AKD Securities Limited

**REP019**

# Federal Budget'26
# The first sigh of relief

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# Federal Budget FY25-26

AKD Securities Limited
REP-019

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**June 11, 2025**

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Prices as of: Jun 10, 2025
KSE-100 Index 122,024.44

KSE– ALL MARKET CAPITALIZATION
PkR 14,768bn (US$52.33bn)

1Yr KSE-ALL SHARE AVG ADT VALUE
PkR37,228mn (US$133.40mn)

**Fiscal Deficit to hit lowest since FY05:** The Federal Budget for FY26 is projected with a fiscal deficit of 3.9% of GDP — the lowest since FY05 — primarily due to an estimated 18.7% growth in tax revenues and a significant reduction in debt servicing and curtailed pension expenses. The reduction in debt servicing, along with increased reliance on PSDP funding through the provincial share and capital expenditures by SOEs, has created room for the highest increase in defense spending in the last 15 years. The government is aiming to stimulate economic growth through reforms focused on enhancing agricultural productivity, revitalizing industrial activity, promoting exports, and expanding the digital and IT sectors.

**Market to remain positive:** The budget is positive for the overall market, as the increase in the tax rate on profit from debt is expected to enhance the appeal of equities, in our view. Moreover, we believe the revised taxation on mutual fund (MF) dividends — now contingent upon the proportion of income derived from average annual investments in debt securities and equities — will encourage MFs to shift funds toward equities. The government's increased reliance on Islamic financing instruments is also positive for the PSX. Additionally, the government's push for documentation through higher taxation on cash withdrawals and restrictions on asset purchases by non-filers is expected to benefit the banking sector in the long run. The allowance of tax credit for interest paid on low-cost housing loans, along with the reduction in withholding tax on property purchases and removal of FED on property transfers, is a material positive for the cement and steel sectors.

**Tax targets demands increased coordination with provinces:** The government has set an attainable tax revenue increase target of 18.7% in the context of a nominal GDP growth of 12.7% for FY26. This requires additional taxation measures of ~PkR680bn achievable through improved revenue mobilization, particularly FBR taxation reforms. Moreover, fiscal deficit demands progressing on comprehensive fiscal reforms in coordination with provinces as indicated in 45.1% higher provincial transfers and enhanced reliance on provinces for PSDP allocation. In this regard, the National Fiscal Pact is an important step to rebalance intergovernmental relationships.

**First glimpse of relief for taxpayers:** For the first time in nearly a decade of aggressive revenue measures, the government has extended some relief, such as reduced tax rate for the salaried class, along with a modest 0.5% reduction in the super tax rate for income between PkR200mn and PkR500mn. Additionally, it has reduced customs duties, additional customs duties, and regulatory duties as part of its tariff rationalization plan.

**Focus on climate change:** The introduction of a carbon levy on Motor Spirit, High-Speed Diesel, and Furnace Oil at a rate of PkR2.5/ltr, and channeling of additional levies on internal combustion engine through the new Energy Vehicle Adoption Levy Bill to fund EV adoption, is expected to encourage the uptake of electric vehicles. The government has allocated PkR9bn in subsidies for EV adoption.

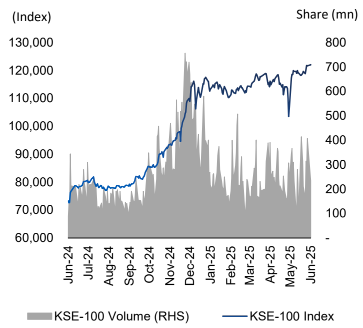
**PSX—Winners and losers:** The budget is positive for the cement and construction materials sectors, supported by a significantly higher overall PSDP allocation of PkR4.2tn for the coming year, a gradual increase in GST rates for FATA/PATA, and the abolishment of FED on first time property purchases. Moreover, the clearance of circular debt is expected to improve the cash flow position across the entire energy chain, while the documentation drive should benefit the banking sector. However, the increase in the tax rate on profit from debt and higher withholding tax on cash withdrawals for non-filers could negatively impact banking deposit growth in the short term. Additionally, a higher Petroleum Development Levy (PDL) allocation would help shield OMCs and refineries from inventory losses amid declining crude prices. Our top picks include: OGDC, PPL, PSO, FFC, ENGROH, MEBL, MCB, HBL, LUCK, FCCL, INDU, and SYS.

