FEDERAL BUDGET FY26

Reforming Where It Hurts

Dated: 11th June, 2025

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Table of Content

Executive Summary

The Federal Budget for FY26 aims to address the IMF's longstanding demands by targeting the informal economy, streamlining the size of the government, and phasing out subsidies and tax exemptions. Furthermore, fiscal numbers not only look believable but also achievable. Growth target, however, seems a bit ambitious. The budget not only restricts undocumented individuals from acquiring assets, but also seeks to disrupt their business activities by limiting the ability of registered taxpayers to claim deductions on purchases made from non-filers. The budget prioritizes real direct investment by maintaining capital gains and dividend tax rates on equities, while increasing taxes on profit from debt instruments and dividends from mutual funds. Remaining cognizant of the middle class's declining purchasing power, the budget rationalizes income tax on salaried individuals to support disposable income and economic growth. Given the formal sector's pivotal role in driving equity market flows, this measure is likely to have a materially positive impact on the stock market.

Budget in numbers

- The federal government projects total budgetary outlay of PKR17.6 trillion, up 1.9% YoY and net revenue receipts of PKR 11.1 trillion, up 13.2% YoY.
- Overall fiscal deficit is projected to reach PKR 5.0 trillion or 3.9% of GDP, helped by an expected provincial surplus of PKR 1.5 trillion or 1.1% of GDP.

Fiscal targets

- **FBR revenue targets:** The projected 18.4% growth in direct tax collections appears to be driven primarily by higher taxation on profit from debt instruments and a broader formal tax base. In contrast, growth in indirect taxes is expected to stem from the withdrawal of tax exemptions.
- **Petroleum levy:** A 26.4% increase in Petroleum Development Levy (PDL) collections is projected, supported by the rate hikes implemented toward the end of FY25 and imposition of levy on furnace oil in the FY26 budget.
- **Debt servicing expense:** Debt servicing expenditure is budgeted to decline by 8.2% to PKR 8.2 trillion in FY26, reflecting lower interest rates and reduced borrowing requirements.

Executive Summary (Cont'd)

- **Move up or move out**
  - The Federal Budget for FY26 marks a significant shift in tariff policy, with a clear focus on rationalizing protection for low value-added industries. Tariff slabs of 5%, 10%, and 15%—primarily applicable to raw materials and intermediate goods—have each been reduced by 1 percentage point, initiating a phased reduction process expected to continue over the next five years. In addition, reductions in Additional Customs Duties (ACDs) and the erosion of Regulatory Duty (RD) cover further signal a shift toward a more open, efficiency-driven trade regime.
  - This policy signals a stark warning to industries reliant solely on low value-added production: evolve or exit. The government's intent is to push firms to move up the value chain through vertical integration and value addition. The underlying rationale is that industries in which Pakistan lacks a natural comparative advantage—based on factors of production—should focus on importing inputs and creating value, rather than relying on protective tariffs to survive.
  - While these measures may appear excessive or abrupt, they are essential for building a sustainable industrial and export base over the long term.

- **Tightening the noose on black economy**
  - The Federal Budget for FY26 marks a strategic shift in the government's documentation drive—pivoting the focus from non-registered individuals to those already registered in the tax net. Departing from the traditional approach of penalizing non-filers and urging them to become filers, the new strategy targets compliance by restricting registered taxpayers from claiming deductions or input credits on purchases from unregistered entities. This effectively places the burden of enforcement on the formal sector, discouraging trade with the undocumented economy and forcing greater integration into the formal tax system.
  - This approach is being implemented not only across industrial sectors but also on online platforms, making it increasingly difficult for unregistered individuals to conduct business. By restricting their access to formal supply chains and reducing profitability, the policy makes tax registration a far more economically viable option.

Executive Summary (Cont'd)

- ## Real estate friendly

- The budget introduces proportionate tax credit on profit earned from debt obtained for the construction or acquisition of a house measuring up to 250 square yards, or a flat of up to 2,000 square feet. Additionally, the Federal Excise Duty (FED) on the allotment or transfer of residential and commercial property has been withdrawn.

- At first glance, a 10% decline in the federal PSDP allocation for FY26 may suggest a reduced government focus on development. However, when viewed at the national level, total PSDP allocation has actually increased by 14.8% year-over-year to PKR 4.2 trillion—signaling a broader development push.

- ## Positive for the market

- The reduction in tax burden on the salaried class, coupled with a marginal cut in super tax, is likely to boost consumer sentiment and support corporate profitability. Furthermore, the absence of aggressive taxation measures targeting listed sectors helps lift a key overhang risk that has historically dampened investor confidence.

- The FY26 budget also enhances the relative attractiveness of listed equities—particularly dividend-yielding stocks—by increasing the tax burden on profit from debt instruments and dividends from mutual funds. This shift in tax policy may encourage capital reallocation toward the equity market, potentially unlocking a re-rating of valuations closer to their fundamental potential.

  – **The budget is positive** for Auto Assemblers & Parts, Pharmaceutical and Construction sectors.

  – **The budget is neutral** for Banks, Chemicals, Technology, E&P, Refinery, Textile, Food and Fertilizers.

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SECTION 1

Fiscal Summary

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Fiscal Summary

PKR Billion (Year to June)	FY25				FY26		
	Budget	Revised	+/-	%GDP	Budget	+/-	%GDP
FBR Revenues	**12,970**	**11,900**	**-8.2%**	**10.4%**	**14,131**	**18.7%**	**10.9%**
Non-Tax Revenue	**4,845**	**4,902**	**1.2%**	**4.3%**	**5,147**	**5.0%**	**4.0%**
Petroleum Levy	1,281	1161	-9.4%	1.0%	1,468	26.5%	1.1%
Other Taxes	27	28	2.0%	0.0%	33	15.8%	0.0%
PSE dividends	139	198	42.5%	0.2%	206.1	4.1%	0.2%
Pak Telecom Authority	44	29	-33.7%	0.0%	29	1.2%	0.0%
SBP Profits	2,500	2,620	4.8%	2.3%	2,400	-8.4%	1.9%
Interest (Provinces/PSEs)	294	245	-16.6%	0.2%	283	15.6%	0.2%
Defense receipts	42	35	-18.4%	0.0%	35	2.4%	0.0%
Oil/Gas Revenues	191	202	5.9%	0.2%	212	4.9%	0.2%
Other non-tax	327	384	17.7%	0.3%	479	24.8%	0.4%
Gross Revenue Receipts	**17,815**	**16,802**	**-5.7%**	**14.6%**	**19,278**	**14.7%**	**14.9%**
Less: Provincial Transfers	-7,438	-6,997	-5.9%	-6.1%	-8,206	17.3%	-6.3%
Net Revenue Receipts	**10,377**	**9,805**	**-5.5%**	**8.5%**	**11,072**	**12.9%**	**8.5%**

