

Pakistan Budget FY26 Preview

Budget braces for
balance

23-May-2025



REP-300

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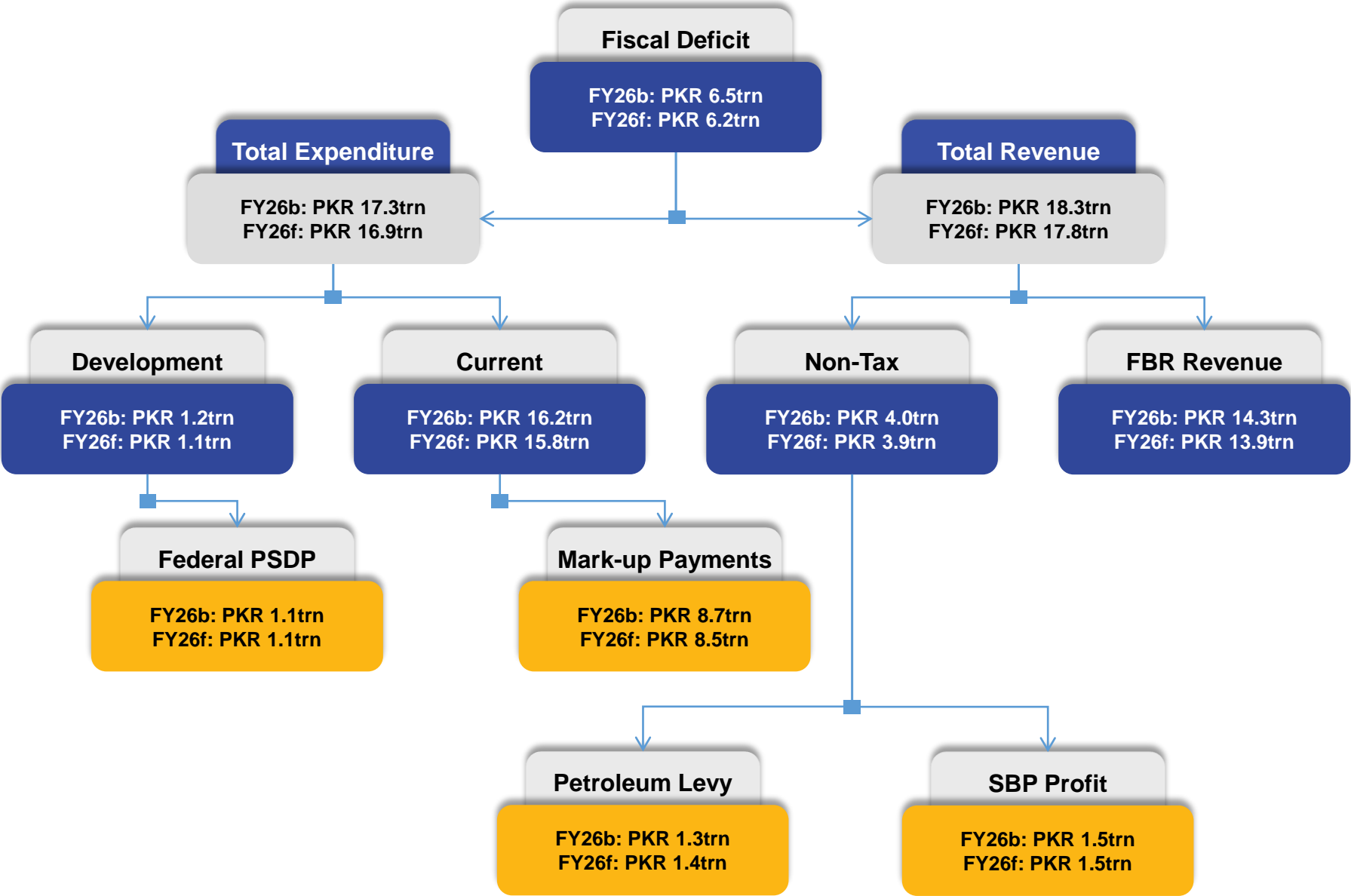
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Budget Preview FY26

