already accounted for. Pakistan has never crossed six million bales when Punjab failed to reach three million by mid-November. Given the current trajectory, nationwide arrivals may settle between 5 and 5.5 million bales, which is barely enough for meeting the FCA target of 6.8 million bales.

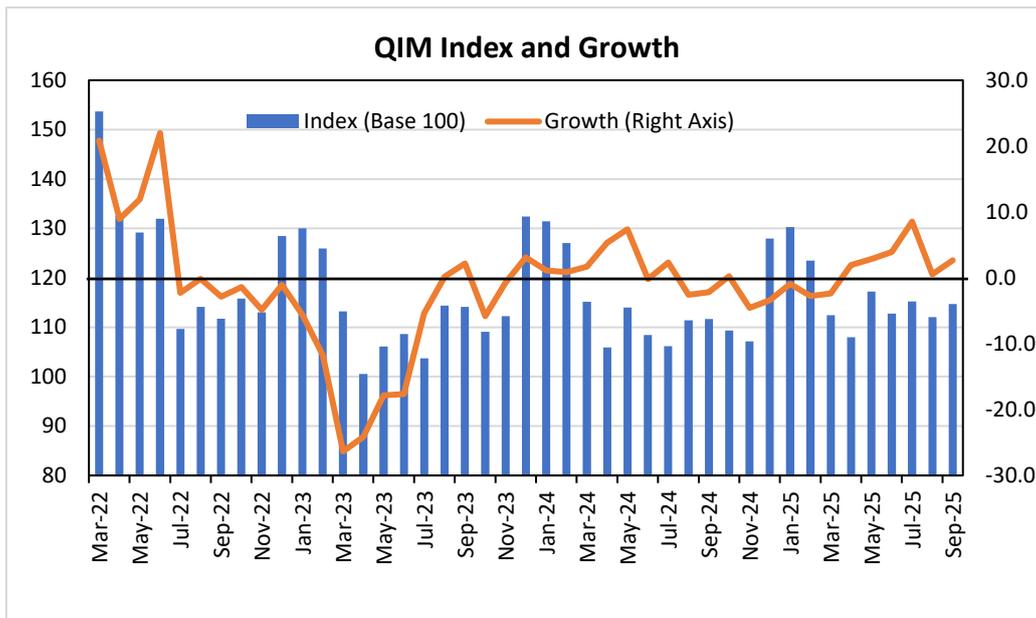
Over the last few years, sesame cultivation has been increasing as an alternative crop, replacing cotton, especially in some parts of central and southern Punjab, and a few districts of upper Sindh. Chinese imports are creating an incentive for this short-duration crop.

Wheat sowing is already underway, and input purchases are showing signs of hesitation, which does not augur well for wheat production. Federal Committee on Agriculture (FCA) in its end-October meeting targeted the wheat crop at around 29 million tons. Sugarcane will remain close to last year's level. The agriculture sector is likely to record lower than targeted growth in FY2026.

Manufacturing

Large-scale manufacturing recorded positive growth of 4.1% in the first quarter (July-September), which is almost at the same level as in the first quarter of last year. In September, LSM grew by 2.7%, an improvement over the 2.2% contraction in September 2024 and fractional growth of 0.5% in August 2025. LSM growth is driven by automobile (84.8%), cement (15.3%), petroleum (3.3%), garments (2.4%), and cotton (2.6%).

