Pakistan Economic Insights
(July - August 2025)

Executive Summary

Pakistan's economy in the first two months of fiscal year 2025-26 (July-August 2025) displayed a mixed outlook, characterized by cautious confidence following credit rating enhancements but outshined by other noteworthy issues and challenges. Moody's elevation to Caa1 reflects growth under the IMF program, strengthened by better external cushions and fiscal consolidation. Major segments demonstrate progress: manufacturing, predominantly cement and automobiles, displayed sturdy development, and inflation has toned down meaningfully from the previous year. However, devastating current floods have severely damaged agriculture, threatening major kharif crops like cotton and rice, which poses a grave danger to development, food security, and inflation. As far as the external sector is concerned, the current account glided back into deficit in July due to a surge in imports, whereas remittances showed signs of tapering off. A critical step is the renegotiation of US trade tariffs, which, though decreased from 29% to 19%, remain high. This depicts both a competitive prospect against higher-tariff adversaries, such as India, and a challenge to Pakistan's cost competitiveness, necessitating calculated policy measures to get the most out of the shifting global trade dynamics.

Key Points

- **Credit Rating & Stability:** Moody's upgraded Pakistan's rating to Caa1 (stable outlook), referring to better external finances and fiscal growth under the IMF program. *(For details, see Page 2; first paragraph)*
- **Agricultural Crisis:** Recent floods have severely damaged important crops (cotton, rice, sugarcane) and minor crops, presenting a significant threat to GDP growth, food inflation, and the country's food security. *(For details, see Page 2; first paragraph)*
- **Manufacturing Rebounds:** Cement reports a 30% growth (exports up 84%) and automobile sales amplified 28% year-on-year, indicating a solid rebound in the sector. *(For details, see Page 2; second paragraph)*
- **Inflation Moderation:** National CPI inflation fell significantly to 4.5% for FY2024-25, down from 23.4% the preceding year; however, core inflation remained elevated. *(For details, see Pages 3-4)*

- **External Account Burden:** The current account shifted to a $254 million deficit in July 2025, down from a surplus the preceding month, driven by an 11.8% increase in imports. *(For details, see Page 4)*
- **Export Development & Challenges:** Exports ascended prominently (16.2% in July), driven by textiles. Although a reduction in export unit values for main items and falling worldwide rice prices are apprehensions. *(For details, see Pages 5-6)*
- **Remittances Going Slow:** Worker remittances, a crucial foundation of external support, are displaying noticeable signs of slowing down after a period of high growth. *(For details, see Page 6)*
- **Pak-US Tariff Agreement:** The US reduced tariffs on Pakistani goods from 29% to 19%, which is still higher than pre-Trump levels. This generates an opportunity to contend with India (facing 50% tariffs); nonetheless, it challenges Pakistan's cost competitiveness against trade competitors like Bangladesh. *(For details, see Pages 8-10)*
- **Strategic Domineering:** The report asserts the crucial need for export-friendly strategies, abridged administrative burdens, and strategic development to turn international tariff changes into a sustainable prospect for the country's export growth.

Section 1

Fundamental Macroeconomic Indicators of Pakistan's Economy

Economic Overview

Pakistan's relative stability is acknowledged by the continuous upward revision in its ratings. Moody's recently upgraded it to Caa1 from Caa2, supported by improving external buffers, fiscal consolidation, and progress in reforms under the IMF program. Moody's also revised its credit outlook from positive to stable. This signifies optimism around forex build-up and tax base expansion, notwithstanding political uncertainty and governance challenges.