Source: Akseer Research, Federal Budget 2025-26

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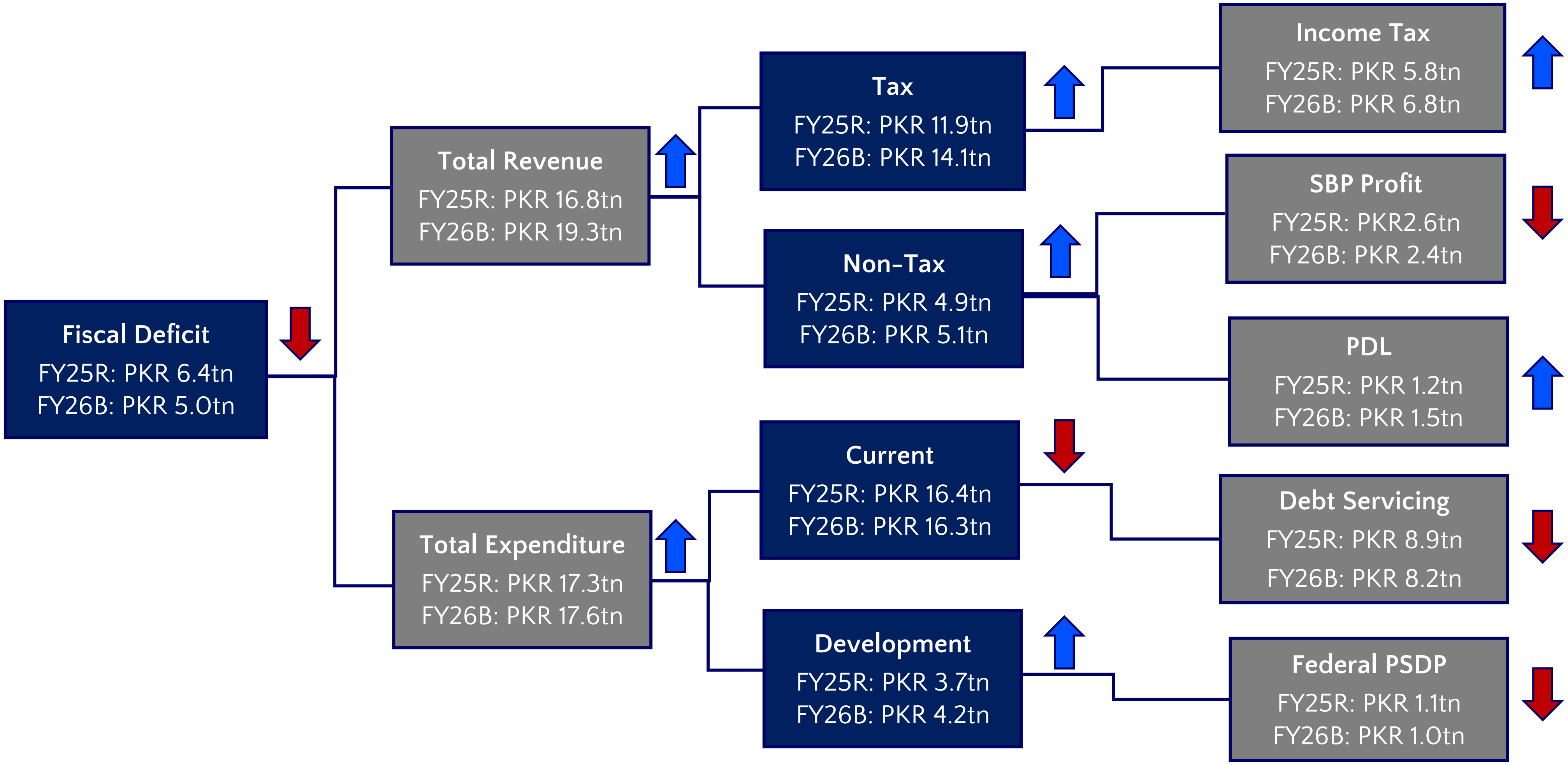
Fiscal Summary

PKR Billion (Year to June)	FY25				FY26		
	Budget	Revised	+/-	%GDP	Budget	+/-	%GDP
Current Expenditure	**17,203**	**16,390**	**-4.7%**	**14.3%**	**16,286**	**-0.6%**	**12.6%**
Debt Servicing	9,775	8,945	-8.5%	7.8%	8,207	-8.3%	6.3%
Defense	2,122	1,854	-12.6%	1.6%	2,550	37.5%	2.0%
Subsidies (current)	1,363	1,378	1.1%	1.2%	1,186	-14.0%	0.9%
BISP	592.48	592.383	0.0%	0.5%	716	20.9%	0.6%
Others	3,350	3,620	8.0%	3.2%	3,627	0.2%	2.8%
PSDP – Federal (Net)	**1,697**	**1,100**	**-35.2%**	**1.0%**	**1,355**	**23.2%**	**1.0%**
Gross PSDP	3,792	3,680	-3.0%	3.2%	4,224	14.8%	3.3%
Less: Provincial Share	-2,095	-2,383	13.7%	-2.1%	-2,869	20.4%	-2.2%
Other Development Expenditure	**0**	**0**	**n.a.**	**0.0%**	**0**	**n.a.**	**0.0%**
Total Expenditure	**18,877**	**17,249**	**-8.6%**	**15.0%**	**17,573**	**1.9%**	**13.6%**
Federal Fiscal Deficit	**-8,500**	**-7,444**	**-12.4%**	**-6.5%**	**-6,501**	**-12.7%**	**-5.0%**
Provincial Cash Balance	1,217	1,009	-17.1%	0.9%	1,464	45.1%	1.1%
Consolidated Fiscal Deficit (incl. grants)	**-7,283**	**-6,435**	**-11.6%**	**-5.6%**	**-5,037**	**-21.7%**	**-3.9%**
%GDP	-5.87%	-5.61%	-4.4%	0.0%	-3.89%	-30.7%	0.0%
Primary Fiscal Deficit	**2492.2**	**2510.46**	**0.7%**	**2.2%**	**3169.75**	**26.3%**	**2.4%**
%GDP	2.01%	2.19%	9.0%	0.0%	2.45%	11.8%	0.0%
GDP (Market Price)	**124,150**	**114,692**	**-7.6%**	**100.0%**	**129,567**	**13.0%**	**100.0%**

