

# Progress through fiscal prudence

REP-300

B U D G E T  
FY26

11<sup>th</sup> June 2025

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*Economy - A careful road to  
growth*



## Budget Outlay

FY26b: 17.6trn  
FY25r: 17.2trn  
YoY: +2%



## Current Expenditure

FY26b: 16.3trn  
FY25r: 16.2trn  
YoY: +1%



## Mark-up Payments

FY26b: 8.2trn  
FY25r: 8.9trn  
YoY: -8%



## Federal PSDP

FY26b: 1.0trn  
FY25r: 1.0trn  
YoY: 0%



## FBR Revenue

FY26b: 14.1trn  
FY25r: 11.9trn  
YoY: +19%



## Non-Tax Revenue

FY26b: 5.1trn  
FY25r: 4.9trn  
YoY: +5%



## Budget Deficit

FY26b: 5.0trn  
FY25r: 6.4trn  
YoY: -22%



## Domestic Financing

FY26b: 6.3trn  
FY25b: 7.8trn  
YoY: -19%



## External Financing

FY26b: 0.11trn  
FY25b: 0.67trn  
YoY: -84%



## GDP

FY26b: 129.6trn  
FY25r: 114.7trn  
YoY: +13%



## GDP Growth (FY26b)

Agriculture (4.5%)  
Industries (4.3%)  
Services (4.0%)

- As Pakistan enters FY26, the macroeconomic environment reflects early signs of stabilization, supported by declining inflation, low interest rate environment, and an improved external account position.
- Pakistan's GDP has recorded a growth of 2.68% in FY25 vs 2.51% in FY24, with the economy's size crossing ~USD 400bn. Going forward, the government has set an ambitious GDP growth target of 4.2% for FY26. With economic recovery gaining pace, sectoral projections for FY26 reflect broad-based momentum, agriculture is expected to grow by 4.5%, industries by 4.3%, and services by 4.0%, signaling a more balanced and sustainable growth trajectory ahead.
- Inflation witnessed a significant decline, averaging 4.61% in 11MFY25 compared to 24.5% in SPLY. Going forward, it is projected to remain in single digits, reaching 7.5% in FY26.
- Another encouraging sign is the current account balance which is expected to reach the surplus of USD 1.5bn in FY25 compared to USD 1.3bn in FY24.
- The SBP adopted a monetary easing stance, reducing the policy rate to 11% by May'25. In FY26, the monetary policy will remain calibrated to support economic recovery while anchoring inflation expectations.
- Despite these positive developments, several challenges remain. The pressure on current account is anticipated as import-driven consumption increases.
- A cautious and well-calibrated policy stance will be crucial to safeguarding recent progress and strengthening ties with development partners, particularly the IMF.
- Sustained focus on structural reforms, fiscal consolidation, and effective external sector management will be vital for achieving a stable and balanced economic recovery.

## Exhibit: Economic and Budgetary Targets

Item		FY26b	FY25r
<b>Key Economic Targets</b>			
GDP Growth	%	4.2	2.68
Fiscal Deficit	% of GDP	3.90%	5.60%
Current Account Balance	USD bn	-2.1	1.5
<b>Key Budgetary Targets</b>			
FBR Revenue	PKR trn	14.1	11.9
Mark-up Payments	PKR trn	8.2	8.9
Federal PSDP	PKR trn	1	1
Defence	PKR trn	2.5	2.2

Source (s): MoF, AHL research

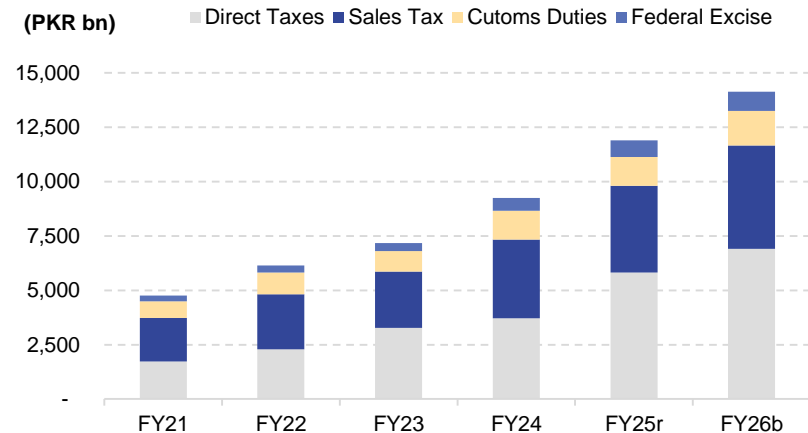
## Exhibit: Gross Domestic Product

Growth	FY26b	FY25r	
	Target	Target	Provisional
<b>Agriculture</b>	<b>4.50%</b>	<b>2.00%</b>	<b>0.60%</b>
Important Crops	6.70%	-4.50%	-13.50%
Livestock	4.20%	3.80%	4.70%
<b>Industrial Sector</b>	<b>4.30%</b>	<b>4.40%</b>	<b>4.80%</b>
Manufacturing	4.70%	4.40%	1.30%
Large Scale	3.50%	3.50%	-1.50%
<b>Service Sector</b>	<b>4.00%</b>	<b>4.10%</b>	<b>2.90%</b>
Wholesale & Retail trade	3.90%	4.10%	0.10%
<b>GDP</b>	<b>4.20%</b>	<b>3.60%</b>	<b>2.70%</b>