*Key Macro targets stipulated in FY26 Budget*

| | Indicator |
|---|---|
| GDP Growth (%) | 4.2% |
| Fiscal Deficit (% of GDP) | 3.9% |
| Primary Balance (% of GDP) | 2.4% |
| FBR Revenue Collection (PkRtn) | 14.1 |
| Total Expenditure (PkRtn) | 17.6 |
| Interest Expense (PkRtn) | 8.2 |
| PSDP - Federal (PkRtn) | 1.0 |
| Petroleum Levy Target (PkRtn) | 1.5 |

Source: MoF & AKD Research

*KSE100 Index Performance*




Source: PSX & AKD Research

Major budgetary measures

| Sector | Impact | Budgetary Measure |
|---|---|---|
| **Capital Markets** | Positive | Dividend income from mutual funds to be taxed at 25% and 15% depending on the share of income earned each year from investments in debt securities and stocks, respectively<br>Withholding tax on interest income from savings and fixed deposits increased to 20% (from 15%) |
| **Corporates** | Positive | Super tax for corporates earning between PkR200mn–PkR500mn reduced by 0.5% |
| **Banks** | Neutral | Enhanced efforts announced to formalize the cash-based economy and expand the tax base<br>Depreciation of Right-of-Use assets and interest on finance leases under IFRS 16 disallowed as deductible expenses<br>Increase in WHT on cash withdrawals by non-filers to 0.8% from 0.6% |
| **Cements & Steel** | Positive | PSDP Budget set at PkR4.2tn (vs. PkR3.7tn budgeted during FY25)<br>Tax credit allowed on interest payments on loans taken for the construction or purchase of a personal house/flat<br>GST exemption abolished on import of industrial inputs, plant & machinery for industries in FATA/PATA and supplies within FATA/PATA, with GST rate to gradually rise from 10% in FY26 to 16% by FY29.<br>CD and ACD reduced to 10% and 0%, respectively, on finished long and flat-steel products<br>CD increased to 5% from 0% on waste/scrap of cast iron<br>Federal Excise Duty (FED) on the first sale of commercial and residential properties abolished |
| **Fertilizers** | Neutral | Removal of previously budgeted subsidy of PkR3bn for the production and supply of urea fertilizer<br>Mark-up subsidy of PkR7.0bn granted to farmers |
| **OMCs** | Positive | PDL collection target set at PkR1.47tn for FY26<br>New carbon levy introduced at PkR2.5/liter on MS, HSD and RFO for FY26, to be increased to PkR5.0/liter in FY27<br>CD and ACD reduced to 10% and 0% on petroleum products across the board<br>Clearance of power circular debt to stand as a positive measure |
| **E&P** | Positive | Planned competitive bidding rounds and revisions in petroleum policy to enhance exploration activity<br>No subsidy budgeted for RLNG diversion to SNGPL during FY26<br>Clearance of power circular debt to stand as a positive measure |
| **Food** | Positive | Withdrawal of GST on buns and rusks, previously taxed at 10% |
| **Power** | Positive | Power sector subsidy for FY26 set at PkR1.1tn (vs. PkR1.2tn in FY25)<br>GST exemption on local supply of solar units withdrawn; now taxed at standard 18% GST rate<br>Amendment in NEPRA act to adjust Debt Servicing Surcharge on case to case basis in order to clear PkR2.3tn Circular debt through cheaper refinancing. |
| **Automobiles** | Negative | Introduction of levy under the National Electric Vehicle (NEV) Policy on ICE vehicles based on engine capacity<br>Standard 18% GST now applicable on locally assembled vehicles below 850cc. |
| **Textiles** | Neutral | Duty rationalization on key textile inputs, including cotton yarn and linen<br>Higher subsidy allocation under the Export Finance Scheme (EFS) |