Source: Akseer Research, Federal Budget 2025-26

Budget FY26: Fiscal Landscape



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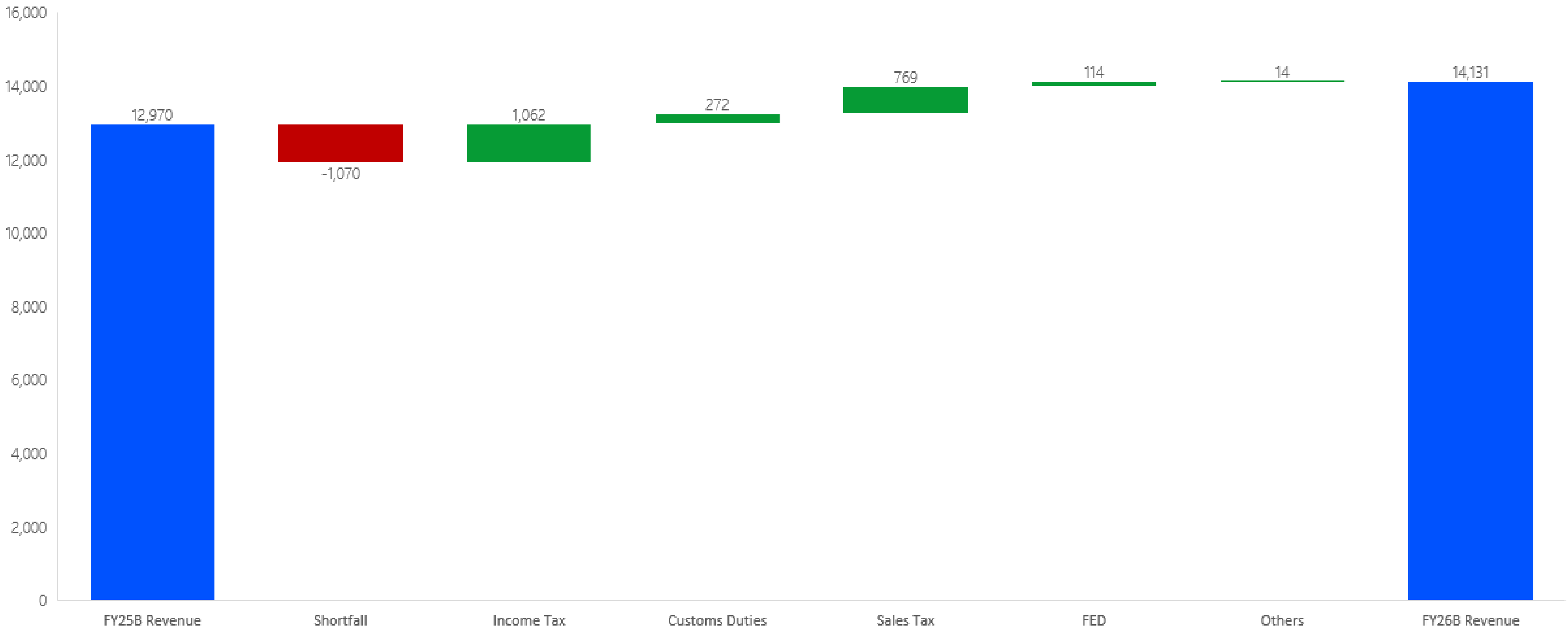
Tax Revenue growth for FY26



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Budget Snapshot

1

Budget FY26 inline with IMF mandate

The FY26 budget aligns with the IMF's core demands for sustained austerity, reduced subsidies, and a higher primary surplus. A key condition includes designing a budget framework that ensures broadening of the tax base and meaningful fiscal consolidation.

2

Tax collection target

FBR aims to increase tax revenue by 18.7%YoY to PKR14.131tn. The measures include a wide array of proposals to strengthen the documentation drive. Therefore, income tax collection is estimated 18.4%YoY higher at PKR6.8tn.

3

Non-tax revenue growth tapering

The government has projected a modest 5% growth in non-tax revenues, reaching PKR5.1tn. Increased collections from the Petroleum Development Levy (PDL) and Carbon Levy are expected to offset a substantial decline in SBP profits.

4

Current expenditure scaled up

Budget FY26 targets current expenditure almost flat at 17.6tn, up ~2%YoY. Markup and subsidies are expected to drop 8.3%YoY and 13.9%YoY, while defence is expected to rise 16.9%. PSDP is also budgeted flat at 1.0tn.

5

Fiscal balance improvement

Fiscal deficit is expected to reduce to 3.9% in response to easing burden of markup payments amid reducing price pressures.

6

Funding the fiscal gap

Government plans to fund just PKR100bn through external financing while PKR6.3tn will be borrowed locally through govt securities and NSS.

7

Key economic projections

GDP growth has been projected to grow at 4.2%. CPI Inflation is expected to climb slightly to 7.5% in FY26 from 4.7% (FY25E).

8

Sector Summary

Gainers: Auto, Pharma & Cements
Losers: Chemicals
Neutral: Banks and Textiles

SECTION 2

Redefining trade

Gradual reduction in duty protection for industries

- Pakistan is undertaking a strategic shift in its industrial policy by channeling capital toward sectors where the country holds a natural competitive advantage and where minimal tariff protection is required. As part of the Tariff Rationalization Plan, customs duty slabs will be progressively reduced over the coming years. The primary objective is to incentivize industries to upgrade their capabilities and move up the value chain, fostering a more efficient, export-oriented industrial base.
- **Custom duty reduction plan**
- Duties on raw materials will be flat 0%
- Intermediate goods will face partial reduction in duties
- Consumer goods retained CD of 20%
- **Additional custom duties to be phased out**
- All ACD slabs will be gradually phased out to zero in 4 years
- **Significant reduction in regulatory duties**
- RD cover to be phased out in the next five years; yet to be notified through SRO.

Custom Duty	
Current slab	**New slab**
3%	0%
	5%
11%	10%
16%	15%
20%	20%

Additional Custom Duty		
Custom duty	**Current ACD**	**New ACD**
0%	2%	0%
3%	2%	0%
11%	2%	0%
16%	4%	2%
20%	6%	4%
>20%	7%	6%

Comprehensive Cargo Tracking System

- The government has proposed a new cargo tracking system under Section 83C of the Finance Bill 2025 to curb smuggling and improve tax compliance.
- **Key highlights:**
- **Mandatory e-Bilty:** All import, export, transit, and transshipment consignments within Pakistan must be electronically tracked through a digital "e-bilty."
- **Real-Time Monitoring:** FBR will implement and maintain the system using technological tools, with the authority to charge operational fees.
- **Penalties:**
  - Rs50,000 for the first offence
  - Rs500,000 for the second
  - Up to Rs1 million and confiscation of goods and vehicle for repeated violations.
- Exemptions: Shipments below certain value or distance limits, or specifically notified goods, will be exempt.
- The system aims to ensure transparency and accountability in cargo movement nationwide.

Tightening the noose on under-invoicing and black economy

- Under the proposed law, any vehicle detained and found—through forensic analysis—to have a tampered, re-stamped, or altered chassis (e.g., cut-and-weld, filled with welding material, or body swapped) will be presumed smuggled and subject to confiscation, regardless of its registration status.
- Every online marketplace or a courier, involved in e-commerce by supplying digitally ordered goods from within Pakistan, shall not allow any person to use their services to carry out e-commerce transactions unless it is registered under sales tax and income tax.
- The Commissioner shall have the powers to bar operation of the bank account, transfer of immovable property, seal the business premises, seize moveable property, appoint a receiver for the management of the taxable activity of a person who fails to get registered in sales tax.
- Introduction of Section 114C: Restriction on economic transactions by certain persons. The govt. has proposed to add 114C section in the finance bill which will impose restriction on economic transactions for non-tax filers. i.e., purchase of securities above a threshold, purchase of autos above 850cc, opening of a bank account of IPS account except for Asaan Account.
- A flat 4% Fair Market Value (FMV) notified rates by Board or deputy collector proposed to be annual rental value of commercial properties unless actual rent declared justified through evidence.
- It has been proposed that any purchase from an unregistered person will make the purchaser liable, shifting the focus to those buying from the unregulated market. In such cases, 10% of the purchase-related expenditure will not be allowed.
- 50% of the expenditure related to purchases will not be allowed in case the payment is received in cash against a single invoiced sale transaction exceeding PKR 200,000 by a vendor.

SECTION 3

Stock Market Impact

Impact on Stock Market

The Federal Budget for FY26 is likely to be positive for the stock market.