Source (s): PBS, Planning Commission, AHL Research

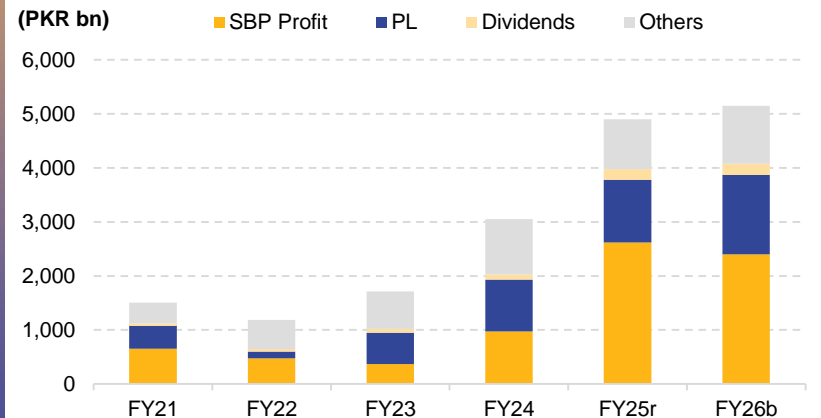
- In the Federal Budget FY26, the government has raised its revenue collection targets, aligning with IMF conditions.
- Overall gross revenue is projected to grow by 14.7% YoY, with FBR tax collection targeted at PKR 14.1trn and non-tax revenue set to rise to PKR 5.2trn.
- Indirect taxes are expected to grow 19.0% YoY to PKR 7.2trn, while direct taxes are projected to increase 18.5% YoY to PKR 6.9trn. The surge in indirect taxes is driven by:
  - Sales Tax: Budgeted at PKR 4.8trn vs. PKR 4.0trn in FY25r
  - Custom Duty: Estimated at PKR 1.6trn vs. PKR 1.3trn in FY25r
  - Federal Excise Duty: Projected at PKR 888bn vs. PKR 774bn in FY25r
- Direct taxation is primarily supported by a 18.5% YoY rise in income tax, targeted at PKR 6.8trn.
- Non-tax revenue is projected at PKR 5.2trn, led by a 26% YoY increase in Petroleum Development Levy (PDL) collections to PKR 1.5trn, along with the introduction of a PKR 105bn levy on Off-Grid (Captive Power Plants).
- With these measures, the FBR's tax-to-GDP ratio is targeted to reach 10.9% in FY26b, up from 10.4% in FY25r, reflecting an improvement in revenue mobilization.
- The government has provided relief to some sectors while maintaining its revenue collection target by rationalizing and imposing tax on the individuals and sectors which were previously exempted. In order to broaden the tax base the government has proposed to introduce tax on Digital Transaction Proceeds, increase tax on interest income, impose carbon levy on petroleum, introduce petroleum levy on FO, and finish exemption on FATA/PATA region.

**Exhibit:** Breakdown of Tax revenue over the years



Source (s): MOF, AHL Research

**Exhibit:** Historical breakdown of Non-tax revenue



Source (s): MOF, AHL Research

The government anticipates a 4% YoY jump in dividends from its investments, projecting at PKR 206bn in FY26b, up significantly from FY25r target of PKR 198bn. In listed space, the dividends from SOEs are projected to increase by 2% YoY to PKR 153bn. This increase is primarily driven by higher payouts from state-owned enterprises (SOEs), with the following breakdown from listed entities:

- Oil & Gas Development Company (OGDC): PKR 94.5bn (DPS: PKR 25.75).
- Pakistan Petroleum Ltd (PPL): PKR 43.0bn (DPS: PKR 21.00), showcasing a 10% YoY jump compared to FY25r.
- Sui Northern Gas Pipelines (SNGP): PKR 2.5bn (DPS: PKR 12.50).
- Pakistan Telecommunication Co. (PTC): PKR 2.0bn (DPS: PKR 1.00).
- Pakistan State Oil (PSO): PKR 1.5bn (DPS: PKR 12.50).
- Pakistan Reinsurance Co. (PAKRI): PKR 0.9bn (DPS: PKR 2.00).
- Mari Energies Ltd (MARI): PKR 3.6bn (DPS: PKR 15.00).
- Pakistan National Shipping Corp. (PNSC): PKR 4.6bn (DPS: PKR 40.00).
- Fauji Fertilizer Company Ltd (FFC): PKR 0.3bn (DPS: PKR 31.00).

## Exhibit: Dividend on Government Investments (Listed)

Listed SOEs	Total (mn share)	Govt. Holding (%)	Govt. Holding (mn share)	FY25b (PKR mn)	FY25r (PKR mn)	FY26b (PKR mn)	FY26b (PKR/share)
OGDC	4,301	85%	3,657	62,000	95,420	94,489	25.75
PTC	3,774	52%	1,966	2,000	2,000	2,000	1.00
PPL	2,721	75%	2,039	18,000	38,995	42,995	21.00
SNGP	634	32%	201	2,000	2,500	2,500	12.50
PSO	469	26%	120	1,500	1,500	1,500	12.50
PAKRI	900	51%	459	1,000	944	944	2.00
MARI	1,201	20%	240	4,500	3,573	3,573	15.00
FFC	1,423	1%	9	120	277	277	31.00
NBP	2,128	0.3%	1,600	50	-	75	12.25
PNSC	198	88%	116	2,000	4,625	4,625	40.00
PSEL	33	-	-	6	-	-	nm
<b>Total</b>				<b>93,176</b>	<b>149,835</b>	<b>152,979</b>	

