



OICCI Economic Update

SEP 2026

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1. EXECUTIVE SNAPSHOT

Status: Stable

FY27 starts on a decent note — stable, but vulnerabilities are growing

- External and fiscal stresses are manageable despite rising oil prices — but fuel costs, inflation and war risk are building pressure.

\$21.4bn

SBP reserves, 18-Sep-26
All-time high; ~ over 3 months of
import cover

\$3bn

Pakistan issued Eurobond, 3 Sep-26
Largest single issue; yields 7.75%
(5.5-yr) / 8.25% (10-yr)

Rs1.72trn

FBR revenue, 2MFY27
Rs12bn above target; SBP profit
Rs500bn over budget

11.5%

Policy rate
Held — but three MPC votes
for a hike

107.92

REER
Rupee expensive in real terms;
slippage risk

-\$543m

Current account, Jul-Aug
Back in deficit (Jul -\$445m, Aug -
\$98m); down 36% YoY

Why “stable” — and why vulnerabilities are growing

- No external or fiscal stress:** ratings improving, reserves rising, revenue ahead of target — a mini-budget is unlikely at the next IMF review.
- Demand in check:** full fuel pass-through and solar adoption limit energy demand and second-round inflation.
- Inflation:** double digits in 4 of the last 5 months; likely to stay there until March-27 before base effects help.
- Growth:** pre-war recovery is fading in cities; investment on hold amid war risk and heavy formal-sector taxes.

5 developments since the last update

- Record \$3bn Eurobond.** Pakistan issued US\$3bn Eurobonds: US\$1.75bn 5.5-year and US\$1.25bn 10-year. Official coupons were 7.50% and 7.90%; market-reported yields were 7.75% and 8.25%.”
- Reserves at all-time high.** SBP holdings reached \$21.4bn, above the 2021 peak of \$20.2bn. The key now is to keep building buffers.
- Revenues beat target.** FBR ahead in 2MFY27 and SBP profit transfers far above budget — new tax measures unlikely.
- Policy rate held at 11.5%.** Hike risk is rising with Fed tightening and oil; three MPC members voted for an increase.
- Auto policy cleared by PM.** Sharp cut in CKD tariff protection threatens parts makers; NEV focus and fuel prices speed EV uptake.

Bottomline: economic fragility is lower than in previous crises, but the economic squeeze continues.

Top risks, top opportunities and the three-month outlook

TOP 3 BUSINESS RISKS

Geopolitics and oil prices

Global inventories are falling as winter demand builds; supply could be disrupted. Government has announced fuel-conservation/austerity measures, including 50% cut in official-vehicle fuel provision for three months.

PKR slippage or a rate hike

REER near 108 and SBP interbank buying has slowed. If the PKR is held while oil stays above \$100, a hike at the next review is possible.

Import restrictions

SBP could curb “non-essential” imports — hitting autos, mobile phones and firms looking to import machinery.

TOP 3 BUSINESS OPPORTUNITIES

Alternate energy and electrification

Fuel/gas-to-electric conversion, EVs (especially 2/3-wheelers) and electric space heating this winter.

DISCO privatisation

FESCO, GEPCO and IESCO open a new business line — 8 local and 4 foreign consortia have shown interest in FESCO.

Reverse capital flight from the Gulf

Post-war inflows are lifting liquidity and Karachi real estate. The catch: steering them into productive sectors.

IS REAL BUSINESS ACTIVITY IMPROVING?

- Pre-war, yes: FY26 was gaining pace, with single-digit rates and \$60 oil in sight.
- The war reversed it — oil and food spikes curbed demand; investment is on the backburner.
- Bright spot: rural demand, as crop prices recover while input costs stay contained

3-MONTH OUTLOOK

- Dickey — hinges on hydrocarbon prices and supply.
- Inflation pressure persists; the risk of a rate hike does not go away.
- Rural and export upside, largely offset by weaker urban demand.

Stable for now: the calm depends on oil prices, reserve buffers and a fragile geopolitical environment.

2. DEMAND AND BUSINESS ACTIVITY

FY27 starts on a decent note — stable, but vulnerabilities are growing

Large-scale Manufacturing

+3.0%
YoY, Jul-26

Index at a record 119.13 (115.62 a year ago). Apparel +22% (~⅔ of gross gains); autos +57%, petroleum up. Food, pharma, chemicals and textiles weak.

MIXED

Private-sector Credit

12.9%
YoY, early Sep-26

Down from ~15% in FY26 (stock ~Rs11.2–11.4trn). Both working-capital and fixed-investment lending contributing. Looks more like a gradual revival in business activity than a strong investment cycle

EASING

Auto Sales

+41%
YoY, 2MFY27

35,376 units; cars +80%. Aug: 15,558 units, +11% YoY but –21% MoM. Two-wheelers +22%, trucks/buses +31%, tractors +6%. Outlook positive, but policy uncertainty, financing costs and supply-chain risks could slow auto-sector momentum.

STRONG

Cement Dispatches

+2.7%
YoY, 2MFY27 (8.5mt)

Domestic +8% to 7.06m t; exports –16.7%. Aug –0.7% YoY: North –9.4% (border closure, weather), South +23%. Cement recovery remains uneven, with stronger domestic demand offset by regional weakness, soft exports and earnings risks from high prices and fading financial tailwinds.