Source: AKD Research

# Pakistan Economy

# Budget aims at lowering the fiscal deficit through unprecedented measures

| (PkRbn) | FY25BE | FY25R | FY26BE |
|---|---|---|---|
| **Revenue Receipts** | | | |
| Tax Revenues | 12,970 | 11,900 | 14,131 |
| Direct | 5,512 | 5,826 | 6,902 |
| *Income tax* | **5,454** | **5,749** | **6,811** |
| Indirect | 7,458 | 6,074 | 7,229 |
| *Customs Duties* | **1,591** | **1,316** | **1,588** |
| *Sales Tax* | **4,919** | **3,984** | **4,753** |
| *Federal Excise* | **948** | **774** | **888** |
| Non-Tax Revenue | 4,845 | 4,902 | 5,147 |
| Gross Revenue Receipts | 17,815 | 16,802 | 19,278 |
| Less: Provincial Transfers | 7,438 | 6,997 | 8,206 |
| Net Revenue Receipts | 10,377 | 9,805 | 11,072 |
| **Expenditures** | | | |
| Current Expenditure | 17,203 | 16,154 | 16,286 |
| Debt Servicing | 9,775 | 8,930 | 8,207 |
| Defense | 2,122 | 2,152 | 2,550 |
| Grants | 1,777 | 1,664 | 1,928 |
| Subsidies (current) | 1,363 | 1,418 | 1,186 |
| Subsidy to WAPDA/PEPCO | 909 | 1,016 | 910 |
| Subsidy to KESC | 263 | 175 | 125 |
| Subsidy to Petroleum | 18 | 18 | 1 |
| Subsidy to USC | 65 | 65 | 15 |
| Subsidy to PASSCO | 12 | 12 | 20 |
| Subsidy to others | 96 | 133 | 114 |
| Others | 2,166 | 1,990 | 2,415 |
| Development Expenditure | 1,400 | 983 | 1,000 |
| Net Lending | 274 | 85 | 287 |
| Total Expenditure (Federal) | 18,877 | 17,249 | 17,573 |
| Federal Fiscal Deficit | (8,500) | (7,444) | (6,501) |
| Est. Provincial Cash Balance | 1,217 | 1,009 | 1,464 |
| Consolidated Fiscal Deficit | (7,283) | (6,435) | (5,037) |
| As % of GDP | -5.9% | -5.6% | -3.9% |
| Primary Balance | 2,492 | 2,495 | 3,170 |
| As % of GDP | 2.0% | 2.2% | 2.4% |
| GDP | 124,150 | 114,692 | 129,567 |

Source: MoF & AKD Research

# Targeting 18.7% growth in tax collection with 4.2% GDP growth



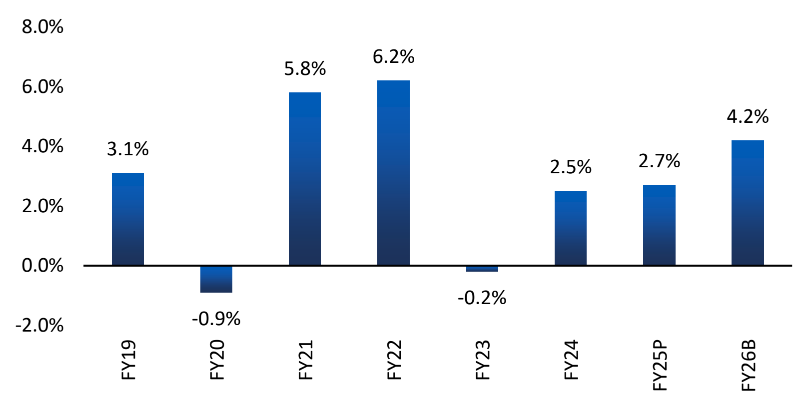
| GDP Growth | Inflation | Agriculture | Industrial | Services |
|---|---|---|---|---|
| FY25P: 2.7%<br>FY26B: 4.2% | FY26B: 7.5% | FY26B: 4.5% | FY26B: 4.3% | FY26B: 4.0% |