Fiscal landscape



Budget Preview FY26

Budget braces for balance

- **Reform-focused ensuring fiscal discipline:** The Federal Budget is expected on 2nd Jun'25 and is likely to focus on fiscal discipline and reforms to stabilize the economy while offering targeted relief.
- **Market and economic outlook:** The budget is likely neutral to positive for the stock market and overall economy.
- **Targeted relief measures:** Possible income tax cuts for salaried individuals, phased super tax reduction, relaxed vehicle import rules, and renewed housing finance support.
- **Revenue mobilization:** Measures may include GST on petroleum, higher petroleum levy, expanded tax coverage of retailers/wholesalers, and withdrawal of select exemptions.
- **Economic projections:** GDP growth projected at 3.6% in FY26b (up from 2.68%), inflation to rise to 6.29% (from 4.63%), and CAD of USD 1.5bn (from surplus of USD 1.6bn).
- **IMF compliance and structural reforms:** Budget aligned with IMF rules, no tax amnesties, resolution of circular debt, and a National Fiscal Pact devolving spending to provinces among other measures.
- **Outlook and reform momentum:** Govt is expected to broaden the tax base through the introduction of new regimes, adjustments in tax rates, and enhanced collection mechanisms. At the same time, the government will try to provide targeted relief to vulnerable segments of society.

FBR Revenue: PKR 14.3trn

- **Measures:** GST on petroleum products, tax on retailers and wholesalers, and withdrawing exemptions
- **FBR tax to GDP ratio:** FY25e (10.3%) vs FY26b (11.3%)

Current Expenditure: PKR 16.2trn

- **FY26b Current Expenditure:** Projected to rise to PKR 16.2trn
- **Decline in mark-up payments** is due to a significant reduction in interest rates

Overall Budget Deficit: PKR 6.5trn

- **Fiscal deficit** estimated at PKR 6.5trn or 5.1% of GDP
- **Drivers of Fiscal Deficit Increase**
 - Rise in Current Expenditure
 - Decline in Non-Tax Revenue, mainly due to reduced SBP profits.

Economic Projections

- **GDP growth** projected at 3.6% in FY26b (up from 2.68%), inflation to rise to 6.29% (from 4.63%), and CAD of USD 1.5bn (from surplus of USD 1.6bn).

Budget Preview FY26

Proposed revenue measures

Exhibit: Key revenue measures

S. No	Item	Impact (PKR bn)	Probability	Impact on Listed Sectors
1	Income tax on retailers and wholesaler	429	High	-
2	Imposition of GST of 3% on petroleum products	147	High	Positive (Refinery), Neutral (OMCs)
3	Increasing FED on tobacco products by 25%	99	High	Negative (Tobacco)
4	Imposition of FED on Ultra-processed food at 2%	70	High	Neutral (FMCGs)
5	Imposition of pension tax	55	Medium	-
6	Removal of tax exemptions and duty for FATA and PATA region	35	High	Positive (Steel)
7	Increasing FED on fertilizer items by 5%	33	High	Neutral (Fertilizer)
Total		869		
		AHL Estimates	Govt. Target	
FBR revenue (FY25e)		11,829	12,370	
Nominal growth (9.9% = 6.3% CPI + 3.6% real growth)		1,170	1,223	
Collection from new tax measures		869	869	
FBR revenue (FY26e)		13,868	14,463	
Govt's FBR Target (FY26b)		14,307	14,307	
Surplus / (short-fall)		(439)	156	