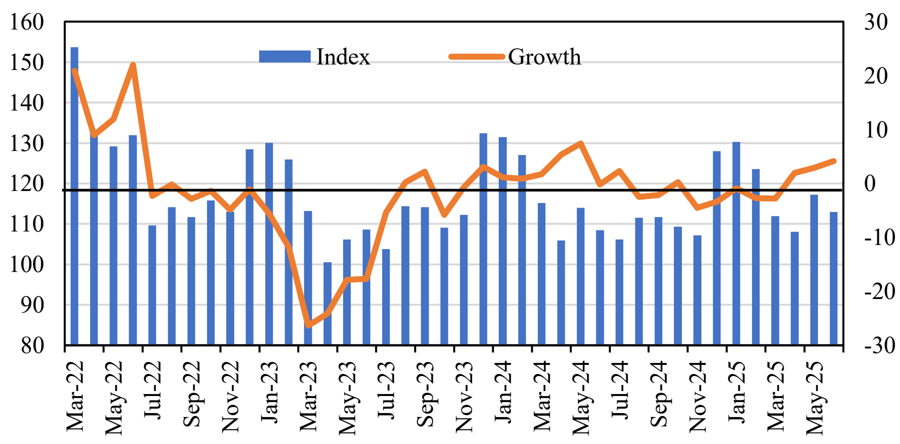
The agriculture outlook has improved mainly due to improved water availability, owing to recent rains, and is reflected in better fertilizer uptake. However, three major kharif crops (cotton, rice, and sugarcane) were sown during acute water shortages, which have implications for the sector's growth prospects. Recent floods have damaged rice cultivating areas and thus their reduced production might have consequences for both growth and exports.

Punjab has achieved approximately 90% of its cotton sowing target, reflecting a strong pace of cultivation. Sindh has reached around 65% of its sowing target. Minor crops are badly damaged due to floods, thus posing a serious threat to food inflation and food security.

Manufacturing Sector

The manufacturing sector has good news, as cement dispatches grew by 30% in July 2025 compared to July last year, and exports rose by a massive 84%, while domestic sales are up by 18%. Car sales are also up by 28% in July 2025 compared to July 2024, but 49% lower than the higher sales in June 2025, mainly due to abnormally high sales ahead of budget. For the last 30 months, manufacturing growth remained below zero percent for most of the period, and the index remained below 120, which is the lowest level touched for only two months during Covid-19.

Figure 1: QIM Index and Growth



Source: Pakistan Bureau of Statistics

Inflation

Inflation remained muted with an upward trajectory expected for months to come. The non-food segment drove inflationary pressures throughout 2024-25, whereas the food segment remained dormant. For FY23 and FY24, inflationary pressures were driven by energy inflation; however, stability at the global level kept energy prices at a low level, which helped overall inflation to remain well anchored.

Table 1: CPI Inflation (%)

	July-June		July	
	2023-24	**2024-25**	**2024-25**	**2025-26**
CPI National	**23.4**	**4.5**	**11.1**	**4.1**
Food	21.9	0.6	2.5	1.9
Non-Food	24.7	7.7	18.6	5.7
Energy	48.2	3.4	37.5	1.4
Core	17.9	9.2	12.9	7.3
CPI Urban	**24.1**	**5.3**	**13.2**	**4.4**
Food	22.1	1.6	3.4	2.2
Non-Food	25.5	7.9	20.7	5.9
Energy	62.6	6.1	52.9	3.2
Core	16.1	8.5	11.7	7.0
CPI Rural	**22.5**	**3.5**	**8.1**	**3.5**
Food	20.3	-1.2	1.3	1.5
Non-Food	23.0	7.1	15.5	5.4
Energy	24.6	-2.9	11.4	-2.6
Core	22.4	10.7	16.9	8.1

Source: Pakistan Bureau of Statistics

Core inflation remained elevated, and the second round impact of non-core inflation may further exert pressure on the core component as global crude and edible oil prices are deviating from their lower levels of last year. A likely spike in crude oil may challenge the inflationary objective.