- Overall, the GoP is targeting FBR revenue of PkR14.1tn for FY26, which is up 18.7%YoY compared to the revised FY25 numbers. The tax collection growth target is aggressively set in the context of nominal GDP growth of 12.9% demanding additional raising of ~PkR690bn. However, the government has relied equally on direct taxes and indirect taxes for the tax collection measures. The primary balance target is better than the IMF estimates while FBR revenue collection target is slightly lower.
- Simultaneously, within Budget'26, gov't has tried to reduce burden on salaried class while rationalizing pension entitlements to curtail pension expense. However, slight reduction in super tax by 0.5% up to PkR500mn profit indicates that super tax has been peaked. Gov't has also allocated revenue of PkR86.5bn from privatization proceeds.
- Total expenditure is paltry up by 1.8%YoY to PkR17.6tn, primarily due to decline in debt repayments by 8.1% in FY26 while current expenditures budgeted at PkR16.3tn. Interest payments will be reduced to 74.1% of federal net revenue receipts from 91.1% in FY25. The fiscal deficit for the year is projected at 3.9% of GDP, lowest since FY05, with a primary surplus of 2.4% of GDP, compared to a fiscal deficit of 5.6% and primary surplus of 2.2% expected in FY25. Overall, the fiscal deficit target depends on the recovery of PkR1.5tn in surplus from provinces, which is 45% more than collection estimated for last year.

**Pakistan GDP at constant prices (%)**

| | FY24 | FY25P | FY26B |
|---|---|---|---|
| **Agricultural sector** | **6.4%** | **0.6%** | **4.5%** |
| Important Crops | 17.1% | -13.5% | 6.7% |
| Cotton ginning | 47.2% | -19.0% | 7.0% |
| Livestock | 4.4% | 4.7% | 4.2% |
| **Industrial Sector** | **-1.4%** | **4.8%** | **4.3%** |
| Manufacturing | 3.0% | 1.3% | 4.7% |
| Large Scale | 0.9% | -1.5% | 3.5% |
| Energy | -19.9% | 28.9% | 3.5% |
| Construction | -1.1% | 6.6% | 3.8% |
| **Services sector** | **2.2%** | **2.9%** | **4.0%** |
| Wholesale & Retail trade | 3.3% | 0.1% | 3.9% |
| Communication etc. | 4.3% | 6.5% | 5.0% |
| General Govt. services | -7.0% | 9.9% | 3.0% |
| **GDP** | **2.5%** | **2.7%** | **4.2%** |

**GDP growth set to surpass 4% in FY26...**




Source: MoF & AKD Research

# Mark up on debt now lower than Net Federal Receipts

**Tax Revenue**

FY25P: 10.4% of GDP
FY26B: 10.9% of GDP

**Expenditure**

FY25P: 15.0% of GDP
FY26B: 13.6% of GDP

- On the non-tax side, the big ones are the SBP Profit and collections from Petroleum Levy. On the former, we believe collection target is realistic given higher level of securities purchased under agreement to resell and purchase of government securities even if interest rates decline to single digit. Moreover, Petroleum levy target of PkR1.47tn could be achievable with current level of petroleum levy and newly introduced carbon tax even with zero volumetric growth.
- Within Current Expenditures, the biggest head as can clearly be seen on the right is the mark-up on domestic debt, but the quantum is reduced by 8.1%. At PkR8.2tn, mark up on debt is reduced to 74.1% of net receipts for the Federal Govt. at PkR11.1tn compared to 91.1% of net receipts of last year. Significant reduction in debt servicing along with pension reforms created room to increase defense spending by 18.5%YoY, the highest increase since FY11.
- Defense expenditures are projected at PkR2.6tn while subsidies have been budgeted at PkR1.2tn, about 16.2% lower than revised FY25 projections. Within subsidies, electricity head forms the bulk of subsidy amount with Subsidy to WAPDA/PEPCO at PkR910bn and subsidy to KEL at PkR125bn.

