Pakistan Economy

Budget FY25-26: Initial Impressions

Tuesday, June 10, 2025

The Finance Minister has announced the Budget for Fiscal Year FY25- 26 with a total outlay of PKR 17.5 TN (6.9% lower than last year) and total revenue of PKR 14.1 TN (8.9% higher than last year). The fiscal deficit is targeted at 3.9% of GDP, down from 5.9% of GDP in the previous fiscal year. The primary surplus would be targeted at 2.4% of the GDP.

Consolidates Fiscal Revenues to Jump 55%!: Total Federal Revenues are targeted at PKR 14.1 TN. This is a jump of PKR 2.2 TN; PKR 1.1 TN increase in direct tax revenues and PKR 1.1 TN increase in indirect tax revenues.

Within Direct Taxes, Income Taxes are expected to rise 19% vs. FY25 revised estimates, Sales Tax Receipts are expected to rise 20%, and FED is expected to rise 14%.

Interest expense: The Govt. has envisaged interest expense of PKR 8.2 TN for FY26, down 8% YoY from the FY25 level of PKR 8.9 TN.

Development and Defense Expenditure: Federal and provincial PSDP allocation is kept at PKR 4.2 TN, 3.2% of GDP. In the last five years, PSDP as % of GDP has averaged at 2.3%. Defense expense is proposed at PKR 2.5TN, up 17%. The defense as % of GDP stands at 1.97% in FY26E compared to the FY25 revised estimate of 1.86% of GDP.

GDP Growth targeted at 4.2%: The government has set a real GDP growth target of 4.2% for FY26, up from the 2.7% in FY25. Sector-wise, agriculture, industry, and services are projected to grow by 4.5%, 4.3%, and 4.0%, respectively. We continue to maintain our GDP growth forecast for FY26 at 4%.

The inflation target for FY26 is set at 7.5% compared to the revised target of 5.0% for FY25.

Key highlights:

- **Introduction of Section 114C – Restrictions on Non-Filers:** The government has proposed the inclusion of Section 114C in the Finance Bill, aimed at limiting certain economic activities for individuals who are not registered tax filers. Under this provision, non-filers will face restrictions on key transactions such as: Purchasing securities beyond a prescribed threshold, Buying vehicles with engine capacity exceeding 850cc, and Opening standard bank or IPS accounts (except Asaan accounts)
- **Withdrawal of Sales Tax Exemptions in FATA/PATA:** The longstanding sales tax exemption on industries operating in FATA/PATA—such as steel and ghee manufacturers—has been revoked. A 10% GST will now be levied, with a phased increase of 200 basis points per year over the next three fiscal years. This move addresses concerns of dumping from these regions into other parts of Pakistan, especially Punjab, and is seen as a positive development for the formal steel and edible oil sectors.
- **Increase in Tax on Interest Income:** The tax rate on interest income has been increased from 15% to 20%. This measure is likely to encourage diversification into other asset classes such as equities, which enjoy preferential tax treatment, potentially boosting capital markets.

Budget Snapshot PKR Bn	FY25B	FY25R	FY26B
Total Revenue	17,815	16,802	19,278
Tax Revenue	12,970	11,900	14,131
Direct Taxes	5,512	5,826	6,902
Indirect Taxes	7,458	6,074	7,229
Non – Tax Revenue	4,845	4,902	5,147
Petroleum Levy	1,281	1,161	1,468
Provincial Share	7,438	6,997	8,206
Total Expenditure	18,877	17,249	17,573
Current Expenditure	17,203	16,390	16,286
Debt Servicing	9,775	8,945	8,206
Defence	2,122	2,181	2,550
Grants and Transfers	1,776	1,761	1,927
Subsidies	1,363	1,378	1,186
Federal PSDP	1,400	1,100	1,000
Budget Deficit	8,500	7,444	6,501
Nominal GDP	124,150	114,692	129,567
Fiscal Deficit	5.9%	5.6%	3.9%
Primary Surplus	2.0%	2.2%	2.4%