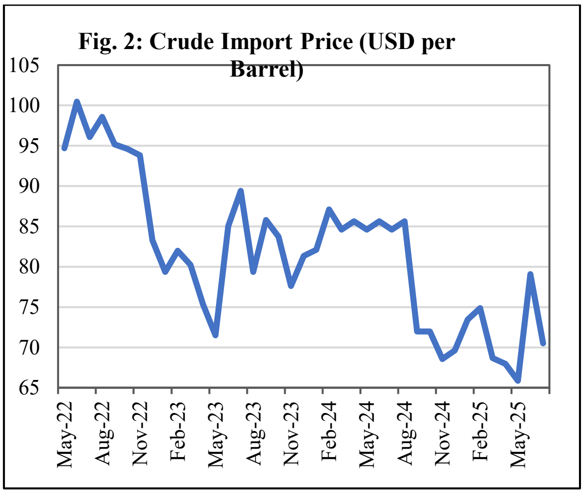


Fig. 2: Crude Import Price (USD per Barrel)

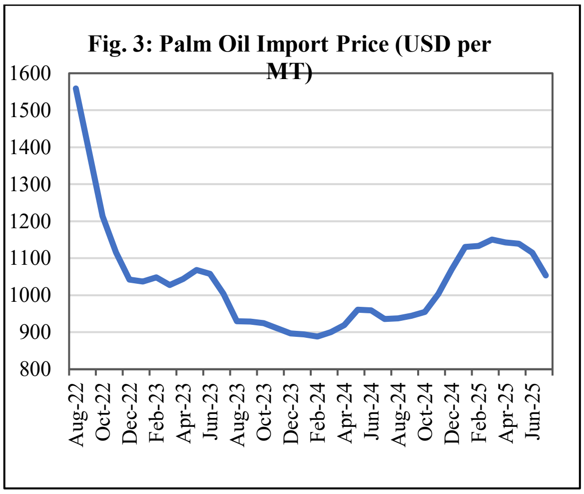


Fig. 3: Palm Oil Import Price (USD per MT)

Source: Pakistan Bureau of Statistics

Country's International Trade Outlook

The current account witnessed a turnaround from a surplus of $355 million in June 2025 to a deficit of $254 million in July 2025. It reflects a deterioration of $589 million in one month. Imports have surged by 11% in July 2025 over the corresponding month of last year. The average imports of $5 billion per month during the previous 12 months point towards weakening external buffers with a slight dip in exports and remittances (both are buoyant for some time). Due to global lower prices, oil imports remained muted; however, pressure is mounting from the non-oil side, which has been on the rise since October 2024.