**Revenue Receipts**

| (PkRbn) | Budget 2024-25 | Revised 2024-25 | Budget 2025-26 |
|---|---|---|---|
| **FBR Taxes (I + II)** | **12,970** | **11,900** | **14,131** |
| I. Direct Taxes | 5,512 | 5,826 | 6,902 |
| Income Tax | 5,454 | 5,749 | 6,811 |
| Capital Value Tax | 16 | 15 | 17 |
| Workers Welfare Fund | 17 | 22 | 26 |
| Workers Profit Participation Fund | 26 | 40 | 48 |
| **II. Indirect Taxes** | **7,458** | **5,531** | **7,229** |
| Customs Duties | 1,591 | 1,316 | 1,588 |
| Sales Tax | 4,919 | 3,984 | 4,753 |
| Federal Excise | 948 | 774 | 888 |

**Non tax Revenue Receipts**

| (PkRbn) | Budget 2024-25 | Revised 2024-25 | Budget 2025-26 |
|---|---|---|---|
| PTA (4G Licenses) | 33 | 27 | 22 |
| Dividends | 139 | 198 | 206 |
| SBP Profit | 2,500 | 2,620 | 2,400 |
| Petroleum Levy | 1,281 | 1,161 | 1,468 |
| Mark up (PSEs & Others) | 198 | 198 | 188 |
| Off the Grid | 0 | 0 | 105 |
| **Total** | **4,845** | **4,902** | **5,147** |

Source: MoF & AKD Research

# Increasing focus on Islamic Instruments to fund fiscal deficit



**Debt Servicing**

FY25P: PkR8.93tn
FY26B: PkR8.21tn

**Pension**

FY25P: PkR1.01tn
FY26B: PkR1.06tn

**Levy**

PDL

FY25P: PkR1.16tn
FY26B: PkR1.47tn

- On the Capital Receipts side, local financing is projected at PkR3.3tn in FY26 compared to PkR0.9tn expected in FY25, which implies lower OMO injections as witnessed in previous years. Within domestic capital receipts, Ijara Sukuk Bonds stands as the biggest mode of financing with PkR1.1tn to be raised through the instrument(s). This is also in line with Government's stated agenda of moving towards Islamic financing.
- The second largest source of financing are expected to be Govt. Bai-Muajjal Ijara Sukuk, through which gov't is targeting to raise PkR897bn compared to PkR88.4bn in revised FY25 budget. While PkR500bn of incremental debt has been targeted through T-bills compared to retirement of PkR1.2tn revised target for FY25, whereas only PkR147.4bn is targeted through PIBs. This aggressive shift to Islamic mode of financing would also lower gov't debt cost given local investor preference for these papers.
- On the external financing front, Pakistan is projecting gross financing at PkR5.8tn and net financing at PkR106bn. This target is quite realistic given better credit rating on the back of improving macroeconomic situation of the country amid currency stability. This time around Pakistan may tap Chinese market through issuance of Panda bonds along with raising foreign commercial debt as well.

**Non tax Revenue Receipts**

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|---|---|---|---|
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| Mark up (PSEs & Others) | 198 | 198 | 188 |
| Off the Grid | 0 | 0 | 105 |
| **Total** | **4,845** | **4,902** | **5,147** |

**Current Expenditure**

| (PkRbn) | Budget 2024-25 | Revised 2024-25 | Budget 2025-26 |
|---|---|---|---|
| Mark up on Domestic Debt | 8,736 | 7,907 | 8,207 |
| Mark up on Foreign Debt | 1,039 | 1,039 | 1,009 |
| Pension | 1,014 | 1,014 | 1,055 |
| Defense Affairs & Services | 2,122 | 2,181 | 2,550 |
| Grants and Transfers | 1,777 | 1,761 | 1,928 |
| Subsidies | 1,363 | 1,378 | 1,186 |
| Running on Civil Government | 839 | 886 | 971 |
| Others | 313 | 223 | -620 |
| **Current Expenditure** | **17,203** | **16,390** | **16,286** |