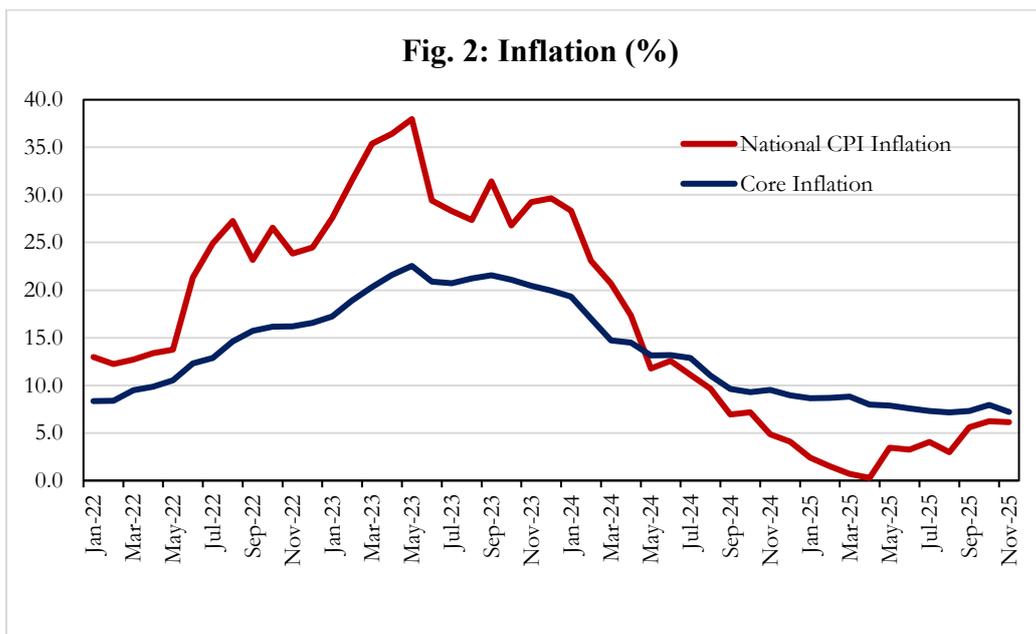
Fig. 1: QIM Index and Growth



Source: Pakistan Bureau of Statistics

Inflation

Inflation started accelerating across all dimensions as food, non-food, and energy inflation witnessed a significant increase. National inflation reached 6.1% in November 2025, up from 5.2% in November 2024. Average inflation at 5% in the first five months is still lower than 7.9% in the comparable period of last year. Energy inflation entered positive territory for the first time after 12 months in November.



Source: Pakistan Bureau of Statistics

The surge in inflation is evenly distributed between food and non-food. Core inflation stood at 6.6% in November 2025, but on a month-on-month basis, it continued to trend upward. During July-November 2025, core inflation in rural areas averaged at 8% and in urban areas it stood at



7% which was in the double digits in the comparable period last year. Energy inflation has remained muted over the last one year or so due to lower and falling crude oil prices. Gas price adjustment in July 2025 broke this inertia.

Table 1: CPI Inflation (%)

	July-June		July-November	
	2023-24	2024-25	2024-25	2025-26
CPI National	23.4	4.5	7.9	5.0
Food	21.9	0.6	1.8	3.5
Non-Food	24.7	7.7	13.1	6.2
Energy	48.2	3.4	21.2	2.9
Core	17.9	9.2	10.4	7.4
CPI Urban	24.1	5.3	9.7	5.1
Food	22.1	1.6	2.7	3.1
Non-Food	25.5	7.9	14.8	6.4
Energy	62.6	6.1	31.5	4.7
Core	16.1	8.5	9.7	7.0
CPI Rural	22.5	3.3	5.9	4.9
Food	20.3	-1.2	0.5	4.0
Non-Food	23.0	7.1	10.5	5.9
Energy	24.6	-2.9	2.7	-1.0
Core	22.4	10.7	13.2	8.0

Source: Pakistan Bureau of Statistics

Monetary expansion remained almost flat during July-November 2025 as retirements of treasury bill holdings by the SBP were recorded in the first five months. The Monetary Policy Committee (MPC) held the policy rate constant at 11 percent in its last four meetings, and has now lowered it by 50 basis points to 10.5 percent, noting the expected muted inflation. Relatively high real rates induced the private sector to borrow more, as evidenced by the surge in private credit, particularly in the manufacturing sector, and some increase in car financing. Another manifestation of higher positive real interest rates is the surge in time deposits, whereas demand deposits have decreased.