Table 2: Balance of Payments

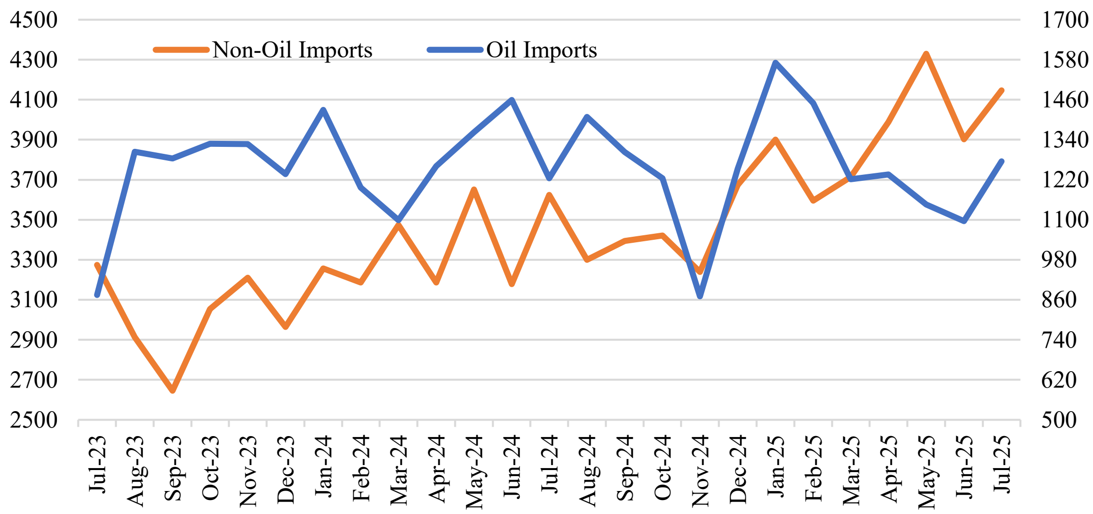
$ Million

				July		
	2022-23	**2023-24**	**2024-25**	**2024-25**	**2025-26**	**% Change**
Current Account Deficit	**-3,275**	**-2,072**	**2,106**	**-348**	**-254**	**-27.0**
Trade Balance	**-24,819**	**-22,177**	**-26,781**	**-2,488**	**-2,679**	**7.7**
Exports	27,876	30,980	32,295	2,361	2,743	16.2
Imports	52,695	53,157	59,076	4,849	5,422	11.8
Services (Net)	**-1,042**	**-3,110**	**-2,620**	**-246**	**-126**	**-48.8**
Credit	7,596	7,691	8,394	631	745	18.1
Debit	8,638	10,801	11,014	877	871	-0.7
Income (Net)	**-5,765**	**-8,986**	**-8,902**	**-802**	**-812**	**1.2**
Credit	652	909	1,020	90	93	3.3
Debit	6,417	9,895	9,922	892	905	1.5
Current Transfers (Net)	**28,351**	**32,201**	**40,409**	**3,188**	**3,363**	**5.5**
Current Transfers Credit	28,665	32,668	41,000	3,242	3,407	5.1
Worker Remittances	27,333	30,251	38,300	2,994	3,214	7.3
Current Transfers Debit	314	467	591	54	44	-18.5
Financial & Capital Account, o/w	**-93**	**5,565**	**1,689**	**399**	**444**	**11.3**
Direct Investment (net)	670	2,126	2,398	221	181	-18.1
Portfolio Investment (net)	-1,012	-376	-637	169	-43	-125.4
Net Liabilities	**-135**	**3,610**	**-250**	**-3**	**291**	
General Government	-1,769	-683	1,875	-393	222	-156.5
Disbursement	9,891	6,044	9,518	307	479	56.0
Amortization	11,660	6,727	7,643	700	257	-63.3
Overall Balance	**-4,218**	**2,862**	**3,739**	**-152**	**-91**	-40.1
Use of Fund Credit and Loans	**-967**	**2,154**	**1,433**	**-40**	**-82**	
Gross Official Reserve	5,669	10,627	15,837	10,457	15,646	-191

Source: State Bank of Pakistan

The overall balance of payments position seems comfortable at this moment; however, non-oil imports have started escalating in the last few months (See Fig. 2). The global oil prices outlook is stable at the moment, but in case of any eventuality, a rise in crude oil imports could be costly. The real effective exchange rate (REER) is currently close to its face value, but two bullet payments on account of bonds will exert pressure on the exchange rate and forex reserves.

Figure 4: Oil and Non-Oil Imports



Source: Pakistan Bureau of Statistics

Exports are buoyant, and rose by a healthy rate of 16% compared to ***imports***, which grew by 12% in July; however, the trade imbalance deteriorated by 7.7%. ***Services trade***, however, improved on the back of 18% growth in services exports and almost stagnation in imports. ***Current transfers*** have already peaked, and their contribution to keeping the current account in check is likely to witness moderation.

Momentum in ***exports*** is primarily driven by textiles, which grew by 7.4 percent during FY25 and continued in July 2025, when textile exports rose by 32%. The major difference is that last year, major items of exports witnessed a surge in unit value, which helped drive growth. However, in July 2025, all major export items witnessed a significant fall in unit value. The other major export item, rice, continues to face a global price decrease even in July 2025.