Source: MoF, AHL Research

## Exhibit: Dividend on Government Investments (Unlisted)

	FY25b (PKR mn)	FY25r (PKR mn)	FY26b (PKR mn)
National Investment Trust	250	250	350
Pak Oman Investment co	200	169	300
Pak Brunie Investment	300	150	450
Pak Iran Joint Investment	250	100	350
Pak China Investment	100	100	150
Exim Bank	-	130	150
Pakistan Mortgage Refinance Co. Ltd	300	270	450
Pak Arab Refinery	30,000	33,051	37,051
GHPL	9,000	9,000	9,000
PMDC	400	400	400
SLIC	2,200	2,200	2,200
NIC	800	800	800
PIDC	100	100	100
NESPAK	80	80	80
NFC	250	250	250
NTDC	800	464	464
Trading Corporation of Pakistan	500	500	500
Tourism Promotion Services	3	4	4
PERAC	6	6	6
PASSCO	200	100	100
<b>Total</b>	<b>45,739</b>	<b>48,124</b>	<b>53,155</b>

Source: MoF, AHL Research

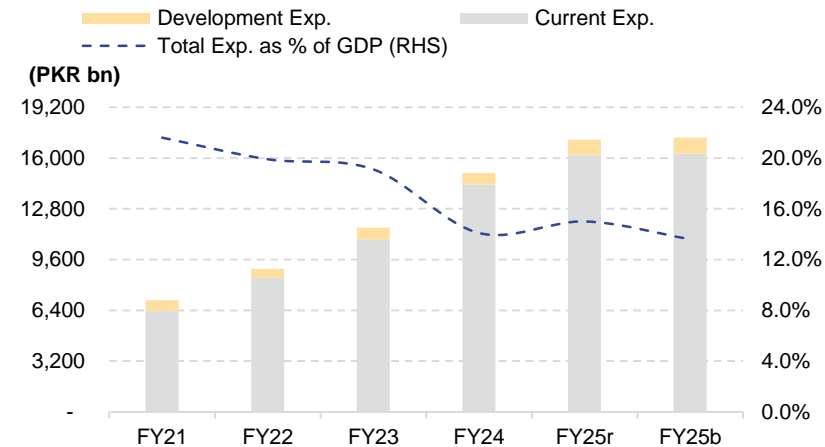
## Budget Outlay

- Total expenditure outlay for FY26 is budgeted at PKR 17.6trn, 2% higher YoY than FY25r of PKR 17.3trn.
- Current expenditure is expected to be PKR 16.3trn of the total budgeted expenditure in FY26b while Development Expenditure is budgeted to contribute 7% to the total budgeted expenditure.

## Current expenditure

- Current expenditure is expected to be PKR 16.3trn in FY26b, slightly up from the FY25 revised estimates of PKR 16.2trn.
- Meanwhile, the mark-up payments are budgeted at PKR 8.2trn in FY26b, reflecting an 8% YoY decline due to lower interest rates easing the debt servicing burden.
- The defence expenditure is budgeted at PKR 2.5trn, depicting an increase of 14% YoY from FY25r, contributing 15% to total current expenditure.
- Subsidies are budgeted at PKR 1.2trn in FY26b, while grants and transfers are projected at PKR 1.9trn, representing a 9% increase over FY25r.
- During FY26 subsidies are set to contribute 7% of current expenditure vis-à-vis 8% in FY25r.
- Power subsidies are budgeted at PKR 1.0trn down 13% YoY as comparison to FY25r.
- In addition, the government has proposed a PKR 5bn mark-up subsidy for low-cost housing.
- As a relief measure, the government plans to increase salaries and pensions of its employees by 10% YoY.
- An increase in the allocation for the Benazir Income Support Programme (BISP) to PKR 716bn from PKR 592bn in FY25r.

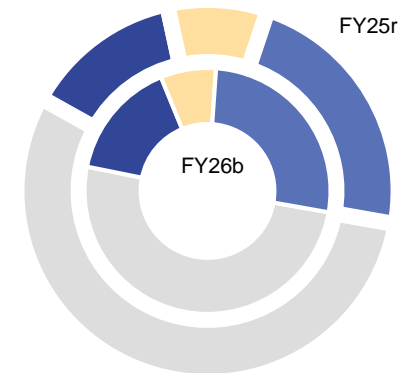
**Exhibit: Breakdown of Total expenditure over the years**



Source (s): MOF, AHL Research

**Exhibit: Current expenditure breakdown comparison**

Mark-up Payments (grey), Defence (dark blue), Subsidies (yellow), Others (light blue)



Source (s): MOF, AHL Research



Subsidies, during FY25r, exceeded the initial estimates of PKR 1,363bn, reaching PKR 1,378bn. For FY26, the government aims to reduce subsidies to PKR 1,186bn, reflecting a 14% decline.

As part of ongoing energy sector reforms, power sector subsidies are projected to decrease by 13% to PKR 1,036bn, down from the revised FY25 figure of PKR 1,190bn.

**Power subsidies** – The government has announced a 13% reduction in power sector subsidies, setting the FY26 allocation at PKR 1,036bn, down from the revised FY25 figure of PKR 1,190bn.

Within the overall subsidy framework:

- Inter-DISCO Tariff Differential allocation has been reduced by 10% to PKR 249bn.
- K-Electric's Tariff Differential subsidy has been slashed by 28% to PKR 125bn.
- The Lump Provision for Power Subsidy is budgeted at PKR 400bn, 2% higher than the revised FY25 allocation of PKR 394bn.
- Payments to IPPs have been allocated PKR 95bn, marking a 17% decline from the revised FY25 figure.

**Other Subsidies:** The FY26 budget also shows an increase in the government's overall subsidy target for the housing sector, rising to PKR 105bn from the revised estimate of PKR 90bn.