- **Taxes on equities remain unchanged**
  - Dividend tax rate enhanced to 25% and 15% from mutual funds
  - Tax rate on profit on debt increased from 15% to 20%
  - Super tax reduced by 0.5ppts for income slabs between PKR200-500mn
  - Rationalization of tax rates on salaried class
- **Shielded from negative**
  - Several negative proposals relating to automobile, fertilizer and processed food were avoided by the budget.
- **Focus back on growth – but sustainable**
  - GDP growth target of 4.2%
  - Development budget increased
  - CD/ACD on raw materials reduced

Stock Market/ Sectors	Impact
PSX Overall	Positive
Auto Assemblers & Parts	Positive
Pharmaceutical	Positive
Cement & Steel	Positive
Banks	Neutral
Textile & Leather	Neutral
Chemicals	Negative

Sectoral impact

Auto Assemblers & Parts	Neutral to Positive

Key Measures

Positive

- Concessional duty regime on electric vehicles (EVs) extended for one more year.
- No increase in GST on HEVs upto 1,800cc
- No change in the age limit for used car imports

Negative

- Non-filers will not be able to buy pickups above 800cc
- GST on motor cars up to 850cc increased from 12.5% to 18%

Impact

- The budget successfully avoided several feared negative measures
- Pak Suzuki Motor Company (PSMC) remains the only local manufacturer producing vehicles under 850cc—and is not a listed entity

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Sectoral impact

Pharmaceutical	Positive
Key Measures **Positive** – Reduction in CD and ACD on import of raw materials – Exemption of customs duties on import of Bovine Lipid Extract Surfactant (BLES)	**Impact** – Reduction in customs duties on majority raw materials, such as paracetamol, is expected to lower manufacturing costs and improve product margins for pharmaceutical manufacturers.

Banks	Neutral
Key Measures **Negative** – Potential restriction on the opening and operation of bank accounts by non-registered individuals	**Impact** – May slow down deposit growth

Sectoral impact

Cement & Steel — Neutral to Positive

Key Measures

Positive

- National PSDP allocation of PKR 4.2tn, 14.8% higher than the previous year.
- Phased withdrawal of sales tax exemption granted to FATA/PATA.
- Proportionate tax credit on profit on debt obtained for construction or acquisition of a house of 250 sq. yards or a flat of 2000 sq. feet or less
- Withdrawal on FED on allotment or transfer of residential/commercial property
- Advance tax on purchase of property reduced

Negative

- Reduced duty cover on flat and long rolled steels
- Extension of Income Tax exemption for one year i.e., up to 30th June 2026 for resident persons of FATA/PATA
- Imposition of 15% capital gains tax on gains from disposal of immovable property acquired on or after 01st July 2024 by filers. Capital gains for non-filers will be treated as part of normal income.
- Advance tax on sale or transfer of property increased

Impact

- Phased withdrawal of sales tax exemption in FATA/PATA may bode well for the steel sector.
- The PSDP allocation has increased by 14.8%. However, unlike previous years the targets seems achievable.
- The continuation of income tax exemption for FATA/PATA may contribute to continuation of steel dumping from FATA/PATA to other regions of the country.

Sectoral impact

Chemicals	Negative

Key Measures

Negative

- Reduction of Custom and Additional Custom duties.

Impact

- Companies operating in southern region may see margin erosion due to reduced pricing power

Textile & Leather	Negative

Key Measures

Negative

- Reduction of Custom and Additional Custom duties.

Impact

- Positive for value-added producers
- Negative for yarn and fabric manufacturers

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Dividends to govt. from listed companies FY26B

PKRmn	FY25 Budget	FY25 Revised	FY26 Budget
NBP	50	0	75
Pakistan Petroleum Limited*	18,000	38,995	42,995
Mari Gas Company Limited	4,500	3,573	3,573
Pakistan State Oil	1,500	1,500	1,500
SNGPL	2,000	2,500	2,500
OGDCL*	62,000	95,420	94,489
Pak Reinsurance Corporation	1,000	944	944
Fauji Fertilizer Co. Ltd	120	277	277
National Shipping Corp	2,000	4,625	4,625
PTCL	2,000	2,000	2,000

*includes BESOS

SECTION 4

Revenue and Relief Measures

Revenue measures

- Carbon levy imposed @2.5/liter on Petrol and Diesel for FY26 which shall enhance to PKR5.0/liter in FY27. Estimated revenue impact PKR42bn.
- Carbon levy @PKR2,665/MT on furnace oil, which shall enhance to PKR5,330/MT in FY27. Estimated revenue impact PKR2bn.
- Imposition of PDL on furnace oil.
- De-minimis limit lowered from PKR5,000 to PKR500 to capture e-commerce imports.
- Payment intermediaries and couriers will handle tax collection at an increased withholding rate of 2% on e-commerce activities.
- Sales tax exemption withdrawn on FATA/PANA industries with a GST of 10% in FY26 gradually rising to 16% in FY29.
- Sales tax exemption withdrawn on photovoltaic cells.
- Sales tax increased to 18% from 12.5% on locally assembled motorcars upto 850cc.
- Tax rate on profit on debt increased from 15% to 20%.
- The dividend tax rate has been enhanced to 25% and 15%, in case of mutual funds, contingent upon proportional income derived from average annual investments in debt securities and equities respectively.
- Advance adjustable tax rate on cash withdrawal increased to 0.8% from 0.6%.
- Turnover tax adjustment carryover limit reduced to 2 years from 3 years.
- A 5% tax will be levied on pension incomes exceeding Rs10 million annually for individuals under the age of 70.

Revised Tax Slabs for Salaried Individuals

Proposed Slabs and Tax Rates for Salaried Individuals/AOPs	
Below Rs. 600,000	0%
Rs. 600,000 to Rs. 1,200,000	1% of the amount exceeding Rs. 600,000
Rs. 1,200,000 to Rs. 2,200,000	Rs. 6,000 + 11% of the amount exceeding Rs. 1,200,000
Rs. 2,200,000 to Rs. 3,200,000	Rs. 116,000 + 23% of the amount exceeding Rs. 2,200,000
Rs. 3,200,000 to Rs. 4,100,000	Rs. 346,000 + 30% of the amount exceeding Rs. 3,200,000
Above Rs. 4,100,000	616,000 + 35% of the amount exceeding Rs. 4,100,000
Current Slabs and Tax Rate for Salaried Individuals/AOPs	
Below Rs. 600,000	0%
Rs. 600,000 to Rs. 1,200,000	5% of the amount exceeding Rs. 600,000
Rs. 1,200,000 to Rs. 2,200,000	Rs. 30,000 + 15 % of the amount exceeding Rs. 1,200,000
Rs. 2,200,000 to Rs. 3,200,000	Rs. 180,000 + 25% of the amount exceeding Rs. 2,200,000
Rs. 3,200,000 to Rs. 4,100,000	Rs. 430,000 + 30% of the amount exceeding Rs. 3,200,000
Above Rs. 4,100,000	Rs. 700,000 + 35% of the amount exceeding Rs. 4,100,000

Source: Akseer Research, Federal Budget 2024-25

Relief measures

- Supertax reduced by 0.5ppts for income slabs between PKR200-500mn
- Rationalization of tax rates on salaried class in addition to reduction of 1ppt reduction in surcharge rate to 9% from 10% for high income slabs.
- Proportionate tax credit on profit on debt obtained for construction or acquisition of a house of 250 sq. yards or a flat of 2000 sq. feet or less
- Bun and rusk exempted from sales tax (currently GST at 10%)
- Withdrawal on FED on allotment or transfer of residential/commercial property.
- Upper cap removed on profit on debt (previous ceiling 5mn) under final tax regime for individuals and Association of Persons (AOP).
- Advance tax on immovable property reduced by 150 bps.