Table 3: Group-wise Increase in Exports

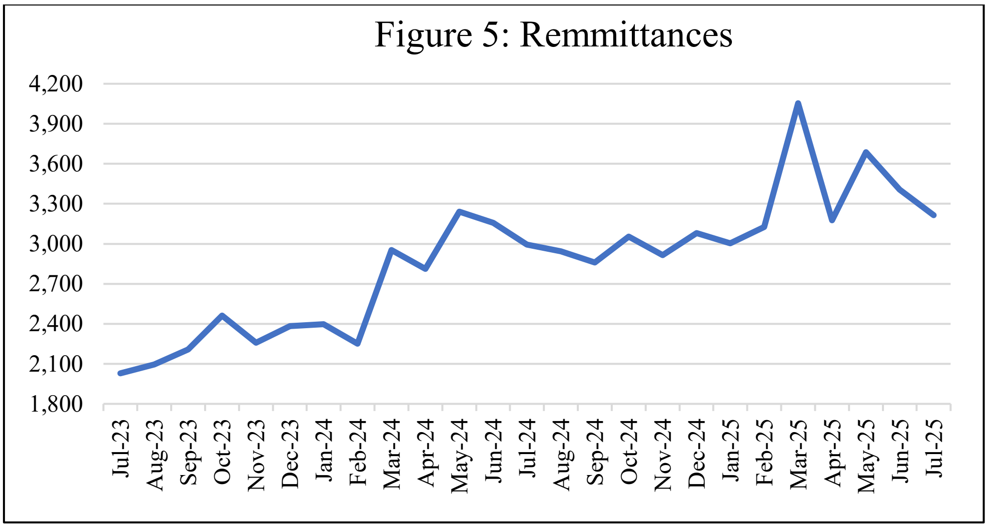
$ Million

	July-June		Change
	2023-24	2024-25	(%)
A. Food Group	**7,370**	**7,117**	**-3.4**
Rice	3,932	3,353	-14.7
Meat and Meat Prep.	512	495	-3.2
B. Textile Group	**16,656**	**17,887**	**7.4**
Cotton Yarn	956	681	-28.8
Cotton Cloth	1,866	1,809	-3.1
Knitwear	4,408	5,010	13.7
Bed Wear	2,803	3,113	11.1
Readymade Garments	3,564	4,129	15.9
Synthetic	367	400	8.8
C. Petroleum Group	**398**	**573**	**44.2**
D. Other Manufacturer	**4,033**	**4,228**	**4.8**
Chemicals & Pharma. Pro.	1,497	1,574	5.2
Engineering Goods	351	409	16.5
Cement	267	330	23.7
Leather Products	684	711	4.0
E. All Other Items	**2,219**	**2,236**	**0.8**
Total	**30,675**	**32,040**	**4.5**
Excluding Textile	**14,019**	**14,153**	**1.0**
Share of Textile	54.3	55.8	
Share of non-textile	45.7	44.2	

Source: Pakistan Bureau of Statistics

On the ***import*** side, prices of major items decreased, such as petroleum products, raw cotton, and iron and steel. However, other important import items, such as palm oil (13.9%), pulses (4.5%), fertilizer (25.7%), and medicinal products (45.2%), witnessed a surge in unit value, which will feed into inflationary pressure in the coming months.

Remittances seem to have tapered off, especially in the last few months. The current account surplus of last year was mainly driven by buoyant remittances, and thus a smooth flow of remittances is critical for the outcome on the external account. However, over the last few months, there has been a visible tapering off of remittances.



Source: Pakistan Bureau of Statistics

Overall Economic Outlook seemed modest before floods and now agriculture outcome is severely affected by flood situation which is evolving and estimates depend upon management of water flows through River Indus. Inflation is far below the annual target in the first two months; however, devastating floods might accelerate inflationary pressures. Food management has remained a major challenge for the past 78 years, exposing the fragility of economic growth in the face of floods. There is a likely impact on fiscal and external accounts for additional spending and imports.