As part of its affordable housing initiative, the government has allocated:

- PKR 5bn for a mark-up subsidy on low-cost housing, supporting its plan to develop 200K housing units and expand access to mortgage financing.
- An additional PKR 5bn has been earmarked specifically as a Housing Sector Subsidy to further promote affordable housing development.

## Exhibit: Subsidies

Item	FY26b	FY25r	Change
<b>Power Sector</b>	<b>1,036</b>	<b>1,190</b>	<b>-13%</b>
Inter-DISCO Tariff Differential	249	276	-10%
K-Electric Tariff Differential	125	174	-28%
Lump Provision for Power Subsidy	400	394	2%
Payment to IPPs	95	115	-17%
Others	167	231	-28%
<b>Petroleum</b>	<b>1</b>	<b>18</b>	<b>-93%</b>
<b>PASSCO</b>	<b>20</b>	<b>12</b>	<b>67%</b>
<b>Industries &amp; Production</b>	<b>24</b>	<b>68</b>	<b>-65%</b>
<b>Others Subsidies</b>	<b>105</b>	<b>90</b>	<b>16%</b>
Mark-up subsidy for Low Cost Housing	5	0	nm
Housing Sector Subsidy	5	0	nm
Import of Urea Fertilizer	15	10	50%
Solarization of Agri Tube Wells in Balochistan	0	14	nm
Others	80	66	21%
<b>Total</b>	<b>1,186</b>	<b>1,378</b>	<b>-14%</b>

Source (s): MoF, AHL research

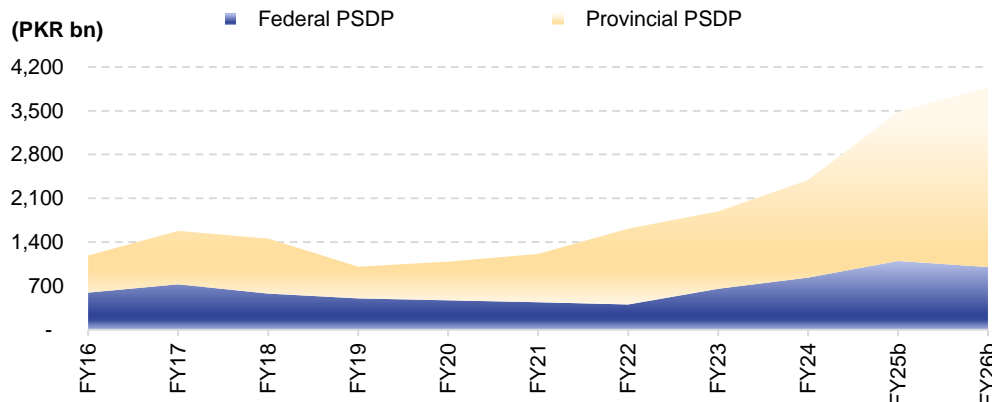
## Total development expenditure

- Total development expenditure for FY26 is budgeted at PKR 1.3trn, which contributes 7% to the total budgeted expenditure.

## Public Sector Development Programme (PSDP)

- The government has allocated the PSDP of PKR 1trn, remaining flat YoY.
- Furthermore, PKR 2.8trn has been set aside for provincial PSDP, showing a 20% YoY increase. The combined PSDP stands at PKR 3.8trn.
- Federal Ministries/Divisions are budgeted at PKR 662bn (with Special Areas- AJK and GB) allocated PKR 82bn.
- Whereas PKR 25bn allocated for the Railways Division as compared to PKR 35bn last year and PKR 140bn allotted to the Water Resources Division.
- Additionally, the corporations category is budgeted at PKR 333bn which is dominated by the National Highway Authority (NHA), for which PKR 229bn has been allocated.

Exhibit: Outlay for PSDP over the years



Source (s): MOF, AHL Research

Exhibit: Public Sector Development Programme (PSDP)

Ministry/division	PKR bn
<b>Federal Ministries</b>	<b>662.0</b>
Provinces & Special Areas	245.9
Provincial Projects	93.4
Merged Districts	70.4
Special Areas (AJK & GB)	82.0
Water Resources Division	140.0
Cabinet Division	50.3
Higher Education Commission	45.0
Railways Division	24.7
SUPARCO	24.2
Federal Education & Professional Training Division	19.7
National Health Services, Regulations & Coordination Division	15.3
Information Technology & Telecom Division	13.5
Planning, Development & Special Initiatives Division	12.3
Defence Division	11.6
Interior Division	10.9
Others	48.6
<b>Corporations</b>	<b>333.0</b>
National Highway Authority	229.0
Power Division	104.0
<b>Project Liabilities</b>	<b>5.0</b>
<b>Total</b>	<b>1,000.0</b>