**Net Capital Receipts**

| (PkRbn) | Budget 2024-25 | Revised 2024-25 | Budget 2025-26 |
|---|---|---|---|
| Pakistan Investment Bonds (PIBs) | 205 | 315 | 147 |
| Ijara Sukuk Bonds | 2,313 | 1,127 | 1,100 |
| Treasury Bills | - | -1,221 | 500 |
| Bai-Muajjal Ijara Sukuk | 0 | 88 | 897 |
| Recoveries of loans from provinces | 480 | 480 | 584 |

Source: MoF & AKD Research

# 5Es Revolution: Pakistan's bold leap

**URAAN Pakistan – 5Es based National Economic Transformation Plan, comprising Exports, E-Commerce, Environment, Energy, and Equity, forms the foundation of the government's strategy for inclusive and sustainable growth. It focuses on export-driven growth, digital transformation, environmental sustainability to ensure water and food security, access to affordable energy and infrastructure development, as well as promoting social equity, empowerment.**

**Macroeconomic Framework – Growth, Investment & Savings:** The Gross Domestic Product (GDP) growth for the fiscal year stood at 2.7%, marking a modest increase from 2.5% recorded in FY23-24. Looking ahead to FY25-26, the economic outlook is anchored by a targeted GDP growth of 4.2%. The agricultural sector is set to achieve growth of 4.5%, driven by government initiatives under the URAAN Pakistan framework, improved input availability, and gradual adaptation to challenging climatic conditions. Building on the macroeconomic stability realized in FY24-25, the industrial sector aims to sustain its growth momentum with a target of 4.3%, supported by a projected 3.5% expansion in Large-Scale manufacturing (LSM), positive growth of 3.0% in mining and quarrying, and a resilient construction sector. The services sector is targeted to expand by 4.0%, propelled by increased economic activity in commodity-producing sectors.

Manufacturing sector remains a vital pillar of Pakistan's economy, to support these sectors, the government is implementing targeted development initiatives. For FY25-26, 10 projects are planned in the manufacturing sector with a budget of PkR1,904.3mn. Two additional initiatives to facilitate trade and one to promote the mineral sector are allocated PkR400mn and PkR718.6mn, respectively. For FY25-26, the development agenda includes port infrastructure upgrades, operationalization of the Blue Economy Centre in Gwadar, and expansion of the Pakistan National Shipping Corporation (PNSC) fleet. Targets include achieving 3.5mn TEUs in container throughput and US$400mn in fisheries exports.

**Investments in IT:** Investments in broadband expansion, 5G rollout, and satellite technology, such as PakSat MM-1 and the broader Space Vision 2040, bridge the urban–rural divide and enhance digital access, e-governance, healthcare, and disaster management. In FY24- 25, PkR48bn was allocated to the ICT sector, advancing mobile and broadband penetration, particularly in underserved areas. For FY25-26, the focus will shift toward scaling up startups, expanding freelancing opportunities, enhancing digital connectivity, and promoting local manufacturing. Flagship initiatives such as the PM's IT Startups and Venture Capital Fund, e-Rozgaar, and semiconductor workforce development aim to position Pakistan as a regional ICT hub and drive inclusive digital growth.

**Education:** For FY25-26, the Annual Plan prioritizes expanding access to higher education, especially for underserved groups, accelerating digital transformation in universities, strengthening research capacity, and enhancing data and performance monitoring through a robust Quality Assurance Framework. In FY25-26, 170 projects at a total cost of PkR394bn have been earmarked. This includes one 159 ongoing and 11 new projects.