Table 04: Key Economic Indicators

Items	Unit	July 2024-25	July 2025-26	% Change
External Sector				
Current Account Balance	$ Million	(348)	(254)	27
Trade Balance (Goods)	$ Million	(2,488)	(2,679)	7.7
Exports (fob)	$ Million	2,361	2,743	16.2
Imports (fob)	$ Million	4,849	5,422	11.8
Services Trade Balance	$ Million	(246)	(126)	48.8
Remittances	$ Million	2,994	3,214	7.3
FOREX Reserves (End July)	$ Billion	14.4	19.6	36.1
SBP Forex Reserves (End July)	$ Billion	9.1	14.3	57.1
Exchange-Rate (Avg. July.)	Rs /US$	278.4	284.0	2.0
Fiscal Sector		**2024-25**	**2025-26**	
Tax Collection (FBR)	Rs. Billion	660	757	14.8
Real Sector		**2024-25**	**2025-26**	
Large-scale Manufacturing*	%	(0.2)	4.1	-
Inflation (CPI)	%	11.1	4.1	-
- Food	%	2.5	1.9	-
- Non-Food	%	18.6	5.7	
' - Core Inflation Urban	%	11.7	7.0	
- Core Inflation Rural	%	16.9	8.1	-
SPI Inflation (Combined)	%	15.7	3.1	-
WPI	%	10.4	(1)	-
Investment		**2024-25**	**2025-26**	
Foreign Investment (Total)	$ Million	218	174	(20)
- FDI (Net)	$ Million	195	208	7
- FDI (Inflows)	$ Million	285	317	11
- FDI (Outflows)	$ Million	90	109	21
- Portfolio (Net)	$ Million	24	(34)	(243)
- *Of which debt securities*	$ Million	-	-	-
- *Equity*	$ Million	24	(34)	-
Financial and Capital Market		**2024-25**	**2025-26**	
Policy Rate	%	19.5	11.0	-
Weighted Avg. Lending Rate	%	19.3	12.3	-
Credit to Private Businesses	Rs. Billion	(285)	(217)	(24)
- *Of which, Fixed Investment*	Rs. Billion	(0)	(18)	5474
- *Working Capital & Trade Finance*	Rs. Billion	(284)	(199)	(30)
Credit to Agriculture Sector	Rs. Billion	1,883	2,209	17.3
- Farm Credit	Rs. Billion	1,720	2,022	17.6
- Non-Farm Credit	Rs. Billion	164	187	14.4
Stock Market (KSE 100 Index) †	Index	77,887	139,390	79.0
* June 2025	Note: Figures are rounded off			
† End July KSE 100 Index				

Source: State Bank of Pakistan

Section 2

Economic Issue of the Month

US-Pakistan Trade Tariff Agreement and Implications

- **What is the agreement?**

During his second term as president, Donald Trump, as promised in his campaign, imposed higher tariffs on trading partners through the Trade Exemption Act 1962 and the International Emergency Economic Power Act (IEEPA). The average US tariff rose from 2.5% to 27% and after negotiations and deals with various countries, it has now settled at 18.6%.[1] The announced objectives of the increased tariffs are to enhance domestic economic activity, protect national security, and substitute for income tax.

- **Current status of Pak-USA bilateral trade**

The US imposed a 29% tariff on Pakistani exports to the US, and after bilateral negotiations, reduced it to 19% in August 2025. The US is Pakistan's largest trading partner after Afghanistan, with 17.7% (*Pakistan's exports to the US are $5.4 billion*) of the total exports routed to the US. There are around 573 HS code product categories that Pakistan exports to the US annually (*as per data from the last two fiscal years, 2023-24 and 2024-25*), with cotton-related items holding the top position on the list. Below are the top 15 product categories exported to the US in fiscal years 2024 and 2023. Almost 80% of the exports to the US comprise these 15 categories.