Source (s): MoF, AHL Research

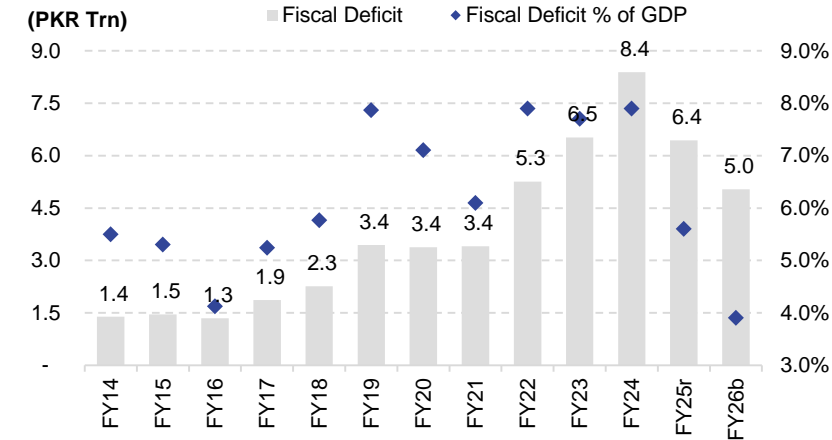
## Fiscal Deficit

- The revenue collection in FY26 is budgeted to increase by 19% compared to FY25r, while the total expenditure is budgeted to increase by 2% YoY clocking in at PKR 17.6trn.
- The surge in current expenditure is driven mainly by expenses other than mark-up payments such as elevated defense budget and increased government grants leaving limited fiscal space for development expenditure.
- The fiscal deficit expected to clock in at PKR 5.0trn (-3.9% of the GDP),
- To highlight, the IMF continues to emphasize the need to reduce subsidies and broaden the tax base. In line with this, the government has adopted a more cautious and balanced approach; introducing new tax measures, rationalizing existing rates, and strengthening enforcement, to boost revenue collection while safeguarding relief for socially vulnerable segments.

## Deficit financing

- Pakistan's total debt position settled at PKR 74.9trn as at end of Apr'25 with local debt amounted to PKR 52.5trn and foreign debt at PKR 22.4trn.
- Government expects to make PKR 7.2trn (-9% YoY) worth mark up on domestic borrowing and PKR 1.0trn (-3% YoY) foreign debt in FY26.
- It is important to note that the government is currently under the IMF's Extended Fund Facility (EFF). With the program's successful continuation, inflows from international financial institutions and friendly countries are expected to materialize in a timely manner.
- The government is projecting to raise external financing of PKR 0.1trn (USD 0.38bn) in the form of commercial loans and Eurobonds during FY26.

### Exhibit: Fiscal Deficit



Source (s): MOF, AHL Research

### Exhibit: Fiscal Deficit and Financing

PKRbn	FY26b
Net External Receipts	106
Multilateral & Bilateral Sources	460
Commercial & Euro Bond	-355
Net Domestic Financing	6,309
Govt. Securities (Bank & Non-Bank)	6,099
Privatization Proceeds	87
<b>Federal Deficit</b>	<b>6,501</b>

Source (s): MOF, AHL Research

## Exhibit: Budgetary Trend\*

PKR bn	FY26f**	FY26b	FY25r	YoY Change^
<b>Gross Revenue Receipts</b>	<b>18,695</b>	<b>19,278</b>	<b>16,802</b>	<b>14.7%</b>
FBR Revenue	13,701	14,131	11,900	18.7%
Non-Tax Revenue	4,994	5,147	4,902	5.0%
Less: Provincial Share	7,947	8,206	6,997	17.3%
<b>Net Revenue Receipts</b>	<b>10,749</b>	<b>11,072</b>	<b>9,805</b>	<b>12.9%</b>
<b>Total Expenditure</b>	<b>17,471</b>	<b>17,573</b>	<b>17,249</b>	<b>1.9%</b>
Current Expenditure	<b>16,389</b>	<b>16,286</b>	<b>16,167</b>	<b>0.7%</b>
Mark-up Payments	8,310	8,207	8,945	-8.3%
Defence	2,550	2,550	2,181	16.9%
Subsidies	1,186	1,186	1,378	-14.0%
Others	4,343	4,343	3,661	18.6%
Federal PSDP	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>0.0%</b>
<b>Federal Budget Balance</b>	<b>(6,723)</b>	<b>(6,500)</b>	<b>(7,444)</b>	<b>-12.7%</b>
<b>Overall Budget Balance</b>	<b>(5,773)</b>	<b>(5,036)</b>	<b>(6,435)</b>	<b>-21.7%</b>
<b>Primary Balance</b>	<b>2,538</b>	<b>3,170</b>	<b>2,511</b>	<b>26.3%</b>
<b>% of GDP</b>				
Total Revenue	14.4	14.9	14.6	
FBR Revenue	10.6	10.9	10.4	
Non-Tax Revenue	3.9	4.0	4.3	
Total Expenditure	13.5	13.6	15.0	
Current Expenditure	12.6	12.6	14.1	
Mark-up Payments	6.4	6.3	7.8	
Defence	2.0	2.0	1.9	
Development Expenditure and net lending	0.8	1.0	0.9	
Overall Budget Balance	(4.5)	(3.9)	(5.6)	
Primary Balance	2.0	2.4	2.2	

Source (s): MoF, AHL Research \*Federal only, FY25r are revised numbers, \*\*AHL Research Estimates, ^FY26b over FY25r



*Key support and revenue measures*

## Support measures

- Imposition of sales tax on imported cotton yarn.
- 0.5% cut in Super Tax for income exceeding PKR 200mn but below PKR 500mn
- Housing subsidy of PKR 5bn has been proposed
- Government employees salaries increased by 10%
- 10% cap of DSS levy removed and to be used for interest and debt principal repayment.