SECTION 5

Analytical Review of the Budget

GDP Growth Projected at 4.2% as Fiscal Contraction Eases

- **GDP Growth to Rise to 4.2% in FY26**
  - The Government of Pakistan projects GDP growth to accelerate to 4.2% in FY26, up from 2.7% in FY25. This improvement is expected to be driven by a 4.5% expansion in agriculture, 4.0% in services, 4.7% in manufacturing, and 4.4% in commodity.
  - In contrast, FY25 saw only marginal improvement in overall growth, primarily due to adverse weather patterns that disrupted crop production and weighed on agricultural output.
- **Inflation to remain muted**
  - Inflation expectations remain muted, supported by fiscal discipline, subdued international commodity prices, and limited anticipated depreciation of the Pakistani Rupee.
- **Uptrend in Tax to GDP to continue**
  - The ongoing documentation drive, coupled with signs of economic revival, is expected to sustain the momentum in tax base expansion.
  - The tax-to-GDP ratio improved by 70 basis points in FY25, reflecting progress in fiscal mobilization efforts.

Macroeconomic Indicators	FY23	FY24	FY25	FY26B
Inflation	29.2%	23.8%	23.5%	7.5%
Fiscal Deficit	7.0%	7.4%	5.6%	3.9%
Tax to GDP	9.3%	9.7%	10.4%	10.9%
GDP	0.2%	2.4%	2.7%	4.2%

Sector-wise GDP growth	FY23	FY24	FY25R	FY26B
Agriculture	2.2%	6.4%	0.6%	4.5%
-- Crops	0.5%	17.1%	-13.5%	6.7%
-- Livestock	3.7%	4.4%	4.7%	4.2%
Manufacturing	-5.3%	3.0%	1.3%	4.7%
Commodity Producing Sector	-0.6%	3.0%	2.3%	4.4%
Services	0.0%	2.2%	2.9%	4.0%
-- Wholesale & Retail Trade	-4.0%	3.3%	0.1%	3.9%
-- Transport and Storage	3.8%	1.5%	2.2%	3.4%
-- Real Estate Activities	3.7%	3.7%	3.7%	4.2%

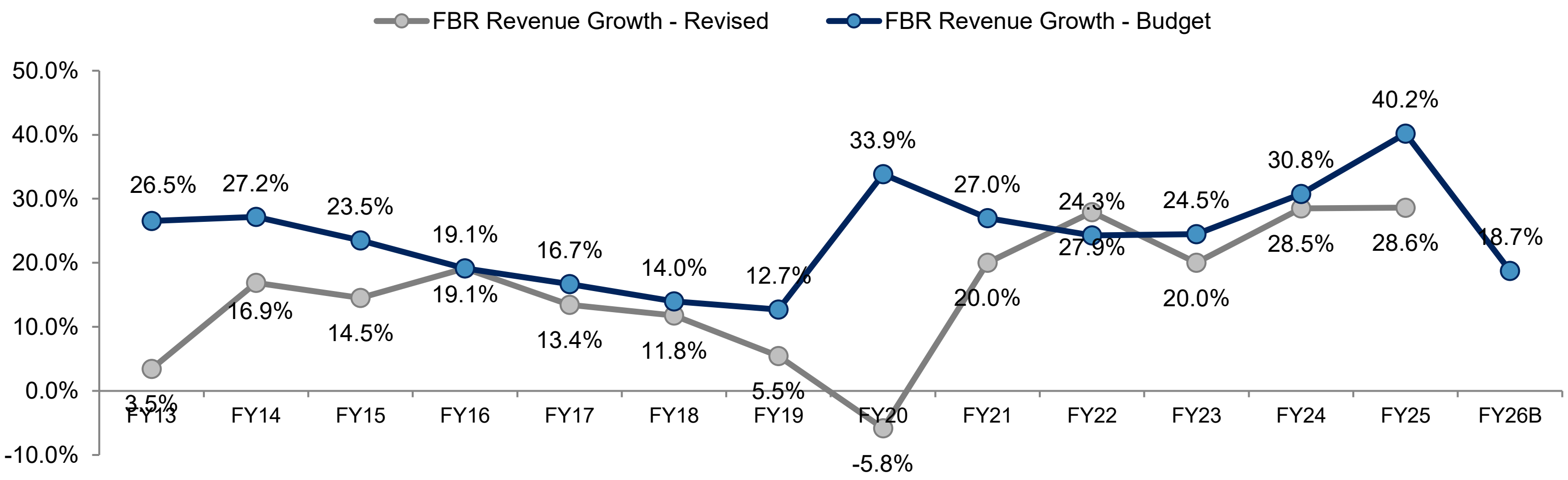
Source: Akseer Research, Federal Budget 2025-26

FBR revenue collection targets

- FBR tax collection is projected to grow by 18.8% year-on-year, reaching PKR 14.1 trillion in FY26.
- Unlike historical trends, where revenue growth was predominantly driven by indirect taxes, this year's increase is expected to come from a more balanced contribution between direct and indirect taxes.

FBR Taxes (PKR bn)	FY25B	FY25R	FY26B	+/-
FBR Tax (1+2)	**12,970**	**11,900**	**14,131**	**18.75%**
1. Direct Taxes	5,512	5,826	6,902	18.47%
2. Indirect Taxes	7,458	6,074	7,229	19.02%
Breakup of direct taxes				
-- Income Tax	5,454	5,749	6,811	18.47%
-- WPPF	26	40	48	18.47%

Indirect Taxes	FY25B	FY25R	FY26B	+/-
-- Customs Duties	1,591	1,316	1,588	20.7%
-- Sales Tax	4,919	3,984	4,753	19.3%
-- Federal Excise	948	774	888	14.7%