MIXED

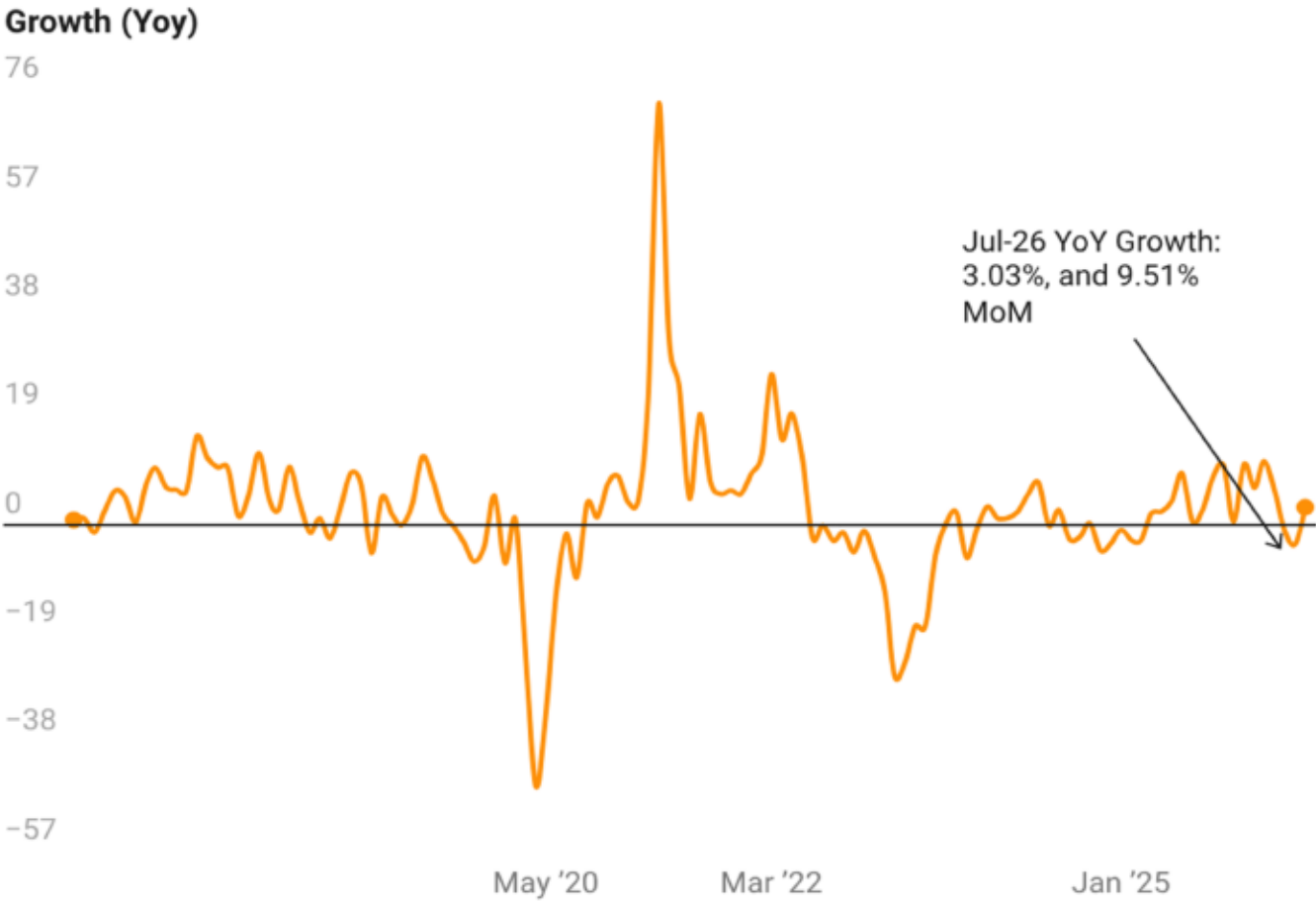
Machinery Imports

+29%
YoY, 2MFY27 (\$2.2bn)

Aug \$889m: –32% MoM, +14% YoY. Electrical machinery \$309m; textile machinery –46% YoY; construction/mining a bright spot. Machinery investment remains stronger YoY, but the August pullback points to volatile momentum.