Fiscal Developments

Notwithstanding the extraordinary pressure created by massive flash floods in the first quarter, the fiscal consolidation remained supreme. Total revenue grew faster than total expenditures, which resulted in a reduction in fiscal and primary balances. Tax revenues rose by 13.6% in the first quarter, while non-tax revenues contracted marginally by 0.2%. SBP's profits account for more than 80% of non-tax revenues in the first quarter, and they fell by 2.9% which dragged the overall non-tax revenues. Another major source of non-tax revenues, namely PDL, grew by a massive rate of 42% but could not offset the impact of lower SBP profits, which is a one-off for the entire fiscal year in the first quarter.

Fiscal improvement in the backdrop of falling revenue-to-GDP ratio underscores the fiscal consolidation as current and development spending as a percent of GDP almost stagnated, and net lending plus statistical discrepancy compensated for the decrease in revenue-to-GDP ratio. A substantial rise of 58% in provincial and federal development spending explains the fiscal cost of flood-related spending by the provincial and federal governments. On the financing

side, the government was able to retire over rupees two trillion to the banking system (both SBP and banks), which is likely to enhance liquidity in the system.

Table 2: Consolidated Fiscal Operations

Item	July – September		% Change	As % of GDP	
	2024-25	2025-26		2024-25	2025-26
Total Revenues	5,827	6,200	6.4	5.1	4.8
Tax Revenue	2,776	3,153	13.6	2.4	2.4
Non-Tax Revenue	3,051	3,046	-0.2	2.7	2.4
Total Expenditure	3,931	4,080	3.8	3.5	3.1
Current expenditure	3,537	4,047	14.4	3.1	3.1
Dev. Expenditure	278	441	58.4	0.2	0.3
Net Lend. & Stat. Discr.	116	-408	-452.7	0.1	-0.3
Federal Fiscal Balance	1,536	1,338	-12.9	1.4	1.0
Provincial Surplus	360	781	117.2	0.3	0.6
Overall Fiscal Balance	1,896	2,119	11.8	1.7	1.6
Primary Balance	3,202	3,497	9.2	2.8	2.7

Source: Finance Division

Public Debt

During the last four months (July–October 2025), the stock of central government debt decreased by Rs.909 billion, from Rs.77.9 trillion at the end of June 2025 to Rs.77 trillion at the end of October 2025. Both external and internal debt stock have evenly contributed to this reduction.

External Sector

The external sector felt the heat of a surge in imports due to the easing of some limits and falling exports, primarily owing to the situation around the Durand Line and lower global commodity prices. Pressure on imports is mainly coming from an increase in commodities, whereas prices are generally offsetting the increase in quantum terms.