## Revenue measures

- WHT to be increased from 4% to 6% for specified services (excluding IT/IT-enabled services)
- Tax on interest income increased from 15% to 20%
- Introduction of Digital Transaction Proceeds Levy
- Dividend tax rate increased from 15% to 25% on dividend from debt mutual funds
- PKR 2.5/litre carbon levy will be imposed on HSD, MS, and FO in FY26, rising to PKR 5/litre in FY27.
- Non-Filers Cash Withdrawal Tax Rate increased from 0.6% to 0.8%
- Withdrawal of reduced GST of 12.5% GST on cars up to 850cc
- Sales tax on FATA/PATA has been increased to 10% (from 0%), will rise by 2% yearly, reaching 16% by FY29
- The hybrid vehicles will be subject to the standard GST rate of 18%
  - 18% tax proposed on imported solar panels to ensure fair competition with local manufacturers
  - 18% sales tax collection mandated for digital platforms & logistics providers
- Banks to deduct 5% tax on digital payments to foreign suppliers for goods/services consumed in Pakistan
- Imposition of petroleum levy on FO

## Exhibit: Key revenue measures

S. No	Item	Impact (PKR bn) Budget FY26
1	18% GST imposed on imported solar panels	132
2	Imported retail packaged goods moved to third schedule	78
3	Imposition of GST import of cotton yarn	54
4	Increase in interest income from 15% to 20%	54
5	18% GST imposed on Hybrid Vehicles	29
6	Imposition of pension tax	22
7	Removal of reduced GST of 12.5% on 850cc cars	20
8	Removal of tax and duty for FATA and PATA region	19
<b>Total</b>		<b>409</b>
FBR revenue (FY25r)		<b>11,900</b>
Nominal growth (11.7% = 7.5% CPI + 4.2% real growth)		1,392
Collection from new tax measures		409
FBR revenue (FY26f)*		13,701
Govt's FBR Target (FY26b)		14,131
Surplus / (short-fall)		<b>(430)</b>

Source: AHL Research, \*AHL Research estimates

## Exhibit: Super Tax Comparison for Tax Year - 2025 & 2026

S. No.	Income Per Year (PKR)	Old Tax Rate	Revised Tax Rate
1	Below 150mn	-	-
2	150mn - 200mn	1.0%	1.0%
3	200mn - 250mn	2.0%	1.5%
4	250mn - 300mn	3.0%	2.5%
5	300mn - 350mn	4.0%	3.5%
6	350mn - 400mn	6.0%	5.5%
7	400mn - 500mn	8.0%	7.5%
8	500mn and above	10.0%	10.0%

Source (s): MOF, AHL Research



**Exhibit:** Income Tax Comparison for Salary Tax Year - 2025 & 2026

S. No.	Salary Income Per Month	Annual Income	Tax Payable Tax Year - 2025	Tax Payable Tax Year – 2026	Difference
1	50,000	600,000	-	-	-
2	100,000	1,200,000	30,000	6,000	(24,000)
3	200,000	2,400,000	230,000	162,000	(68,000)
4	300,000	3,600,000	550,000	466,000	(84,000)
5	400,000	4,800,000	945,000	861,000	(84,000)
6	500,000	6,000,000	1,365,000	1,281,000	(84,000)
7	600,000	7,200,000	1,785,000	1,701,000	(84,000)
8	700,000	8,400,000	2,205,000	2,121,000	(84,000)
9	800,000	9,600,000	2,625,000	2,541,000	(84,000)
10	900,000	10,800,000	3,349,500	3,257,100	(92,400)
11	1,000,000	12,000,000	3,811,500	3,719,100	(92,400)

Source (s): MoF, AHL Research



*Overall take & Sectors*

## Overall take on the PSX- Positive

- Capital gains and dividend tax rates remain unchanged, providing stability for equity investors.
- Moreover, the government has increased the tax on income from debt mutual funds from 15% to 25%, while equity mutual funds continue to enjoy a favorable 15% rate.
- Additionally, the tax on profit from debt instruments (interest income) has been raised from 15% to 20%.
- These adjustments are designed to encourage a shift away from passive, low-risk investments like traditional bank deposits and fixed-income instruments, and toward more productive and growth-oriented avenues such as equities, mutual funds, gold, and alternative asset classes.
- This reallocation of capital is expected to inject greater liquidity and investor participation into the capital markets, supporting depth, broadening the investor base, and fueling long-term market development.
- In this context, the shift can be seen as a net positive for the capital markets, promoting a more dynamic and investment-driven economic environment.
- The KSE-100 is currently trading at a PER of 6.4x (2025) compared to its 10-year average of 8.0x offering a dividend yield of ~8.5% compared to its 10-year average of ~6.5%.

## Exhibit: Budget Impact on Different Sectors

Sector	Impact
Market	Positive
Banks	Neutral
Cement	Positive
Power	Positive
Autos	Negative
Textile	Neutral to Positive
Steel	Positive
OMCs	Neutral
IT	Neutral

Source (s): AHL Research

Measure	Impact	Comment
0.5% reduction in super tax income exceeding PKR 200mn but below PKR 500mn	Positive to Neutral	This measure will provide relief to the companies with an income below PKR 500mn. However, the impact of this on listed space will be lower given most of the companies' income are above PKR 500mn.
Imposition of Off Grid Levy (Captive Power plant)	Neutral	The Govt in Budget FY26b has allocated PKR 105bn under a new Off Grid Levy. Keeping in view captive power producers are shifting towards grid, the collection target could be missed.
GST exemption on imported solar panels withdrawn	Positive	The withdrawal of GST exemption on imported solar panel modules will now make them taxable, potentially slowing adoption. While this move may support domestic manufacturers, it could hinder the shift toward solar energy, which has played a key role in reducing reliance on the national grid and easing pressure on the energy supply chain.
Amendments to National Tariff Policy 2025-2030	Neutral	In line with the IMF's Trade Liberalization Plan, the government has launched the first phase of tariff reductions under the National Tariff Policy, targeting the elimination of ACD in four years, RD in five years, and phasing out the 5th Schedule within five years. Additionally, the customs duty structure will be simplified to four slabs: 0%, 5%, 10%, and 15%, with the maximum rate capped at 15%.