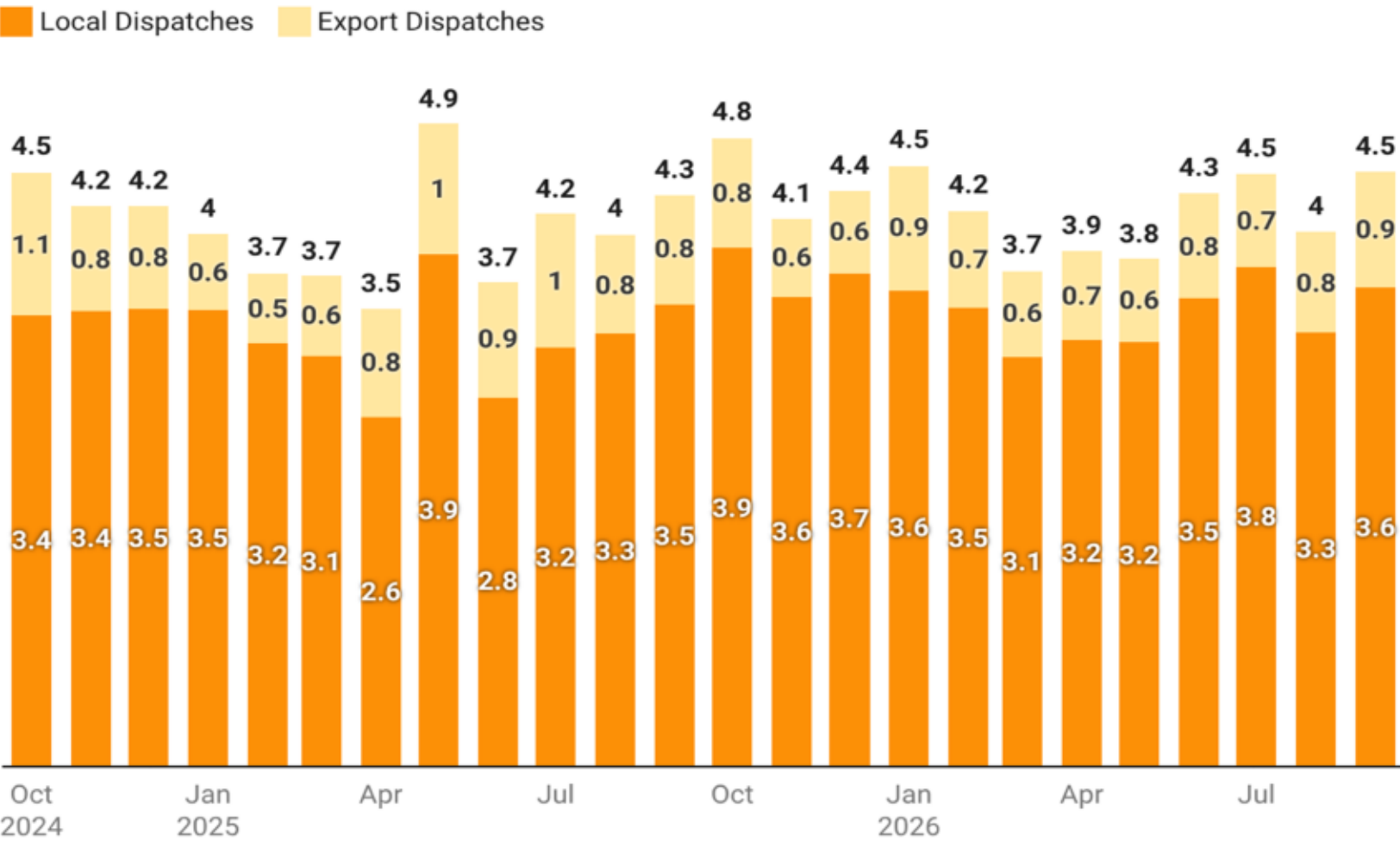
VOLATILE

LSM Finds a Higher Base, but Recovery Remains Uneven



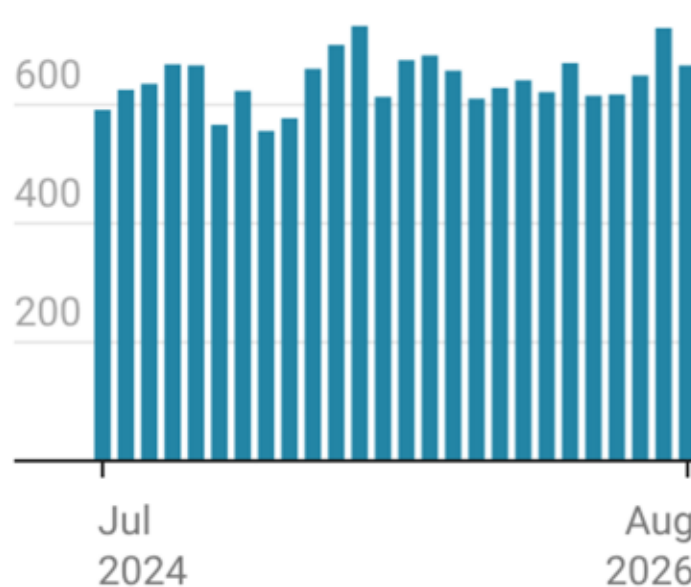
Created with Datawrapper

Monthly Cement Dispatches - tons (mn)

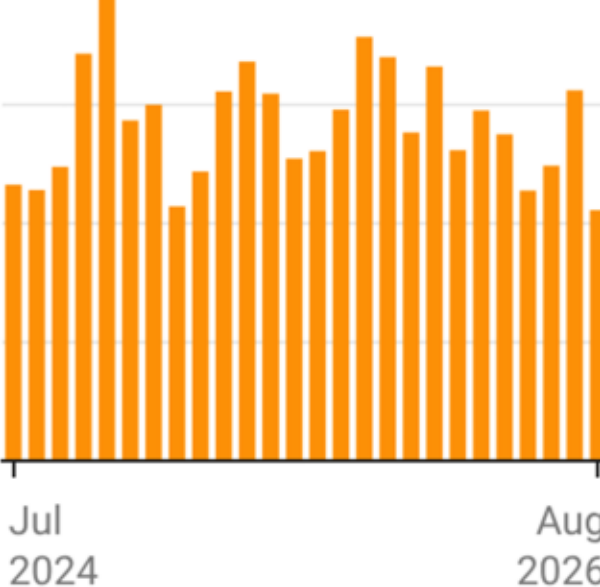


Source: Zakheera.com • Created with Datawrapper

Motor Spirit



High Speed Diesel



Furnace Oil



Source: OCAC • Created with Datawrapper

Verdict: a gradual, uneven recovery — not yet an investment cycle

WHAT IS IMPROVING

Manufacturing base: LSM index at a record July high of 119.13, aided by lower industrial power tariffs.

Consumption: auto sales +41% YoY in 2MFY27, cars +80%.

Construction: domestic cement +8% YoY in 2MFY27; South +23% in August.

Investment and finance: machinery imports +29%; private credit still double-digit at ~12.9%.

WHAT IS HOLDING IT BACK

Narrow growth: LSM up only 3%, concentrated in apparel and autos; textiles, chemicals, pharma and food soft.

Cement softening: August volumes down; exports –16.7% in 2MFY27.

Investment volatility: machinery imports –32% MoM in August; textile machinery –46% YoY.

Credit cooling: Credit stock growth has moderated, while fresh private-sector credit flows in early FY27 remain weak; borrowing costs are still elevated.

WHAT TO WATCH NEXT

Auto

New launches, auto financing and CKD/SKD imports support demand; the Auto Policy, hybrid/PHEV taxation and rates risk SUVs.



Cement

Prices near Rs1,557/bag and better utilisation help; weak exports and fading benefit from lower finance-cost and tax relief squeeze earnings.



Credit → investment

Is lending funding productive capacity, or mainly short-term working capital? Rates and inflation decide.



Bottomline: Real activity is improving from a low base — production, consumption and some investment are reviving. But higher rates, renewed inflation, policy uncertainty and weak exports could stop it from becoming a broad, investment-led expansion.

3. COST OF DOING BUSINESS

FY27 starts on a decent note — stable, but vulnerabilities are growing

Lending Cost

11.5%

Policy rate; 6M KIBOR
11.73–11.98%, 12M
11.88–12.38% (25 Sep)

HIGH · HIKE RISK

- Held in September
- Working capital more accessible; long-term project finance still expensive.
- Little scope for easing; oil and inflation keep a hike on the table.

Industrial Electricity

Rs1.73

per kWh FCA sought for
Oct bills (Jul: Rs2.52)

RELIEF, PARTLY ERODED

- Rs4/kWh tariff cut is pulling captive users back to the grid.
- Aug generation cost Rs8.83/kWh vs Rs7.10 reference — costly RLNG and furnace oil.
- Generation +5.1% YoY, so fixed costs are shared over more units, which should keep future bill adjustments smaller.

Gas and RLNG

\$15.20

per mmBtu, SNGPL Sep-26
\$15.19 (Aug: \$19.02); SSGC
Sep-26 \$14.22 (Aug: \$18.13)

EASING, VOLATILE

- Aug shock still in power costs: RLNG generation Rs45.93/kWh, over 2× a year ago.
- Tighter RLNG supply forced more coal and furnace oil into the mix.
- Middle East supply, oil and PKR can reverse the relief quickly.

Fuel and Logistics

Rs405~

per litre HSD

Petrol ~Rs389
per litre, late Sep

HIGH · RISING

- Taxes and duties ~Rs100/L on diesel and ~Rs114/L on petrol.
- Diesel drives freight, farming, construction and distribution costs.
- Tight global diesel market keeps risk up even if crude stabilises.

Tax and Refunds

Low

near-term
mini-budget risk

STRUCTURAL RISK

- FBR broadly on target; higher SBP profit transfers add a cushion.
- Burden still on documented firms, imports and withholding — not base broadening.
- Slow refunds squeeze cash flow; IMF to focus on enforcement and refunds.