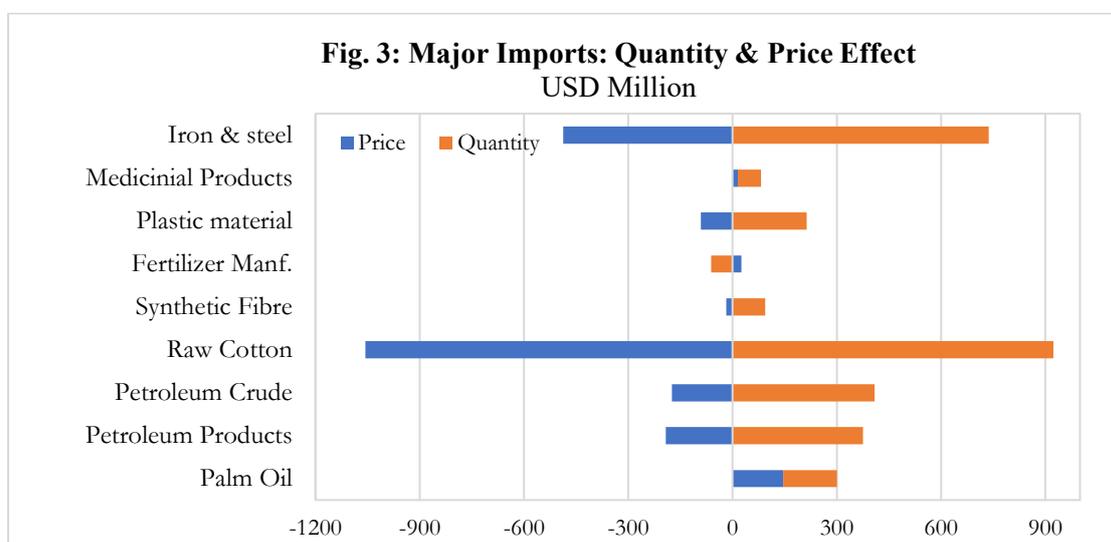


Table 3: Causative Factors of CAD (USD Million)

	July–October	
	2025-26	
CAD Deterioration	-527	100
<u>Negative Contributions</u>	-2,274	
Trade Balance Deterioration	-1,614	-306
o/w Increase in Imports (Goods)	-1,820	345
Increase in Imports (Services)	-451	86
Income Account Worsening	-3	1
<u>Positive Contributions</u>	1,747	
Increase in Exports (Goods)	206	-306
Increase in Exports (Services)	417	-79
Current Transfers Improvement	1,124	-213
o/w Increase in Remittances	1,103	-209

Source: Pakistan Bureau of Statistics

Current account deficit continues to surge because of the pressure of imports. During the first four months (July–October 2025), CAD widened to \$733 million compared with a deficit of \$206 million in the comparable period of last year. Imports grew by 9.6% whereas export growth was modest at 2%. Resultantly, the trade imbalance widened by 19%. Services exports recorded a healthy growth of 15.9% but an equally significant increase in services imports kept the services imbalance growing by 3%. The growth in remittances of 9.3% diluted the impact of the overall deficit. The good thing about CAD is that services sector exports are increasing at a brisk pace; however, on the goods side, the pressure from imports will continue to rise when the economy is not growing.

On the financing side, non-debt-creating inflows reduced substantially, and the burden shifted to debt-creating inflows. On the non-debt-creating side, net FDI inflows substantially reduced, whereas on the debt-creating side, disbursements increased, and amortizations decreased. This has helped in keeping demand for hard currencies.

An alarming trend is that one-third of the surge in imports stemmed from consumer durables, an indicator of a consumption bonanza in the economy. Food imports accounted for another one-fourth of the increase. The petroleum group witnessed stability in imports, which is attributed to muted global petroleum prices. Raw materials and textiles also contributed to the surge in imports.

Table 4: Financing of CAB

\$ Million

	July–October	
	2024-25	2025-26
Financial & Capital Account, o/w	1,036	666
Direct Investment (net)	1,035	640
Portfolio Investment (net)	197	-531
Net Liabilities	-267	503
General Government	-875	74
Disbursement	1,099	1,508
Amortization	1,974	1,434
Use of IMF Resources	853	-91
Overall Balance	927	40