Source: Akseer Research, Federal Budget 2025-26

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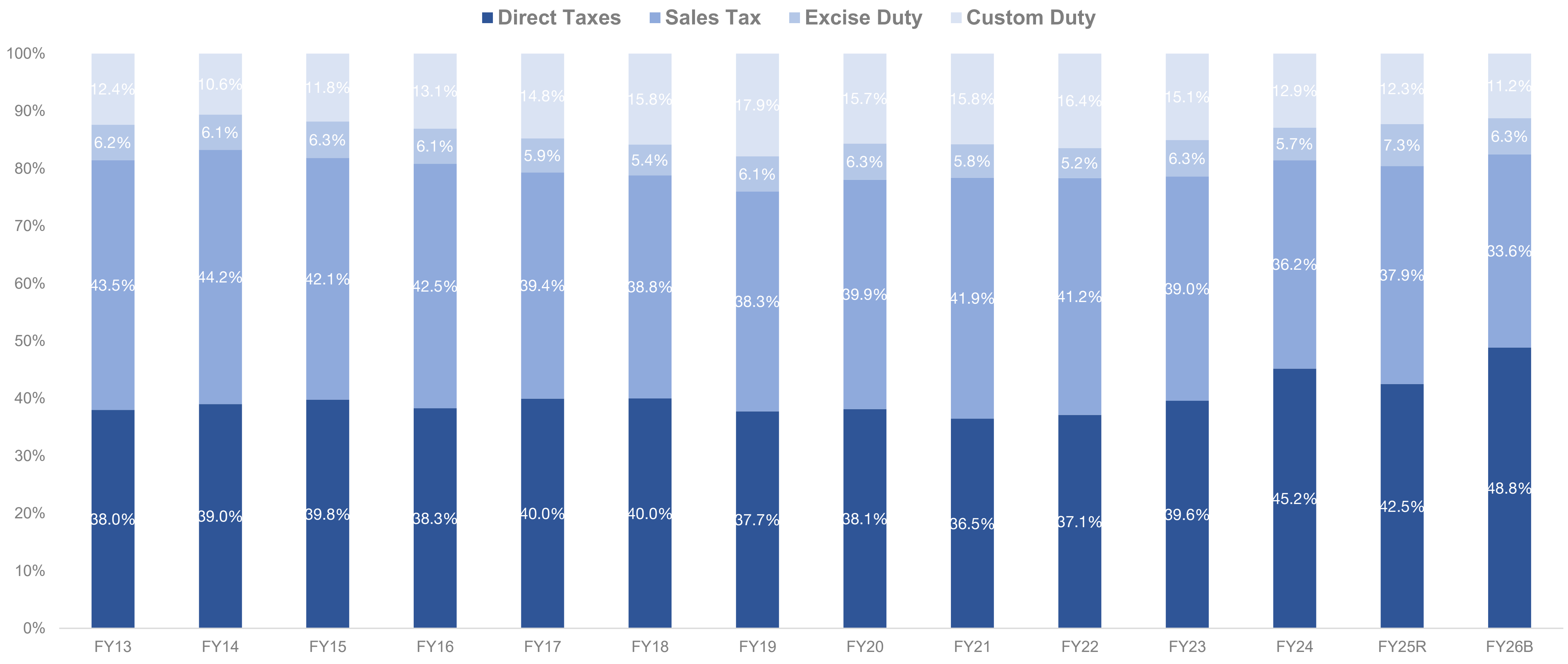
Breakup of FBR Taxes



Source: Akseer Research, Federal Budget 2025-26

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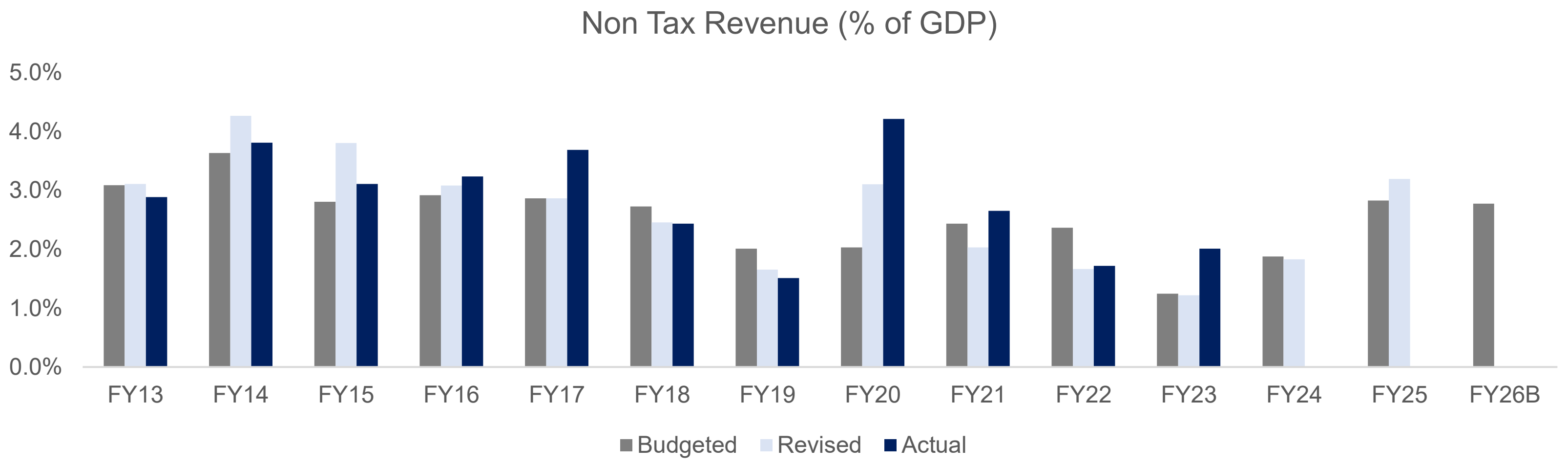
FY26 Non tax revenue flattish, SBP profits decline 8%...

- **Meagre growth in non-tax revenues**
  - GoP is projecting a 5% growth in non-tax revenues in FY26.
  - SBP, though lower, would still be the largest contributor in non-tax revenues. However, petroleum and off grid levy will contribute 30.5% combined in FY26.
- **Falling interest rates – So are SBP profits**
  - GoP is projecting an 8% decline in SBP profits in FY26.
  - Despite continued OMO requirements to bridge fiscal financing gaps, declining interest rates have broken the SBP growth streak.

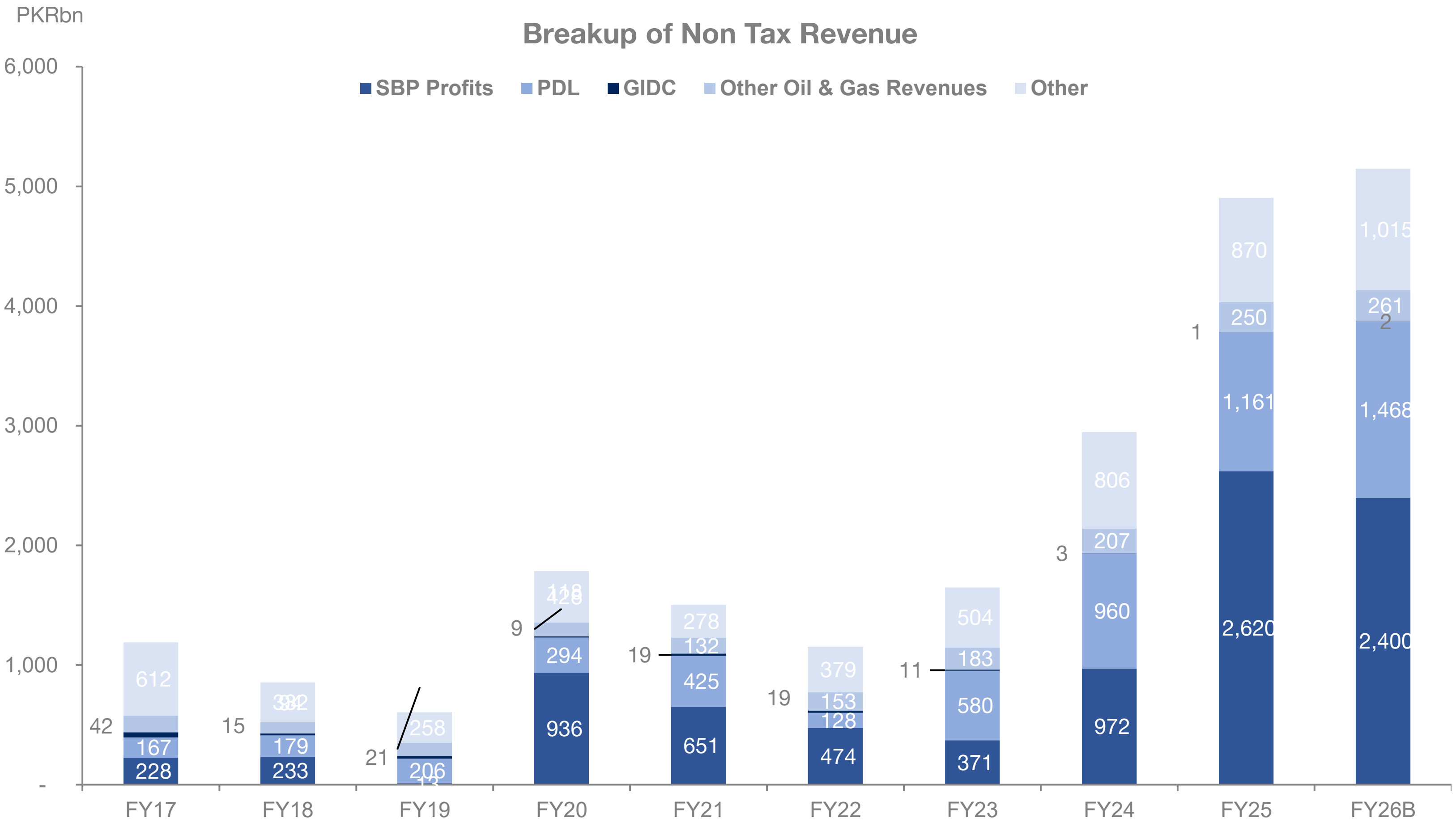
Non-tax Revenue	FY25B	FY25R	FY26B	+/-
Non-tax Revenue	**4,845**	**4,902**	**5,147**	**5%**
SBP Profits	2,500	2,619	2,400	-8%
Petroleum Levy	1,281	1,161	1,468	26%
Gas Development Surcharge / GIDC	26	48	49	3%
Off the Grid (Captive Power Plants) Levy	-	-	105	N/A
Dividends	139	198	206	4%
Other Non-tax	899	876	919	5%