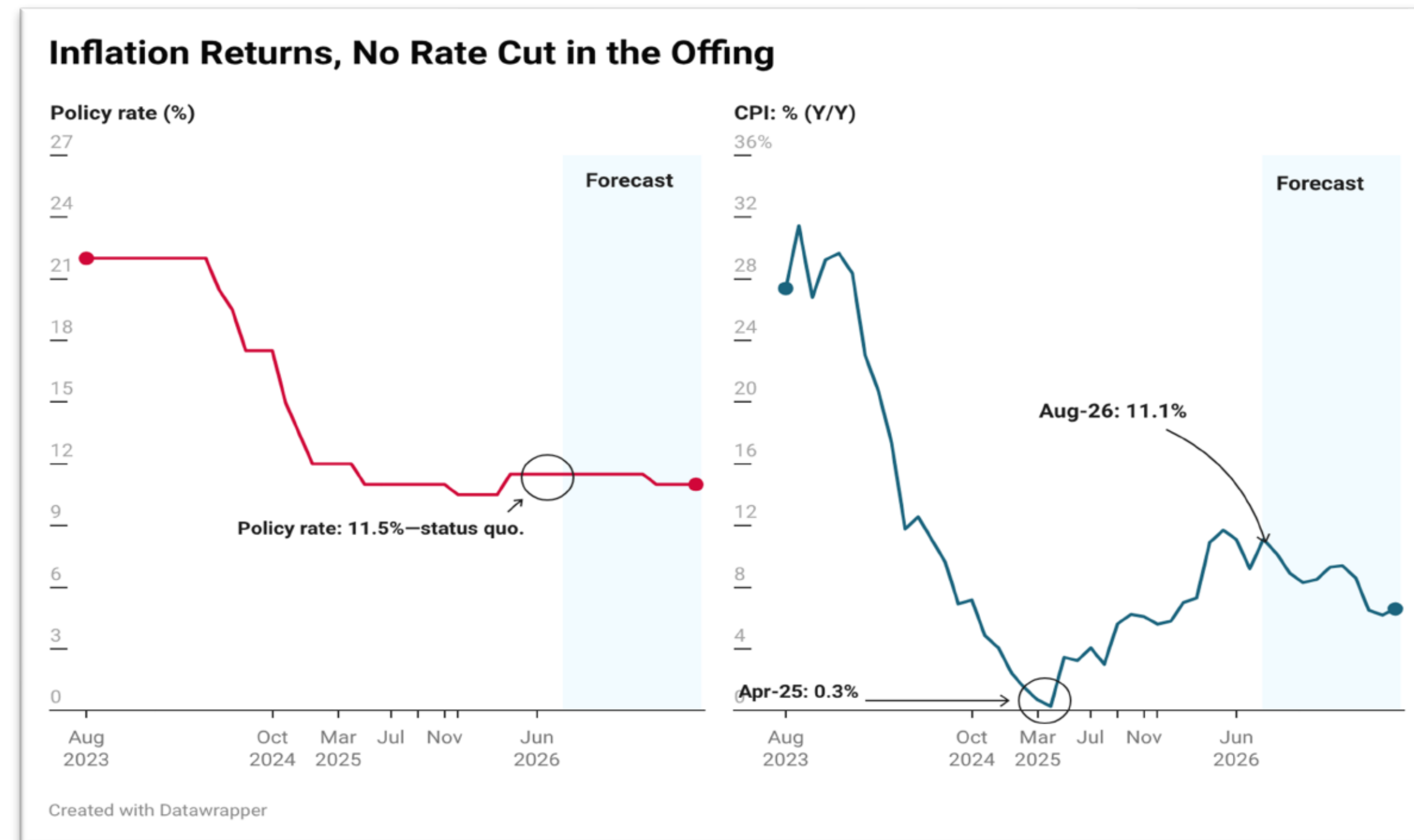
WHAT IT MEANS FOR MEMBERS

Margins and pricing: power and finance relief is offset by fuel, logistics and imported energy. Expect selective price rises in transport-, energy- and import-heavy sectors.

Investment timing: favour essential, efficiency and energy-saving projects; defer marginal expansion until rates and geopolitics are clearer.

4. INFLATION AND RATE OUTLOOK

Inflation back in double digits — no rate cut in sight



10.3%

Headline CPI
Sep-26

11.1% in Aug-26

10.2%

Six-month
average

Mar–Aug, since the
war began

8.6%

Core Inflation YoY,
urban

Sep-26; rural 8.1%;
8–9% for five months

~1%

Real interest rate

could turn 1–2% positive if FY27
inflation averages 9.5–10.5%, but
oil and US-Iran risks keep the
outlook uncertain.

WHAT IS DRIVING PRICES

Energy and transport

Transport +3.4% MoM and +20.2% YoY on international petroleum prices; higher FCAs are lifting electricity costs too.

Food

+1.7% MoM; perishables +4.4% (transport-sensitive). Wheat +7.7% MoM rural, +5.3% urban — over 80% YoY on global prices and low state stocks.

Momentum and core

MoM CPI at 1.2% — above 1% in 4 of the last 6 months, pushing the REER up. Sticky core shows underlying pressure has not eased.

POLICY-RATE DIRECTION

- No cut in the next six months — hold at 11.5% is the base case.
- 7 of 10 voted to hold policy rate at 11.5%; a 50bps hike in October is possible if oil holds above \$100/bbl.
- Easing in oil prices makes a status quo more likely.

Headline inflation likely to hover around current levels for the next six months before favorable base effects kick in; upside risk if oil prices rise further. Real rate is almost zero on current inflation and 1–2% positive on the FY27 forecast of 9.5–10.5%. Outlook is contingent on the Iran–US war and remains fluid.