Source: Pakistan Bureau of Statistics

Table 5: Increase in Imports during July-October FY2026

USD Million

	July-October		% Change	% Contr. in Increase
	2024-25	2025-26		
Total Imports	19,391	22,235	14.7	100.0
Food Group	2,341	3,076	31	25.8
Pulses	298	255	-14	(1.5)
Palm Oil	1,024	1,325	29	10.6
Machinery Group	1,223	1,638	34.0	14.6
Elect. Machinery & Appl.	1,073	1,026	-4.4	(1.7)
Power Generating Mach.	208	260	25.2	1.8
Textile Machinery	142	213	50.2	2.5
Consumer Durables	1,044	1,914	83.3	30.6
Mobiles Phone	421	645	53.2	7.9
Road Motor Vehicles	623	1,269	103.7	22.7
Textile Group	2,085	2,308	10.7	7.8
Raw Cotton	663	530	-20.1	(4.7)
Raw Materials	2,636	3,092	17.3	24.3
Plastic Material	852	974	14	4.3
Iron & Steel Scrap	664	680	2	8.8
Iron & Steel	703	937	33	8.3
Medicinal Products	418	500	20	2.9
Petroleum Products	5,115	5,150	0.7	1.2
Petroleum Products	1,755	1,939	10.5	6.5
Petroleum Crude	1,737	1,972	13.5	8.3
LNG	1,306	925	-29.2	(13.4)
Others	4,947	5,057	2.2	(4.4)

Source: Pakistan Bureau of Statistics

Exports, on the other hand, continue to decline, especially those of the second-largest product after textiles, rice, which have recorded a 46% major decline in the first five months. India's decision to lift its rice export ban, remove the basmati minimum export price (MEP), and zero-rate rice exports has impacted rice exports, as Pakistan was taking advantage of India's absence over the last two years. The value-added segment of textiles, such as readymade garments and hosiery, recorded positive growth for the textile sector. Petroleum exports witnessed a high growth of 97% in the first five months.

Overall exports contracted by 4% during July-October 2025, as global commodity prices are down, but payments data suggest a modest 2% increase. Payment data will gradually reflect the contraction of exports with transmission lags.

Table 6: Group-wise Increase in Exports

Particulars	July-October		\$ Million
	2024-25	2025-26	Change (%)
A. Food Group	2,365	1,539	-34.9
Rice	1,084	581	-46.4
Meat and Meat Prep.	160	170	6.3
B. Textile Group	6,146	6,392	4.0
Cotton Yarn	222	239	7.7
Cotton Cloth	679	593	-12.8
Knitwear	1,760	1,905	8.2
Bedwear	1,070	1,144	6.9
Readymade Garments	1,359	1,428	5.1
Synthetic	132	130	-1.0
C. Petroleum Group	179	352	97.2
D. Other Manufacturers	1,439	1,379	-4.2
Chemicals & Pharma. Pro.	532	434	-18.3
Engineering Goods	144	148	2.8
Cement	105	135	28.6
Leather Products	252	250	-0.7
E. All Other Items	759	785	3.5
Total	10,888	10,447	-4.0
Excluding Textile	4,742	4,056	-14.5
Share of Textile	56.4	61.2	
Share of Non-Textile	43.6	38.8	

Outlook

Recovery of LSM (especially sales of automobiles and cement production), an inordinate surge in services exports, exchange rate stability, fiscal consolidation, and investor confidence, as reported by the OCIC Survey, are some leading indicators of economic performance at this point in time. Notwithstanding this positive outlook, there are challenges like a spike in inflation, which was already anticipated at the time of budget presentation, vibrance in imports, a contraction in exports, tampering off in the momentum of remittances, a dismal agriculture outlook, and a widening current account are some of the challenges confronting the economy.

This outlook is subject to risks emanating from an uncertain geopolitical environment, a jittery global commodity market outlook, and global trade-related uncertainties. Afghanistan is a major export market for Pakistan, and developments across the Durand Line have implications for trade. Exports have already shown an indication of the impact of Afghan trade in November. Pakistan's economy needs to capitalize on positive vibes about economic prospects emerging out of its global positioning.