Source (s): MOF, AHL Research

Measure	Impact	Comment
Tax rate on profit from debt has been increased to 20%, up from 15% (excluding small investors).	Negative	The upfront 20% tax deduction on interest income is likely to make bank deposits less attractive, potentially prompting a shift toward alternative investments and slowing deposit growth for banks. This measure is expected to generate ~PKR 54bn in additional revenue for the national exchequer.
The withholding tax on cash withdrawals exceeding PKR 50,000 from banks may be increased from 0.6% to 1.2%.	Neutral	Higher withholding tax on large cash withdrawals may discourage customers from withdrawing cash and push some toward informal, undocumented channels, while also encouraging a shift to digital payment methods.
Banks and financial institutions to deduct 5% tax on digital payments to foreign suppliers for goods/services consumed in Pakistan	Neutral	The additional tax cost may reduce demand for digital imports (like software, services, subscriptions), leading to lower transaction volumes through banks.
Ban on operations of bank accounts	Neutral	To promote economic documentation, Sections 14AC, 14AD, and 14AE are proposed to empower authorities with enforcement tools, including restrictions on bank account operations, blocking transfers of immovable property, sealing business premises, seizing assets, and appointing receivers to compel compliance from unregistered persons.

Source (s): MoF, AHL Research

## Our take on the sector:

The aforementioned measures are likely to have neutral impact on banking sector. Despite these measures, we believe the current levels at which banks are trading make them a good 'BUY'. Our top picks are UBL, NBP and MEBL.

Measure	Impact	Comment
PKR 1trn has been allocated for the Federal PSDP and PKR 2.8trn for Provincial PSDP	Positive	PSDP has been proposed at PKR 2.8trn, this will positively impact the demand for the sector.
Mark-up subsidy of PKR 5bn for Low Cost Housing	Positive	The government has allocated PKR 5bn as a mark-up subsidy for low-cost housing. This is expected to support housing activity and benefit cement demand.
Housing Sector Subsidy of PKR 5bn allocated	Positive	The government has allocated PKR 5bn as a direct housing sector subsidy. This should further support demand for cement.

Source (s): MoF, AHL Research

### Our take on the sector:

The FY26 budget takes a pro-construction stance, introducing targeted mark-up subsidies for low-cost housing, aided by easing inflation and falling interest rates. These measures are likely to boost domestic cement demand. Our top pick in the sector is FCCL.

Measure	Impact	Comment
Carbon levy of PKR 2.5/ltr to be imposed on petroleum products	Neutral	It has been proposed to impose a carbon levy of PKR 2.5/litre. This measure is projected to contribute an additional PKR 48bn to the national exchequer. Impact is neutral on OMC sector as it will be passed on.
Imposition of PDL on furnace oil	Neutral	The government has imposed PDL on furnace oil, however rate is not disclosed yet. This cost is likely to be passed on to the consumers.

Source (s): MoF, AHL Research

### Our take on the sector:

These measures are expected to have a neutral impact on the OMC sector, as the imposition of the carbon levy and PDL will likely be passed on to end consumers. Our top pick is PSO in this sector.

Measure	Impact	Comment
Proposal to Eliminate the 10% Cap on the Debt Servicing Surcharge (DSS)	Positive	This measure will enable the Government to secure a PKR 1.2trn loan from commercial banks to help resolve and reduce the circular debt in the power sector.
About PKR 95bn allocated for payment to IPPs	Positive	The government has earmarked PKR 95bn for payments to IPPs in FY26, which is expected to enhance liquidity and strengthen receivables recovery for IPPs.
Allocation of PKR 48bn for Pakistan Energy Revolving Fund (PERA)	Positive	The Govt has budgeted PKR 48bn for Pakistan Energy Revolving Fund (PERA). PERA ensures timely payments to energy stakeholders, especially CPEC-based IPPs, helping stabilize cash flows.
Power subsidy of PKR 1.04trn has been allocated	Neutral	The government has allocated PKR 1.04trn for power sector subsidies in FY26b, a 13% decline from the expected of PKR 1.19trn.
Privatization of DISCOs	Neutral	The government reaffirmed its intent to privatize nine DISCOs.

Source (s): MoF, AHL Research

### Our take on the sector:

The IMF's condition to reduce circular debt, along with the implementation of a revolving account, is expected to ensure more stable cash flows for CPEC-based IPPs. Our top pick in the sector remains HUBC.



Measure	Impact	Comment
Withdrawal of reduced 12.5% GST on vehicles upto 850cc	Neutral to Negative	<p>The removal of the concessional 12.5% GST on 850cc vehicles is anticipated to result in higher prices, as the incremental tax burden is likely to be transferred to end consumers.</p> <p>This withdrawal of reduced GST, in our view, does not apply to hybrids, as the concessional GST under AIDEP 2021-26 remains in effect until 2026. Furthermore, Entry 73 of the Eighth Schedule is still present in the Finance Bill.</p>
Restriction on the purchase of automobiles with engine capacities exceeding 850cc	Negative	The proposed Section 114C of the Finance Bill restricts non-filers from purchasing vehicles over 850cc. This measure is expected to have a negative impact on listed companies as it may lead to a decline in volumetric sales.
Imposition of carbon tax	Neutral	A carbon tax is proposed with the objective of discouraging the use of fossil fuel-based vehicles and promoting cleaner alternatives. This measure will increase the cost of conventional fuel-powered vehicles, which is likely to be passed on to consumers.