5. FX AND EXTERNAL COMFORT

Record reserves and a stable rupee — but the PKR is getting expensive

\$21.4bn

SBP reserves

Highest ever,
18-Sep-26

~3.5mo

Import cover

On Mar–Aug
average imports

107.92

REER, Aug-26

Highest since
2018

-\$543m

Current account,
2MFY27

Down 36% YoY;
Aug -\$98m

\$22bn

Total FX Reserves
in Aug-26

From \$19.1 bn
(Aug-25)

CURRENT ACCOUNT: HOLDING UP

- For six-month crisis period: March–August 2026, goods imports \$34.2bn (+10%); petroleum +19% to \$8.6bn, offset by LNG imports halving; Services deficit narrowed to \$501m in Mar–Aug from ~\$1.41bn a year earlier
- 2MFY27: goods imports +11.4% vs exports +4% — goods deficit up 18.8% to \$6.2bn. services exports ~\$1.8bn up 29% YoY and services deficit narrowed 25% YoY to \$562mn. Remittances +15% to \$7.3bn;

RUPEE: STABLE, BUT EXPENSIVE

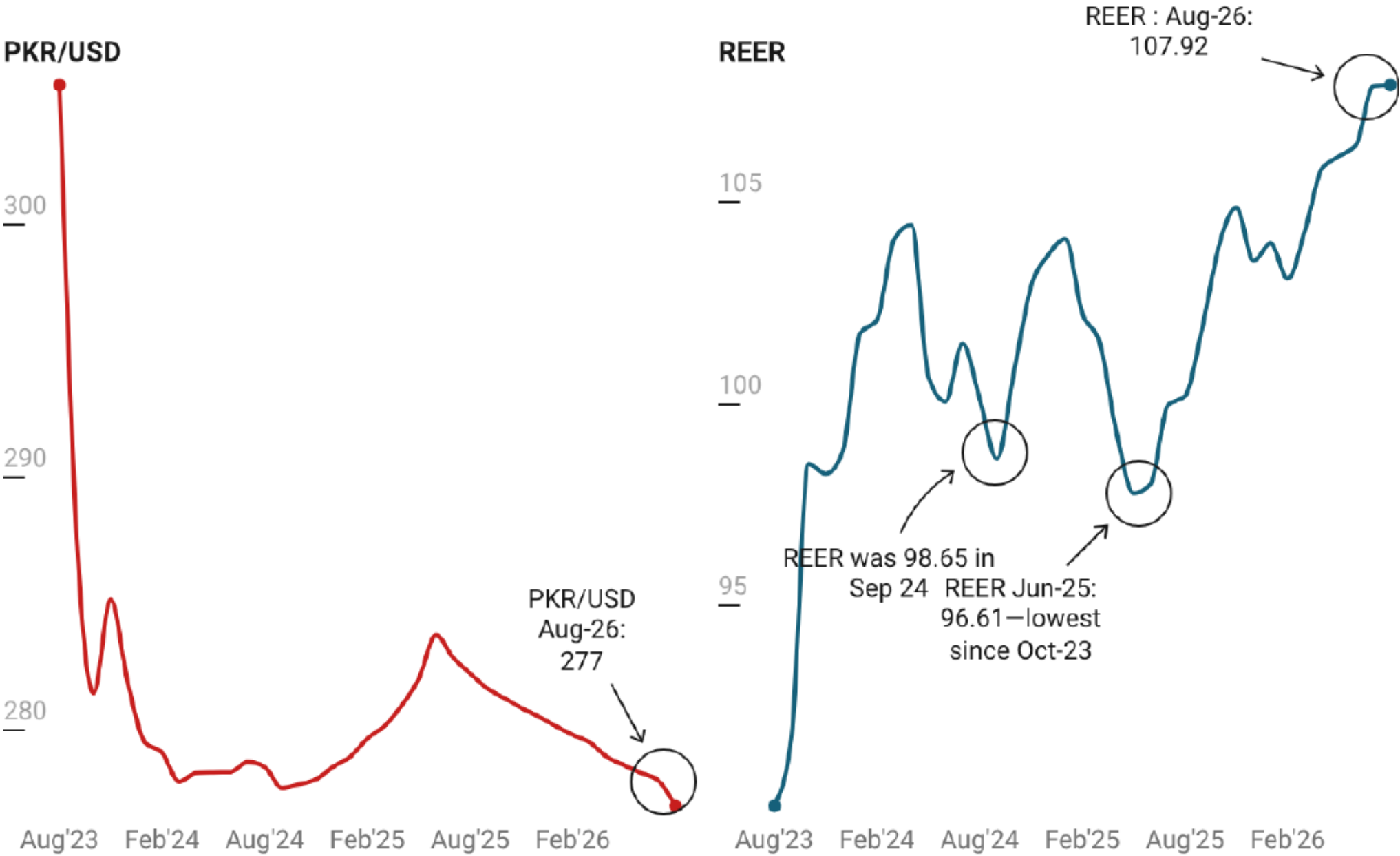
- Stable in FY27 after 2% appreciation in FY26; REER now signals lost competitiveness.
- SBP purchased around US\$16.4bn from the interbank FX market between Jun-2024 and Jun-2026, supporting reserve accumulation while the rupee remained broadly stable.
- In 11MFY26, SBP's \$7.2bn purchases serviced debt, cut forward liabilities and built reserves.
- Recent payment pressure may slow SBP buying — watch the coming months.

RESERVES AND ROLLOVER RISK

- \$3bn Eurobond — the largest single issue — lifted reserves; more issues expected.
- Short-term external outflows have eased to \$20.7bn from a peak of \$28.7bn in Aug-25, reducing near-term rollover pressure.
- The improvement reflects market access, bilateral repayments and longer maturities, but refinancing risks remain elevated.