Section 2

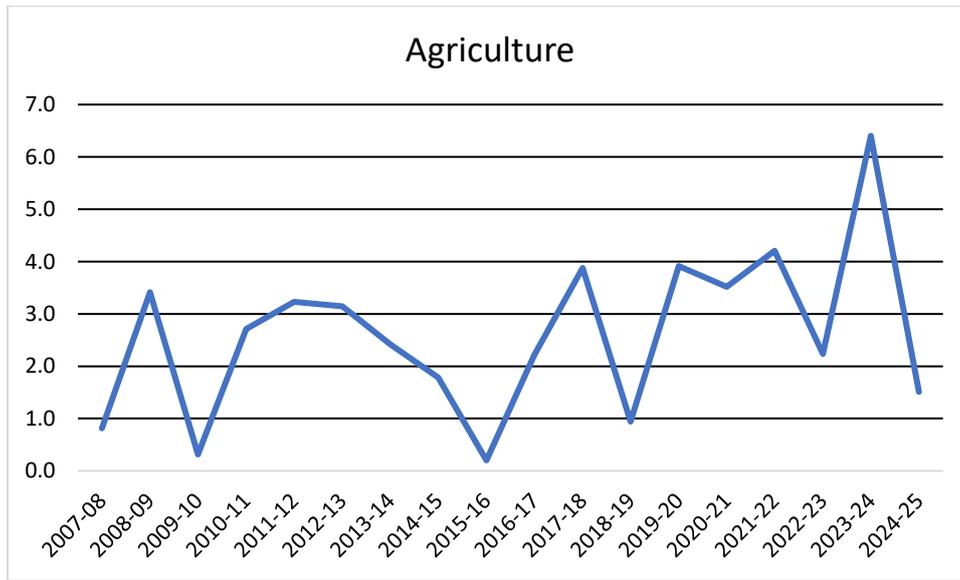
Focus Issue of the Month

Deteriorating Agriculture Sector of Pakistan

Overview of Issue

Agriculture remained the mainstay of the economy despite its declining share in employment, contribution to the GDP, and international trade. Farm households increased to 11.8 million in 2024 from 8.3 million in 2010 (7th Agriculture Census, 2024).

Fig. 4: Agriculture Sector Growth over the Years



For the last few years, the agriculture sector has been persistently suffering from low growth, particularly, and from the absence of a well-integrated policy framework. In the previous fiscal year (FY25), the sector grew only by 0.56%, driven entirely by the livestock sector. Crops, one of the key sub-sectors, saw a major decline in the last fiscal year.

Table 7: Agriculture Sector Profile

Growth of Agriculture Sector in FY25	0.56%
Contribution of Agriculture Sector in National GDP	23.54%
Contribution in National Employment Level	37%
Country's Population Directly/Indirectly Related to the Sector	63%

The persistent decline in the sectoral growth is due to multi-layered issues that are dragging down the agriculture sector, a strategically significant contributor to Pakistan's economy. Below is a brief overview of these problems and possible solutions for building up the sector.

- In FY25, the agriculture sector grew by 0.53%, and livestock was the only segment that kept the growth rate positive. However, the livestock sector estimates are also based on an almost two-decade-old survey, the Livestock Census 2006, and therefore do not reflect the actual picture. Two main livestock products, milk and meat, have

experienced persistently higher prices for many years due to low productivity, driving food inflation.

Table 8: Milk and Meat Prices Over the Years

<i>Month & Year</i>	Milk Price per litre (PKR)	Beef Average Price per Kg (PKR)
<i>October 2020</i>	120	473
<i>October 2021</i>	129.5	558
<i>October 2022</i>	161	691
<i>October 2023</i>	212	810
<i>October 2024</i>	221	1019
<i>October 2025</i>	235	1124

- Crop failure is due to various factors, including rising input costs (seeds, fertilizers, water, plowing, and harvesting) and an uncertain, expensive, and adulterated supply of pesticides. Cotton, the primary input for the textile industry, is persistently subjected to lower production, predominantly due to the wrong selection of seed variety (*Bt Cotton*).