Table 5: Top 15 Exports of Pakistan to the US

$ Million

No.	HS Code – Product Category	FY24	FY23
1	6302 - Bed and Table Linen	1,021	1,036
2	6203 - Men's or Boys' Suits,	847	897
3	6307 - Made-Up Articles (Textile)	376	366
4	6109 - T-Shirts, Singlets, and Others	307	304
5	6115 - Pantyhose, Socks & Hosiery	261	232
6	6110 - Sweaters, Pullovers, Vests, etc.	248	321
7	6105 – Men's Shirts, Knitted or Croch.	216	279
8	6103 – Men's Suits, Ensembles, Jackets	208	268
9	4203 - Articles of Apparel & Leather	167	175
10	9404 -Mattress Supports, Bedding, etc	150	85

[1] Tax Foundation, https://taxfoundation.org/

11	9018 - Medical, Surgical and Dental Inst.	111	115
12	6204 - Women's or Girls' Suits, Ensemb.	103	114
13	3907 - Polyesters, Epoxides and Polyesters, Primary Forms	102	37
14	5208 - Woven Cotton Fabrics, Cotton more than 85% Wt<200 g/	91	85
15	9506 - Articles and Equipment for Sports, etc. NES	56	52
	Total of top 15 products	**4,266**	**4,369**
Total Volume of Exports to US		**5,444**	**5,932**
% share of top 15 products in exports to US		**78.4**	**73.6**

Source: State Bank of Pakistan

- **Implications**

The increase in trade tariffs, followed by a slight decline after negotiations, but still higher than the pre-Trump presidency period, will have diverse implications for Pakistan's exports to the US. There is a positive side to this change, as well as some adverse effects.

- **Positive Aspects for Pakistan's Exports**

In the context of tariff rates, Pakistan holds a relatively favorable position and enjoys a comparative advantage in various aspects within the region. US tariffs on India have risen to 50% and have already been implemented, which would significantly impact the $85 billion in Indian exports to the US. Therefore, the possible space created by the absence of Indian exported products to US markets may result in an opportunity for Pakistan to capitalize on.

Secondly, except for three items in the top 15 exported products, all are related to cotton. In this regard, Pakistan will face tight competition with a regional country, namely Bangladesh (***$8.6 billion in exports to the US***), as both have the same tariff rate of 19%. Recent political developments within Bangladesh and the softening of relations with the country may be used as an opportunity to convert this competition into a complement.

There are various other products in which Pakistan may have a comparative advantage regionally due to significant shifts in tariffs. This opportunity needs to be grabbed with proper planning and an export-enabling environment.

- **Negative Aspects for Pakistan's Exports**

Overall, tariffs have increased, which will definitely increase the cost factor and ultimately result in expensive final products for US consumers. This may lead to cost-cutting exercises worldwide to share the burden of US consumers. Pakistani exporters have a limited cushion due to higher fuel, electricity, taxation, transportation, and other costs, as well as thin profit margins compared to competitors. Leading US economists are predicting an escalation in US inflation, which in turn would negatively impact US interest rates, and this is likely to raise the servicing costs of Pakistan's external debt.

- **Ways to Make Tariff Increase as an Opportunity**

Creating an export-friendly environment by reducing administrative burdens on export-oriented industries and improving facilitation measures may help increase the cushion for Pakistani exporters to reduce final prices and ultimately capture a larger share of the US market.

The variation in tariffs at the global level should be taken as an opportunity for Pakistan and utilized to increase the overall capacity of the industry, enhance technological adoption, and develop more skilled human resources to cater to the needs of a changing world. This requires extensive research-based, data-driven policy guidelines to tap the full potential of this opportunity. Otherwise, this will result in a great loss for Pakistan's economy.

Conclusion

Although Pakistan's economy is establishing promising stability through enhanced credit ratings and a rebound in manufacturing, its short-term position is critically dependent on navigating two daunting challenges: the immediate agricultural and inflationary fallout from overwhelming floods, and the strategic redressal to a redesigned international trade landscape. The space of opportunity presented by the reviewed US tariff agreement is limited and must be seized with cautious policy action to augment export competitiveness and decrease national manufacturing costs. Failure to do so, combined with tenacious external account compressions and susceptible food security, would jeopardize the hard-won macroeconomic improvements and stall the economy's regaining course. Eventually, practical and data-driven governance is inevitable to translate these predominant risks into sustainable economic resilience.

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