Source: Akseer Research, Federal Budget 2025-26

… while petroleum levy grows 26%

- **Petroleum levy growth driven by higher levy rates**
  - GoP is projecting a 26% increase in petroleum levy collection in FY26
  - Bulk of the growth is attributable to the increase in rates of petroleum levy (late last year) along with the expectation of some volumetric growth
  - GoP has imposed petroleum levy on furnace oil



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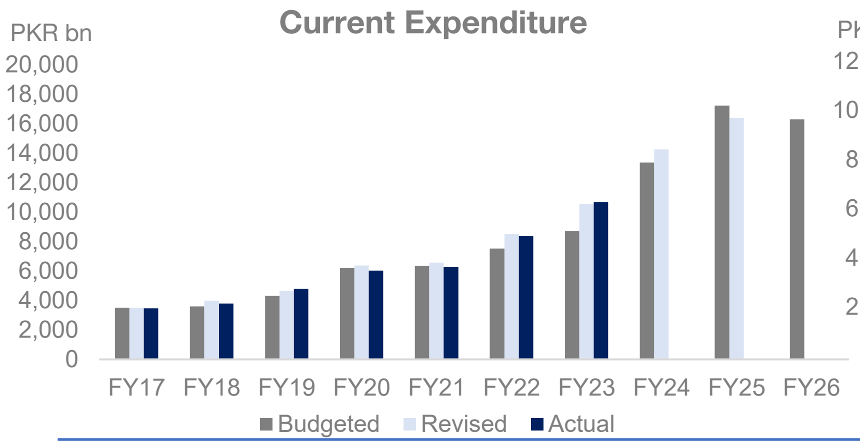
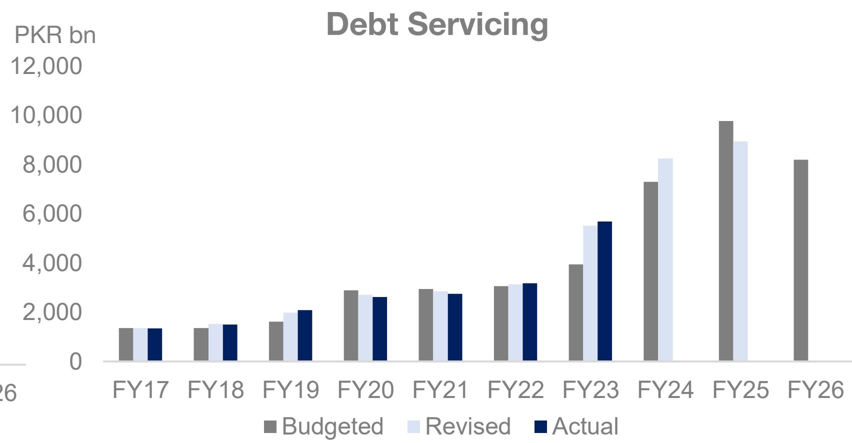
Current expenditures target seems achievable

- **Allocation for current expenditures**
  - The Government of Pakistan has allocated PKR 16.3 trillion for current expenditures in FY26, reflecting a 0.6% YoY decline
  - A muted increase in pensions and defense spending, along with a significant reduction in debt servicing and subsidies, is expected to keep overall current expenditures contained
- **Development budget down for a change**
  - The FY26 budget marks a rare instance where the federal development budget has seen a significant year-on-year decline, underscoring the government's renewed commitment to fiscal discipline