Table 9: Cotton Production, Cultivated Area, and Yield

<i>Year</i>	Area (000 Hectares)	Production (000 Bales)	Yield (Kg/Hectare)
<i>2021</i>	1937	8329	731
<i>2022</i>	2144	4910	390
<i>2023</i>	2424	10223	717
<i>2024</i>	2040	7080	590

Source: Pakistan Economic Survey

- Irrespective of numerous agricultural research organizations and institutions, they are either weak or not delivering. The outdated, low-yielding varieties of seeds have been cultivated for ages, yet there are no regulatory guidelines on the use of certain varieties. Additionally, licensing of seed companies is not proper, and therefore, seed imports are also easy, resulting in the prevalence of seeds not supported by data and research.
- Agricultural extension services departments have become redundant, and as a result, most government-level initiatives for agriculture and farmers remain ineffective. This redundancy results in a lack of provision of technical assistance, training, and education to farmers and in the development of modern agriculture and knowledge transfer streams.
- Farmers' exploitation through low prices of their cultivated crops is another aspect that contributes to the downfall of the sector. In this regard, though the middleman (*arhati*) provides financial sustenance to farmers, he takes away all the benefits by charging lower prices for crops.

What Should be Done?

- The agriculture sector should be prioritized as an important strategic area, as food security is a cornerstone of national security. Additionally, agriculture employs a sizeable portion of the labor force. The sector contributes significantly to inputs and raw materials for the industrial sector and, more importantly, reduces the burden on imports. Poverty being mainly a rural phenomenon, agriculture is crucial for uplifting

people out of poverty, as high crop yields lead to enhanced livelihoods through augmented consumption patterns.

The table below explains the significance and real contribution of the agricultural sector to the country’s overall economic development. Generally, the agricultural sector’s direct contribution to the economy is published, but its contribution to other sectors (*highlighted in green*) and its output as input to other sectors are not explicitly mentioned in Pakistan Economic Survey reports. The contribution of the agricultural sector underscores its exclusivity and strategic significance in the national economy, acting as a catalyst for growth, since no other sector contributes as widely to the growth of other sectors.

	Agriculture	Industry	Services	Consumption	Investment	Exports	Total
Agriculture	16.35%	44.54%	4.76%	31.71%	1.59%	1.05%	100%
Industry	1.99%	10.01%	16.47%	51%	4.54%	15.98%	100%
Services	2.08%	9.65%	19.50%	58.87%	6.64%	3.26%	100%

Source: ADB Pakistan: Input-Output Economic Indicators 2023

- Pakistan needs a Green Revolution like the one in the 1960s, when the introduction of high-quality seeds with high yields transformed the agricultural sector.
- Redundant agricultural extension departments need to be revamped to integrate agriculture and farmer support services under a single umbrella. Moreover, supportive public policy for farmers, including knowledge-intensive mechanization of agricultural services, skills development, and the introduction of modern techniques across overall farming processes, is needed.
- Well-integrated farming skills development programs and access to modern farming technologies should be introduced at the district and provincial levels. This would help transform old-school farming practices into mechanized agricultural practices.
- Floods are becoming more frequent in Pakistan, causing greater damage to the country’s infrastructure on a larger scale, and the agricultural sector is, in this regard, the severely hit segment. Comprehensive, well-integrated, and evidence-based research studies should be conducted to propose practical steps to convert the calamity of flooding into an opportunity. This could be done by developing emergency canals that reroute excess water to dry areas of the country.

Conclusion

Pakistan’s economy is at a crossroads. Although a sensible macroeconomic organization has recognized a stage of steadiness, this development is being destabilized by twin structural disasters: a failing agriculture sector and a deteriorating external account. The distressing sluggishness in agriculture is not simply an economic pause but a direct danger to national food security, inflation, and industrial supply chains. Instantaneously, the consumption-obsessed import surge lurks to corrode external cushions. Instant, harmonized policy action is indispensable. This demands pronouncing agriculture a national security priority and initiating an all-inclusive revitalization program – a new Green Revolution – while executing measures to enhance export competitiveness and manage import demand. Without addressing these essential susceptibilities, the economy’s resilience will be harshly tested.



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