Source (s): MoF, AHL Research

## Our take on the sector:

The aforementioned measures are likely to have negative impact on auto sector. The elimination of reduced taxes and imposition of carbon tax on vehicles is expected to reduce the demand for locally assembled vehicles. Our top pick in the sector is INDU.

Measure	Impact	Comment
Sales tax for imported yarn	Positive	In the 2024-2025 budget, sales tax was imposed on local raw material purchases under the Export Facilitation Scheme. This created difficulties for local cotton buyers and textile mills, especially spinning units, as imported yarn remained tax-exempt. To ensure a level playing field, sales tax has now also been applied to imported cotton yarn.
The import of textile machinery and equipment is subject to a 0% tax rate.	Positive	This measure facilitates the smooth import of machinery by removing duty-related barriers.
Increase in sales tax rate	Negative	The reduced sales tax rate on supplies by POS retailers dealing in leather and textile products has been increased from 15% to 18%.

Source (s): MoF, AHL Research

## Our take on the sector:

The aforementioned measures are likely to have neutral to positive impact on textile sector. However, revival of the global economies especially, North American and European markets would recover textile exports. Our top pick is ILP.

Measure	Impact	Comment
PKR 1,000bn allocation for PSDP	Positive	PSDP has been proposed at PKR 1,000bn. While this is slightly lower than last year (PKR 1,100bn), it remains supportive for construction and infrastructure activity, which should benefit the engineering sector.
Gradual removal of exemption on import stage sales tax for the FATA / PATA region	Positive	The government has announced a phased withdrawal of sales tax exemptions for industrial units in FATA and PATA. The exemption will be partially removed in stages: 10% in FY26, 12% in FY27, 14% in FY28, and 16% in FY29. This gradual approach aims to integrate these regions into the national tax system.
Mark-up subsidy of PKR 5bn for Low Cost Housing	Positive	The government has allocated PKR 5bn as a mark-up subsidy for low-cost housing. This is expected to support housing-related construction activity, which will benefit demand for engineering products and materials.
Housing Sector Subsidy of PKR 5bn allocated	Positive	The government has allocated PKR 5bn as a direct housing sector subsidy. This should further drive demand for construction inputs, positively impacting the engineering sector.

Source (s): MoF, AHL Research

## Our take on the sector:

The sector stands to benefit from the phased withdrawal of exemptions in FATA/PATA, stabilization of the exchange rate, and supportive allocations under the PSDP and housing-related subsidies.

Measure	Impact	Comment
<b>Tobacco:</b> Under the Federal Excise Duty Act, special police officers in small cities and rural areas are being trained under SOPs to effectively control tobacco smuggling	Neutral	Legitimate companies will face fairer competition, possibly leading to increased sales of duty-paid tobacco. Also it is expected to boost government revenue by cutting down on smuggling and tax evasion.
<b>Technology:</b> A tax will be charged on payments for digitally ordered goods or services delivered within Pakistan via local online platforms—1% if the amount does not exceed PKR 10,000, and 2% if it exceeds PKR 10,000.	Neutral	This tax may increase costs for sellers and buyers in the short term but helps the government bring the rapidly growing digital economy into the formal tax net
<b>Pharmaceuticals:</b> Reduction of Customs Duties on Import of Active Pharmaceutical Ingredients	Positive	The reduction in customs duties on APIs is expected to support margin improvement and cost competitiveness for local pharmaceutical manufacturers. This is a positive step for the sector's profitability outlook.
<b>Food:</b> Imported retail packaged goods (coffee, chocolate, cereal) included in third schedule	Neutral	With the inclusion of the said products in the third schedule makes them taxable. The tax burden of importers will witness an increase, while their cash flow and pricing will be affected. The importers will pass on the impact by increasing prices.
GST exemption on bun and rusk	Positive	With the reduction in GST, the local producers could witness improvement in margins.
<b>Transport:</b> Exemption of sales tax on import or lease of aircrafts of PIA	Positive	Sales tax exemption on the import or lease of aircraft helps airlines reduce high upfront costs. It also lowers operational expenses and supports better financial planning.

Source (s): MoF, AHL Research

Measure	Impact	Comment
Housing subsidy of PKR 5bn proposed	Positive	The real estate had been ailing for the past few years. These development, if approved, could revive the sector and supporting industries (i.e cement, steel, etc).
Removal of FED and decrease advance tax on purchase of immovable property	Positive	Federal excise duty on the allotment and transfer of residential and commercial plots, imposed through the Finance Act, 2024, is now proposed to be withdrawn.
Source (s): MoF, AHL Research		

## Exhibit: Advance tax on sale or transfer of immovable property

S. No.	Gross Amount (PKR)	Old Tax Rate	Revised Tax Rate
1	Below 50mn	3.0%	4.5%
2	50mn - 100mn	3.5%	5.0%
3	Above 100mn	4.0%	5.5%
Source (s): MoF, AHL Research			

## Exhibit: Advance tax on purchase of immovable property

S. No.	Fair Market Value (PKR)	Old Tax Rate	Revised Tax Rate
1	Below 50mn	3.0%	1.5%
2	50mn - 100mn	3.5%	2.0%
3	Above 100mn	4.0%	2.5%
Source (s): MoF, AHL Research			

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Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec 2025 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +15% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between 0% and +15% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than 0% from last closing of market price(s)

#### Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

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

**Risks:** The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk

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Arif Habib Limited (AHL) has a shareholding in PPL, OGDC, NBP, AKBL, BOP, FFC, FCCL, DGKC, MLCF, PSO and HUBC.