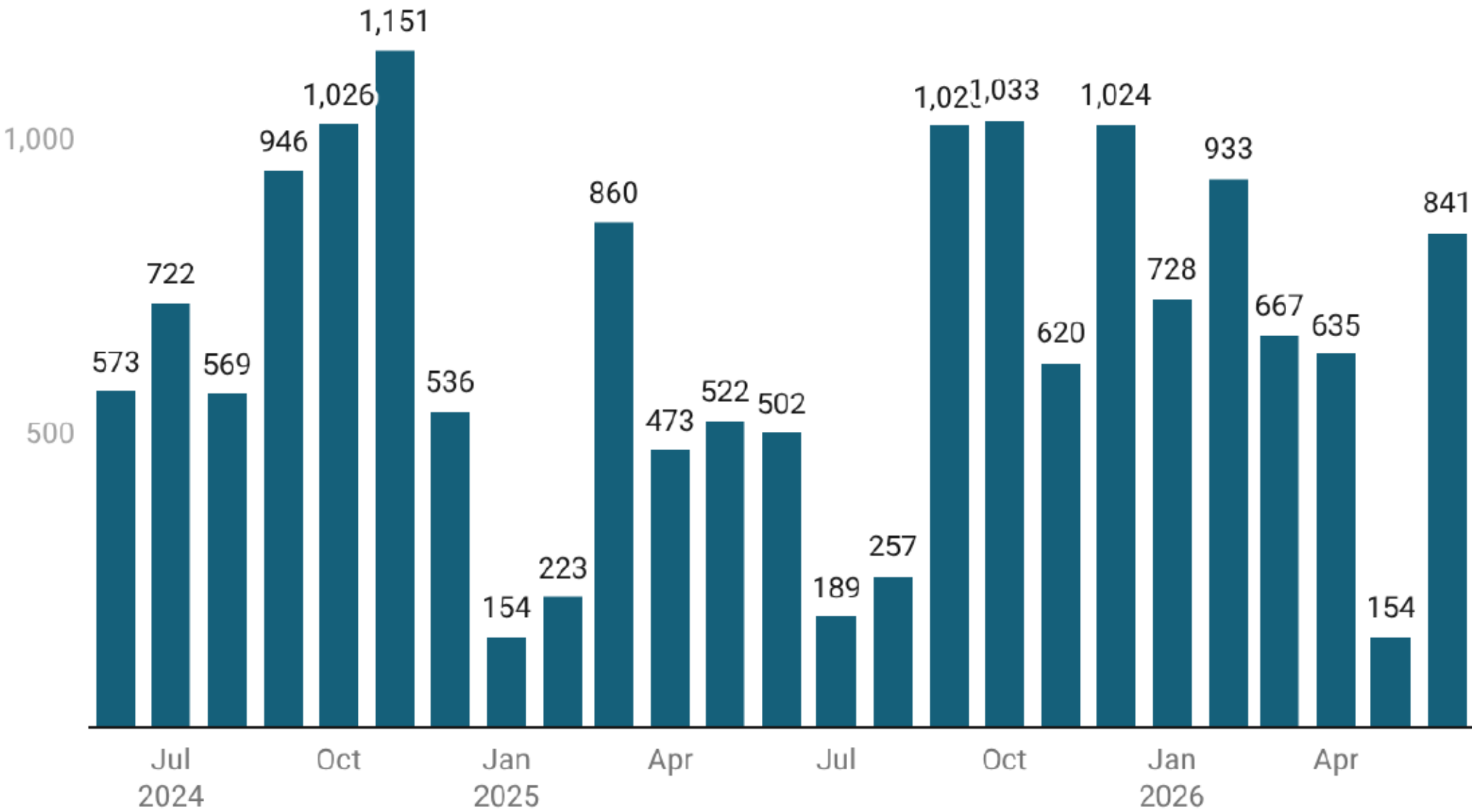
FOR IMPORTERS, EXPORTERS AND MNCs: Near-term FX and payment risk is low — record reserves, a stable PKR and SBP still a net buyer. The medium-term risk is a correction: with the REER near 107.92, importers should not assume indefinite stability, and exporters keep losing competitiveness.

Rupee Stable, REER Stretched



Source: SBP • Created with Datawrapper

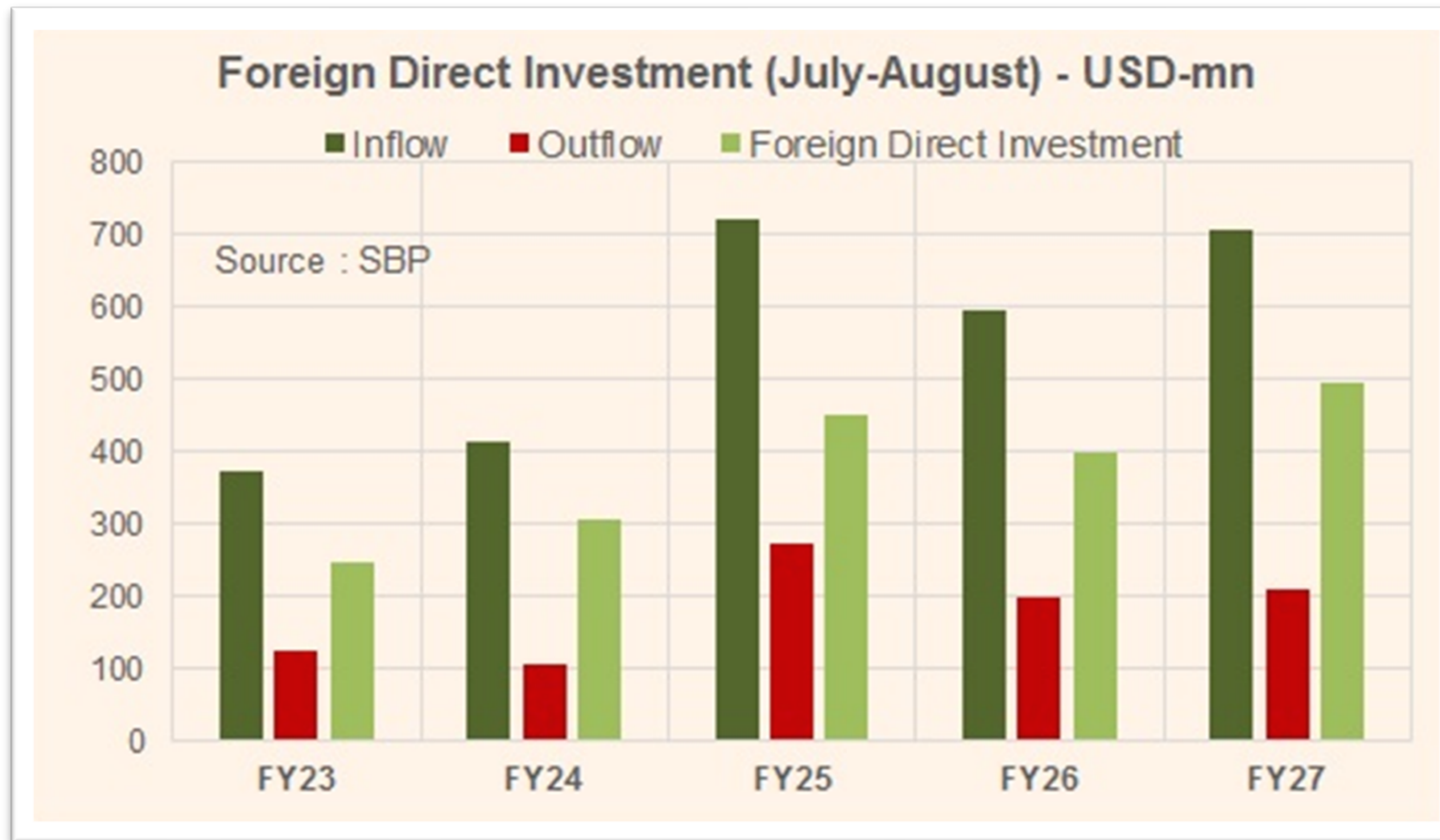
SBP's FX Interventions in Interbank FX Market



Source: SBP • Created with Datawrapper

6. INVESTMENT CONFIDENCE SIGNAL

Investors are testing, not committing — selective expansion



OVERALL — CAUTIOUS, WITH SELECTIVE EXPANSION

Sentiment has clearly improved since the crisis: FDI is rising, repatriation is normal, ratings are up and the pipeline is larger. But actual investment is well short of an expansion cycle. Bigger commitments hinge on policy consistency, energy costs, geopolitics and projects reaching financial close.