Source: Media, IMF Country Report, AHL Research

Budget Preview FY26

Budget at a glance

Exhibit: Budgetary Trend*

PKR bn	FY21a	FY22a	FY23a	FY24a	FY25b	FY25e	FY26b	FY26f
Gross Revenue Receipts	6,270	7,328	8,880	12,361	17,215	16,489	18,307	17,806
FBR Revenue	4,764	6,143	7,169	9,311	12,370	11,829	14,307	13,868
Non-Tax Revenue	1,505	1,185	1,711	3,050	4,845	4,661	4,000	3,938
Less: Provincial Share	2,742	3,589	4,223	5,264	7,438	7,042	8,584	8,044
Net Revenue Receipts	3,528	3,739	4,656	7,098	9,777	9,447	9,723	9,763
Total Expenditure	7,245	9,350	11,332	14,823	18,277	17,067	17,370	16,930
Current Expenditure	6,349	8,452	10,732	14,073	17,003	15,652	16,209	15,798
Mark-up Payments	2,750	3,182	5,696	8,160	9,775	9,128	8,685	8,516
Defence	1,316	1,412	1,586	1,859	2,122	2,122	2,500	2,500
Subsidies	425	1,530	1,080	1,067	1,363	1,008	1,367	1,109
Others	1,858	2,328	2,370	2,987	3,743	3,394	3,657	3,673
Federal PSDP	667	558	743	732	1,000	1,000	1,065	1,050
Federal Budget Balance	(3,717)	(5,611)	(6,676)	(7,725)	(8,500)	(7,620)	(7,648)	(7,167)
Overall Budget Balance	(3,403)	(5,260)	(6,521)	(7,207)	(7,283)	(6,289)	(6,463)	(6,217)
Primary Balance	(654)	(2,077)	(826)	953	2,492	2,839	2,223	2,299
% of GDP								
Total Revenue	11.2	11.0	10.6	11.8	15.0	14.4	14.5	14.1
FBR Revenue	8.5	9.2	8.6	8.9	10.8	10.3	11.3	11.0
Non-Tax Revenue	2.7	1.8	2.0	2.9	4.2	4.1	3.2	3.1
Total Expenditure	13.0	14.0	13.5	14.1	15.9	14.9	13.8	13.4
Current Expenditure	11.4	12.7	12.8	13.4	14.8	13.6	12.8	12.5
Mark-up Payments	4.9	4.8	6.8	7.8	8.5	8.0	6.9	6.7
Defence	2.4	2.1	1.9	1.8	1.9	1.9	2.0	2.0
Development Expenditure and net lending	1.4	1.1	1.1	1.0	1.1	1.1	0.9	0.9
Overall Budget Balance	(6.1)	(7.9)	(7.8)	(6.9)	(6.4)	(5.5)	(5.1)	(4.9)
Primary Balance	(1.2)	(3.1)	(1.0)	0.9	2.2	2.5	1.8	1.8

Source (s): MoF, AHL Research *Federal only, FY25B are revised numbers

Budget Preview FY26

Stock market and sector proposals

Sector	Proposed measure	Impact	Comment
General	Phasing out and reduction of super tax	Positive	<ul style="list-style-type: none"> Expected phasing out the super tax by FY28, starting with a 3% reduction in FY26, followed by another 3% in FY27, and a final 4% cut in FY28. This would significantly enhance corporate profitability.
	Relief for salaried class	Positive	<ul style="list-style-type: none"> The proposal is to raise the income tax exemption threshold from PKR 600,000 up to PKR 800,000.
Stock Market	Increase in CGT tax	Negative	<ul style="list-style-type: none"> It is proposed to increase the CGT by 2.5% to 17.5% for filers and non filers by 5.0% to 35.0%.
	Increase in tax on dividend	Negative	<ul style="list-style-type: none"> At present, the withholding tax on dividend for filers and non filers stand at 15% and 30%, respectively. It is proposed to increase the tax by 2.5%-5.0%.
	Withdrawal of tax on bonus shares	Positive	<ul style="list-style-type: none"> The withdrawal of the existing 10% tax on bonus share issues is being proposed.
	Restoration of exemption on Inter-corporate dividends	Positive	<ul style="list-style-type: none"> Restoring the inter-corporate dividend exemption would prevent double taxation.
Banks	Rationalize the effective tax rate on banks	Positive	<ul style="list-style-type: none"> The banking sector's effective tax rate of 54%, including 44% corporate tax and 10% super tax, should be rationalized.
Fertilizer	Increase in FED on fertilizer by 5%	Negative to Neutral	<ul style="list-style-type: none"> The proposed 5% FED hike on fertilizers would raise urea prices by ~PKR 225/bag and DAP by ~PKR 618/bag and is expected to be passed on to consumers.
E&P	Revival of 0% tax credit for investments in plant and machinery and BMR	Neutral	<ul style="list-style-type: none"> The proposal seeks tax credit incentive for E&P companies to invest in plant and machinery for expansion, balancing, modernization, and replacement, thereby enhancing their growth and productivity through inclusion in the tax credit scheme.
Source (s): Media, AHL Research			