Source: MoF, BMA Research

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- **Petroleum Development Levy (PDL) on Furnace Oil:** In line with IMF commitments, a PDL has been imposed on furnace oil, although the applicable rate is yet to be disclosed.
- **Introduction of Carbon Tax:** A carbon tax of Rs2.5 per liter will be applied to petrol, diesel, and furnace oil from FY26.
- **GST Increase on Small Cars (<850cc):** The reduced GST rate of 12.5% on cars below 850cc has been abolished, and the standard rate of 18% will now apply. This change is expected to negatively impact small car manufacturers, notably Pak Suzuki.
- **Higher Withholding Tax on Cash Withdrawals by Non-Filers:** The withholding tax on cash withdrawals exceeding Rs50,000 by non-filers has been raised from 0.6% to 0.8%.
- **Higher E-commerce Sales Tax for Non-Active Taxpayers:** The sales tax on local e-commerce transactions for non-active taxpayers has been doubled from 1% to 2%.
- **Pension Tax on High-Income Individuals:** A 5% tax will be levied on pension incomes exceeding Rs10 million annually for individuals under the age of 70.
- **Sales Tax on Solar Panel Imports:** Sales tax exemptions on imported solar panels have been removed, with an 18% GST now proposed for FY26. The market impact is expected to be neutral.
- **Increased Withholding Tax on Specified Services:** The withholding tax rate for specified services has been raised from 4% to 6%, excluding IT and IT-enabled services. A flat 15% tax will be imposed on non-specified services and on sportspersons (up from 10%).
- **Higher Tax on Mutual Fund Dividends:** The tax on dividend income from mutual funds has been revised to 25% and 15%, depending on the category.
- **Imposition of Off-Grid (Captive) Energy Levy:** A levy on off-grid energy (captive power) has been introduced, with estimated revenue generation of Rs105 billion in FY26.
- **Reduction in Carry-Forward Period for Minimum Tax Losses:** The carry-forward period for minimum tax losses has been shortened from three years to two.
- **Income Tax Relief for Salaried Individuals:** The 5% tax rate slab will now apply only to monthly incomes between Rs60,000 and Rs120,000 and will be reduced to 1%. The next two slabs will see a rate cut from 15% to 11%, and from 25% to 23%. Surcharge reduced from 10% to 9%
- **Pay and Pension Adjustments:** Government salaries are proposed to be increased by 10%. Pension incomes are set to rise by 7%.
- **Extension of Income Tax Exemptions in FATA/PATA:** Income and withholding tax exemptions for the former FATA/PATA regions will be extended for an additional year, through FY26.
- **Reinstatement of Tax Rebate for Educators:** A 25% tax rebate for full-time teachers and researchers will be restored retroactively, covering FY23 to FY25.
- **Restoration of Mortgage Tax Credit:** Tax credits on mortgage financing for houses up to 10 marla and flats up to 2,000 sq. ft. will be reinstated.
- **Reduction in Property Taxes:** The Federal Excise Duty (FED) of 7% on immovable property has been eliminated, and the advance tax reduced by 150 basis points. This is expected to support the construction and allied sectors.
- **Reduction in Super Tax:** Super tax under Section 4C will be reduced by 0.5 percentage points for income brackets ranging from Rs200 million to Rs500 million—viewed as a positive step for the market.
- **GST Exemption on Buns and Rusks:** The 10% GST on local sales of buns and rusks has been withdrawn.
- **Housing and Markup Subsidies:** A housing subsidy of Rs5 billion has been allocated for FY26. An additional Rs5 billion has been allocated for markup subsidies.
- **IPP Payments:** The government has earmarked Rs95 billion for payments to Independent Power Producers (IPPs) in FY26.

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Stock Rating

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Old rating system

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

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- Equity & Asset return based methodologies (EVA, Residual Income etc.)