Net FDI

\$315.9m in Aug — a two-year monthly high; 2MFY27 \$494.5m, +24.1% YoY. Still small and weak - FY26 FDI only: \$1.64bn.

STATUS: IMPROVING (But Below Expectation)

Sector-wise FDI

2MFY27 -Financial business largest, then power; trade and electronics surging. Mining, telecom and oil & gas exploration saw net outflows.

STATUS: CONCENTRATED

Profit repatriation

\$557.6m in 2MFY27, -13.4% YoY — no FX curbs. Concern: FY26 profit outflows exceeded fresh FDI.

STATUS: NORMAL

Greenfield pipeline

Stronger in EVs, batteries, manufacturing and digital infrastructure — but mostly at MoU or approval stage; few at financial close.

STATUS: WAIT-AND-SEE

Credit ratings

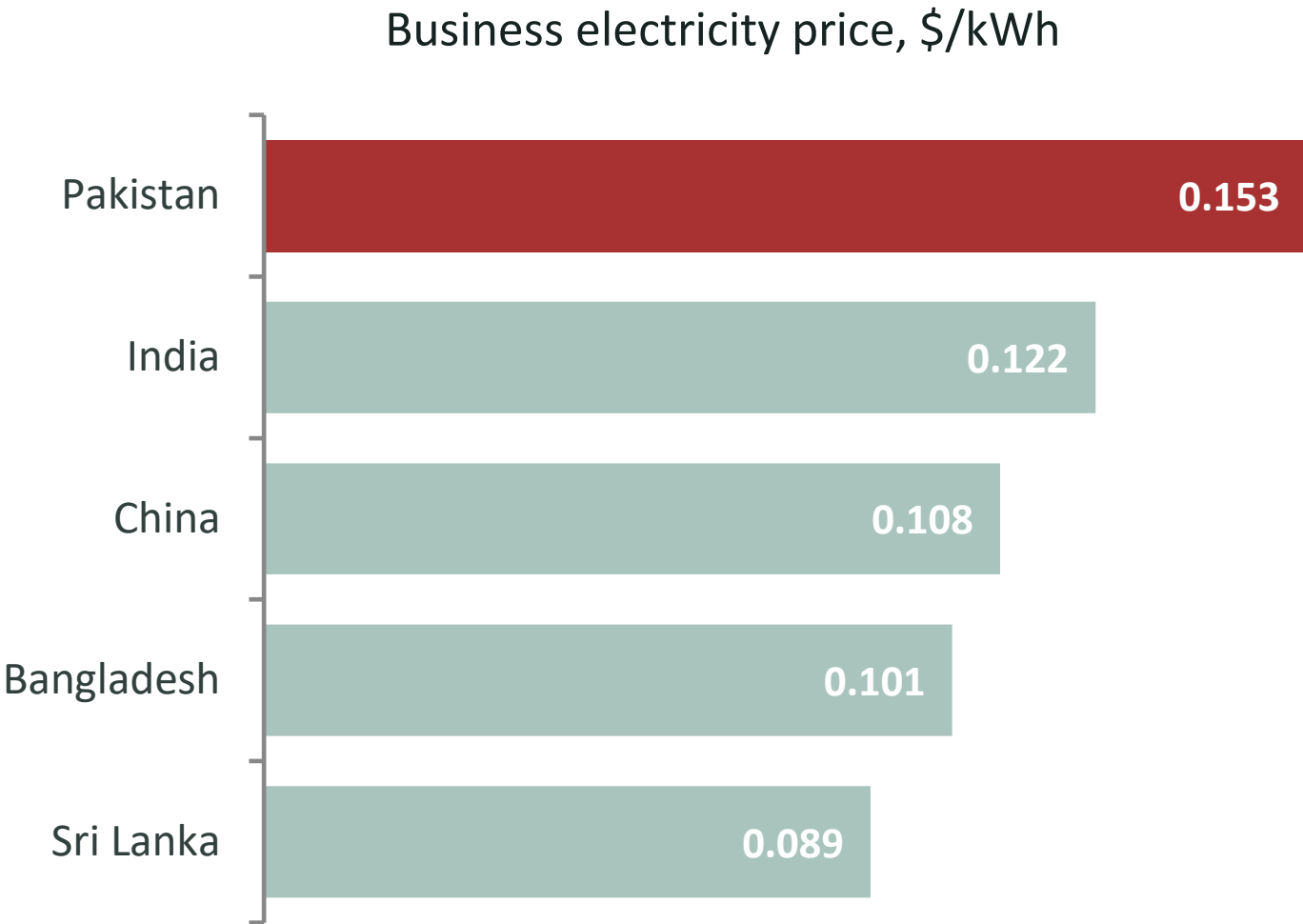
S&P B, Moody's B3, Fitch B-; \$3bn Eurobond marks the market return. A necessary condition — not yet proof of a boom.

STATUS: UPGRADED

7. EXPORT COMPETITIVENESS WATCH

Better supported — but not yet a more competitive export base

Export growth	Goods exports only ~4% YoY in 2MFY27, textiles in low single digits; imports +11.4%, goods deficit +18.8%. Services exports \$1.8bn in 2MFY27, 29% YoY specifically IT — gains are in services, not goods.
WEAK (GOODS)	
Raw Material Imports	Availability far better than in the FX-constrained period. The issue is now cost: petroleum, freight, energy — and any PKR adjustment.
STATUS: ACCESS OK, COST HIGH	
REER	107.92 in Aug — highest since 2018 after ~2% appreciation in FY26, while domestic costs rise. A drag unless offset by productivity.
STATUS: HEADWIND	
Energy Cost vs Peers	~\$0.153/kWh vs \$0.089–0.122 for regional competitors like India, China, Sri Lanka and Bangladesh. Industrial tariff cuts help, but the gap still squeezes export margins.
STATUS: DISADVANTAGE	
Refunds and Rebates	Export support expanded: EFS raised to Rs1.5trn, alongside the new PRIE performance-based export rebate scheme; Support has improved, but refund delays still strain exporters' working capital
STATUS: IMPROVING	



OVERALL EXPORT COMPETITIVENESS

More stable and better supported, but core constraints remain: weak goods exports, a high REER, costly energy and logistics, and refund delays. Real gains need cheaper energy vs peers, a competitive real exchange rate, faster refunds and productivity-led diversification.