Budget Preview FY26

Stock market and sector proposals

Sector	Proposed measure	Impact	Comment
Cement	Low-cost housing scheme	Positive	<ul style="list-style-type: none"> The government's plan to develop 200K low-cost housing units and offer mortgage options aims to boost affordable housing and drive ~3mn tons of additional local demand.
	Allocation of PSDP	Positive	<ul style="list-style-type: none"> The FY26 budget is expected to allocate PKR 1.1trn to PSDP, including PKR 200bn for PPPs, to boost private participation and improve fund utilization.
Steel	End of Sales tax exemption for FATA/PATA region	Positive	<ul style="list-style-type: none"> To protect the local steel industry, the GST exemption for FATA/PATA should be removed as unregistered players from the region continue to evade taxes and dump cheap steel in the market other than FATA/PATA.
	Low-cost housing scheme	Positive	<ul style="list-style-type: none"> The government's plan to develop 200K low-cost housing units and offer mortgage options aims to boost affordable housing and drive ~0.6mn tons of additional demand.
OMCs	Sales tax of 3-5% to be imposed on petroleum products	Neutral	<ul style="list-style-type: none"> Currently, petroleum products are exempt from the GST. The proposed imposition of GST at a rate of 3-5% is expected to lead to an increase in petrol prices by ~PKR 8-13/ltr.
	Imposition of carbon levy of PKR 2.5-5.0/ltr	Neutral	<ul style="list-style-type: none"> The proposed PKR 2.5-5.0/ltr charge under IMF conditions will increase fuel prices, likely encouraging a shift toward cleaner energy sources and resulting in reduced sales for oil marketing companies.
Refinery	Sales tax of 3-5% to be imposed on petroleum products	Positive	<ul style="list-style-type: none"> Currently, petroleum products are exempt from the GST. The proposed imposition of GST at a rate of 3-5% is expected to lead to an increase in petrol prices by ~PKR 8-13/ltr.
Power	Resolution of power sector circular debt	Positive	<ul style="list-style-type: none"> With circular debt at PKR 2.4trn as of Feb'25, a term sheet has been signed for settlement expected by end of May'25, while the IMF emphasizes timely QTA and FCA to prevent further buildup.
	Reduction in dividend on IPPs	Neutral	<ul style="list-style-type: none"> The proposed cut in IPP dividends from 15% to 7.5% seems unlikely.

Source (s): Media, AHL Research

Budget Preview FY26

Stock market and sector proposals

Sector	Proposed measure	Impact	Comment
Autos	Tariff on used imported vehicles to be set at premium of 40%	Negative	<ul style="list-style-type: none"> A 40% tariff premium on used vehicle imports will be reduced by 10% annually until 2030, gradually making them cheaper but impacting demand for local auto players.
	Increase the age limit for imported vehicles to 5 years.	Negative	<ul style="list-style-type: none"> Raising the age limit for imported vehicles from 3 to 5 years would increase competition and reduce demand for local auto assemblers.
Textile	Restore final tax regime for goods exporters at 1% of turnover	Positive	<ul style="list-style-type: none"> The proposal to restore the 1% final tax regime for exporters, replacing the current 29% normal tax, would significantly improve profitability for export-oriented sectors, particularly textiles.
Technology	Extension of final tax regime for 10 years (2025-2035)	Positive	<ul style="list-style-type: none"> The final tax regime which allows for a reduced withholding tax rate of 0.25% on exports is set to expire in Jun'26. Restoration of it will help IT companies to remain globally competitive, reinvest in growth, and boost export earnings.
Pharma	Restore zero-rated regime for pharmaceuticals	Positive	<ul style="list-style-type: none"> Reinstating the zero-rated regime for DRAP-registered pharmaceuticals, currently subject to 1% GST without input tax adjustment, would enable input credit claims and boost cost efficiency and profitability.
Beverages	Increase in FED on Sugary Drinks.	Negative	<ul style="list-style-type: none"> The current FED on sugary beverages stands at 20%. The proposal suggests raising this rate to 40%, with a long-term goal of reaching 50%. The companies will pass on the impact by raising the prices of beverages. However, the sales volumes will decline.
Tobacco	Increase FED on tobacco products and enforce stricter penalties on illicit tobacco trade.	Negative	<ul style="list-style-type: none"> The jump in FED to 75% of retail prices will squeeze manufacturer margins, especially in the economy segment. However, given tobacco's inelastic demand, companies are likely to pass on costs through price increases, preserving profitability while enabling higher government revenue.
Real Estate	Slash property advance tax to 2% (sale) & 1% (purchase)	Positive	<ul style="list-style-type: none"> Property transactions face advance tax rates of 3-4% on both sales and purchases. The proposed flat rates of 2% (sale) and 1% (purchase) aim to reduce transaction costs while increasing compliance.

Source (s): Media, AHL Research

Budget Preview FY26

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- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

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