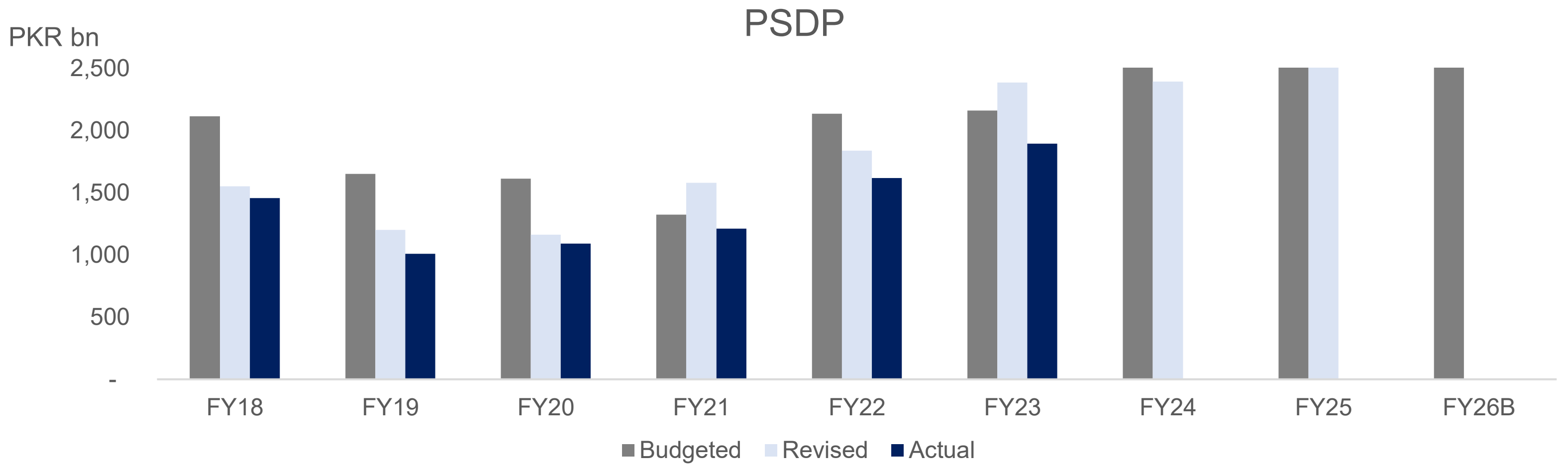


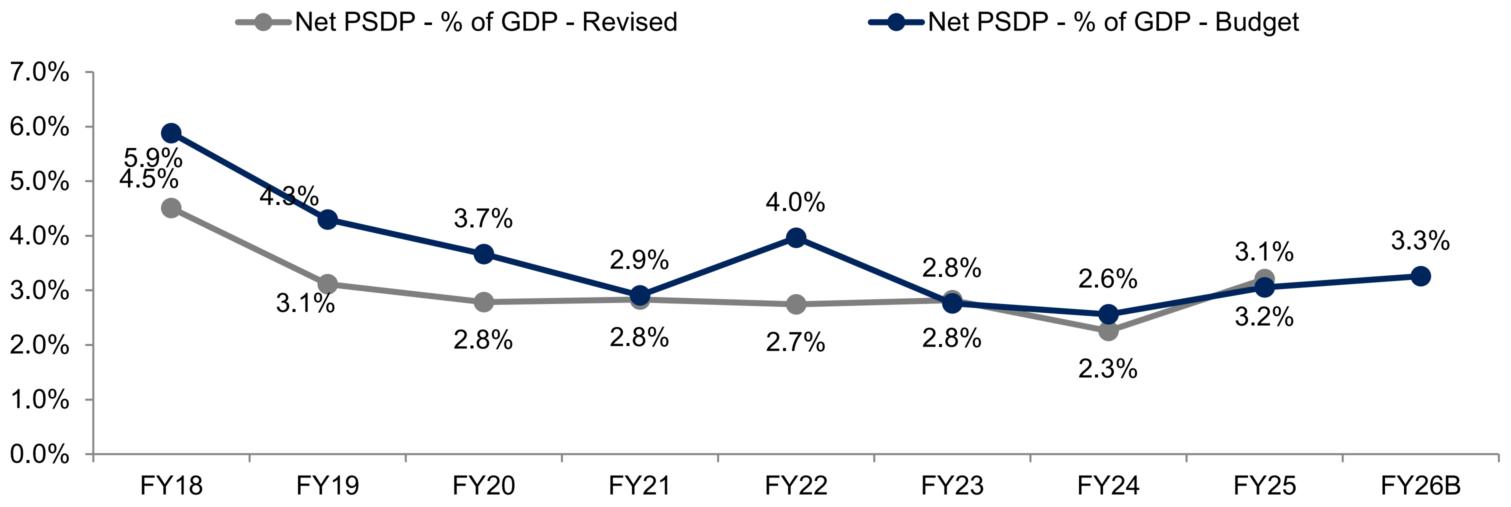
PKR Bn	FY25B	FY25R	% of GDP	FY26B	% of GDP	YoY Change %
Current Expenditure	17,203	16,390	14.3%	16,286	12.6%	-0.6%
Debt	9,775	8,945	7.8%	8,207	6.3%	-8.3%
Defense	2,122	2,181	1.6%	2,550	2.0%	17.0%
Subsidies	1,363	1,378	1.2%	1,186	0.9%	-14.0%
Pension	1,014	1,014	0.9%	1,055	0.8%	4.0%
Grants & Transfers	1,777	1,761	1.5%	1,928	1.5%	9.4%
Running of Civil Govt	839	886	0.8%	971	0.7%	9.6%
Other	313	551	0.5%	389	0.3%	-29.3%
Development	1,400	1,100	1.0%	1,000	0.8%	-9.1%
Net Lending	190	0	0.0%	274	0.2%	N/A
Total Expenditure	**18,793**	**17,490**	**15.2%**	**17,560**	**13.6%**	0.4%
Current Expenditure Excl. Subsidies	**17,430**	**16,112**	**14.0%**	**16,374**	**12.6%**	**1.6%**
Current Expenditure Excl. Subsidies & BISP	**15,653**	**14,350**	**12.5%**	**14,446**	**11.1%**	**0.7%**

Source: Akseer Research, Federal Budget 2025-26

Public Sector Development Program (PSDP)

- **PSDP utilization seems likely**
  - The development budget allocation of PKR 1.0 trillion for FY26 appears realistic and is likely to be fully utilized
  - The federal budget seems to shift a portion of development spending responsibility to the provinces, encouraging them to play a more active role in driving targeted economic growth





Source: Akseer Research, Federal Budget 2025-26

Public Sector Development Program (PSDP) allocations

PSDP Allocation (PKR bn)	FY25B	FY25R	FY26B	YoY (%)	Absolute Change	% share in Fed PSDP	
Federal Ministries						**FY25R**	**FY26B**
Water Resources Division	260	185	133	-27.7%	-51	16.8%	13.3%
Finance Division	6	6	1	-86.0%	-5	0.6%	0.1%
Special Areas (AJK & GB)	75	75	82	10.1%	8	6.8%	8.2%
Cabinet Division	76	26	70	173.1%	45	2.3%	7.0%
Higher Education Commission	66	61	39	-35.4%	-22	5.6%	3.9%
Railways Division	45	35	22	-36.0%	-13	3.2%	2.2%
Pakistan Atomic Energy Commission	25	25	1	-97.0%	-24	2.3%	0.1%
Interior Division	9	9	13	48.0%	4	0.8%	1.3%
National Health Services, Regulations & Coordination Division	27	25	14	-42.0%	-10	2.3%	1.4%
National Food Security & Research Division	41	24	4	-82.2%	-20	2.2%	0.4%
Housing & Works Division	28	24	15	-38.3%	-9	2.2%	1.5%
Information Technology & Telecom Division	29	24	16	-32.2%	-8	2.2%	1.6%
Other	354	315	271	-14.2%	-45	28.7%	27.1%
	1040	**833**	**683**	**-18.0%**	**-150**	**75.7%**	**68.3%**
Corporations:							
National Highway Authority	180	161	227	41%	66	15%	23%
NTDC / PEPCO	176	105	90	-14%	-14	10%	9%
	356	**266**	**317**	**19%**	**51**	**24%**	**32%**
Project Liabilities	4	1	0	-100%	-1	0%	0%
VGF for PPP Projects	100	0	0	NA	0	0%	0%
Primer Minister's Initiatives	0	0	0	NA	0	0%	0%
Total Federal PSDP	**1400**	**1100**	**1,000**	**-9%**	**-100**		
Total (Federal PSDP + VGF)	**1,500**	**1,100**	**1,000**	**-9%**	**-100**	**100%**	**100%**
SOEs	**197**	**197**	**355**	**NA**	**158**		
Total Provinces PSDP	**2,095**	**2,383**	**2,869**	**20%**	**486**		
Total National PSDP	**3,792**	**3,680**	**4,224**	**15%**	**544**		

Source: Akseer Research, Federal Budget 2025-26

SECTION 6

Contact Details & Disclaimer

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