8. FISCAL, TAX AND REFORM DELIVERY

Fiscal position is fine — but the tax base is not broadening

Rs1.72trn

FBR, 2MFY27

*Rs12bn above
Rs1.71trn target*

Rs719bn

Sales tax

*Rs86bn
above target*

Rs685bn

Income tax

*Rs74bn short of
target*

Rs1.9trn

SBP profit

*Rs500bn above
target*

66%

FY26 Debt service /
net revenue

*down from 122% in FY23.
Momentum continues in
FY27*

REVENUE: ON TARGET, BUT NARROW

- Sales tax gains come from a law change moving several items to market-price collection.
- Import stage carries the load: 47% of all taxes and 69% of sales tax.
- Real estate: collection down 28% to Rs28bn despite rising transactions.
- Tax-base expansion remains weak: only 2 new traders joined the fixed-tax scheme out of an estimated 3.5mn.
- Refunds better than last year, but slow processing still hits cash flow.

FISCAL BALANCE: STRONGEST IN TWO DECADES

- Lowest consolidated deficit in 22 years; third straight primary surplus.
- Non-tax revenue ahead; petroleum levy kept despite higher ex-refinery prices.
- Lower rates keep debt servicing falling — the momentum continues in FY27.
- Pressure points: running costs, pensions and defence are set to grow.
- Development spend likely squeezed; provinces pledged Rs1trn extra to the centre.

MINI-BUDGET RISK: VERY LOW Revenue is on target, and SBP profit gives a large cushion. Expect pressure through enforcement, withholding and import-stage collection on documented firms — not new taxes.

IMF numbers on track — reform credibility rests on execution

IMF Review

Mission in Pakistan. Nearly all key QPCs for March and June 2026 likely met — the September review should be smooth on the quantitative side.

STATUS: ON TRACK

Tax-base Broadening

The weak spot for the IMF: expect scrutiny of the traders' scheme and fake withholding tax in real estate transactions.

STATUS: LAGGING

SOE Reform

Net fiscal revenue from SOEs down 91% to Rs35bn; low profitability, governance issues. Law amendments for 10 SOEs on the IMF agenda.

STATUS: WEAK

Privatisation

PIA set the precedent. FESCO — then IESCO and GEPCO — will show whether intent turns into execution and draws private and foreign buyers.

STATUS: KEY TEST

Policy predictability

Refund delays, repeated changes in tax treatment and pressure on documented firms are deterring reinvestment, even as macro stability improves.

STATUS: DETERIORATING

WHAT MEMBERS SHOULD ANTICIPATE

1. Tax pressure

No mini-budget, but heavier enforcement, withholding and import-stage collection on documented firms; refund timing stays a cash-flow risk.

2. Policy changes

SOE governance laws, tighter real estate withholding and further tax-treatment changes as the IMF pushes base broadening.

3. Reform credibility

Watch FESCO's sale. A clean, competitive transaction would be the strongest signal to investors since PIA.

9. KEY RISKS

Record reserves, lower rollover risk and a stronger fiscal position — now offset by geopolitics, higher energy and logistics costs, sticky inflation and policy uncertainty.

Stronger buffers — but the risk mix has shifted

		IMPACT
Oil and Geopolitics	Biggest near-term risk: feeds transport, power and input costs; supply disruption would hit inflation and the external account.	HIGH
Inflation Rebound	Back above 11% in Aug with core sticky at 8–9%; energy could spill into wages. Limits rate cuts, keeps hike risk alive.	HIGH
FX pressure	Reserves ~\$21.4bn and falling short-term debt — but REER ~108, oil and a wider goods gap build gradual pressure.	MODERATE
Energy-cost Increase	Base tariff down, but FCAs, RLNG and petroleum-linked generation offset it — a key source of margin volatility.	ELEVATED
Tax and Policy	Mini-budget unlikely; the real risk is enforcement, advance tax, refund delays and shifting treatment of documented firms.	MODERATE
Climate and Floods	Recurring disruption to farms, transport and warehousing; quickly feeds food inflation and input shortages.	MODERATE

Pakistan’s macro buffers are stronger than three years ago. But businesses now face a different mix of risks: geopolitical volatility, higher energy and logistics costs, sticky inflation, policy uncertainty and weaker investment confidence. Planning should focus on protecting margins, liquidity and supply continuity rather than assuming a smooth recovery

9. BUSINESS ACTION

The playbook: protect margins, liquidity and supply continuity

PROTECT MARGINS

OIL

- Stress-test budgets at higher oil, freight and insurance costs.
- Build energy and freight adjustment clauses into long contracts.

INFLATION

- Review pricing more often; build realistic escalation into contracts.

ENERGY

- Budget on effective energy cost, not base tariff; know product-level sensitivity.

PROTECT LIQUIDITY

INFLATION

- Plan working capital and salaries under base and high-inflation scenarios.

FX

- Hedge committed FX where practical; match FX receipts with payments.
- Shorten rupee quote validity; test gradual and sharp depreciation.

TAX

- Hold a tax-liquidity buffer, pursue refunds early, stay audit-ready.

PROTECT SUPPLY CONTINUITY

OIL

- Diversify suppliers and routes; hold adequate stocks of critical imports.

CLIMATE

- Map supplier and logistics exposure; line up alternative routes and vendors.
- Decentralise critical inventory, review insurance, keep continuity plans live.

ENERGY

- Accelerate efficiency and renewables; reassess grid vs captive power.

PRIORITISE NOW

Projects that cut energy use, import dependence and working-capital intensity.

STRESS-TEST FIRST

Large expansion — against higher oil, double-digit inflation, moderate PKR depreciation and policy uncertainty.

POSTURE: CAUTIOUS, NOT DEFENSIVE

Businesses should remain cautious rather than defensive. The macro position is more resilient than in previous crises, but investment conditions remain fragile because confidence and policy predictability have not improved as much as the headline stability indicators.

Labels show the key risk each action addresses.