**Climate resilience:** For FY25-26, PkR3.5bn is proposed for ongoing climate projects, with PkR2.860bn earmarked for afforestation. The Pakistan Meteorological Department seeks PkR748.8mn to upgrade meteorological infrastructure and forecasting systems. Complementary initiatives include the US$155mn RAM microfinance project, US$901mn CDREP programme, Green Sukuk, and the Sovereign Sustainable Financing Framework.

**Food Security:** The Annual Plan 2025–26, under the URAAN Pakistan framework, focuses on agricultural policy reform, adoption of climate-smart technologies, soft credit facilities, and market deregulation. Strategic actions include digitized disease surveillance, advanced agricultural research, and promotion of aquaculture. These initiatives aim to improve productivity, competitiveness, and climate resilience while ensuring equitable and sustainable food systems.

**Energy & Infrastructure:** For FY25-26, major projects include Dasu HPP (2,160 MW), Tarbela Extension (1,410 MW), Diamer Basha HPP (4,500 MW), and implementation of the Energy Efficiency and Conservation (EE&C) Plan targeting a reduction of 9 MTOE in primary energy consumption.

**Water Resource Development:** By FY25–26, 23 of 59 water sector projects are expected to be completed. Allocations focus on mega dam construction, canal rehabilitation, water supply systems, and flood defences. Climate-resilient infrastructure and water conservation are key to ensuring long-term sustainability.

**China–Pakistan Economic Corridor (CPEC):** Phase II prioritizes industrial cooperation, agricultural modernization, science and technology collaboration, and socioeconomic uplift. Its five thematic corridors, namely Growth, Innovation, Green Development, Regional Connectivity and Openness, and Livelihood Improvement, align with URAAN Pakistan to promote inclusive and sustainable growth.

**Labor, Employment & Skill Development:** The Annual Plan 2025–26 seeks to strengthen the quality of training through the National Vocational Qualification Framework (NVQF), clarify institutional mandates, and introduce innovative financing models. In line with the URAAN Pakistan and SDGs, the strategy emphasizes high-tech skills, e-learning, and entrepreneurship to enhance employability, attract investment, and reduce trade imbalances.

**Balanced Development – Focus on Less Developed Regions:** For FY25-26, the focus remains on inclusive growth, infrastructure expansion, and environmental sustainability. Special block allocations for AJ&K and GB and continued implementation of the Ten-Year Development Plan for NMDs aim to strengthen service delivery, promote economic diversification, and enhance regional integration. These efforts align with the SDGs and the URAAN Pakistan framework, ensuring resilience and socio-economic uplift in underserved regions.

**Moving Towards Just Development – Addressing the Contours of Deprivations:** Annual Plan 2025–26 focuses on strengthening social protection systems, including digitizing Workers Welfare Fund disbursements, investing in human capital, integrating climate action, and promoting cross-sector partnerships. Key programs like BISP, PPAF, and SMEDA aim to foster inclusion, resilience, and livelihoods.

**Governance and Institutional Reforms:** For FY25–26, PkR17bn, including PkR12.8bn in foreign assistance, has been proposed for governance sector initiatives under PSDP, reflecting a decrease of 39.2% over the previous year. The reform agenda focuses on enhancing public sector efficiency through improved public financial management, tax administration, digitization of court processes, e-procurement, and regulatory reforms. Further initiatives include automation to broaden the tax base, promote ease of doing business through One-Stop-Shop models, and legislative reforms to create a more enabling environment for private sector growth. These measures are expected to improve governance indicators and serve as key enablers for the successful implementation of development programs across sectors, which align with the URAAN Pakistan vision for sustainable socio-economic development.

**Balance of Payments (US$mn)**

| | Actual | FY24-25 | | FY25-26 |
|---|---|---|---|---|
| | FY23-24 | Target | Revised Estimates | Target |
| Current Account Balance | -2,072 | -3,707 | 1,525 | -2,116 |
| Balance of Trade in Goods | -22,177 | -24,941 | -25,452 | -29,929 |
| Exports of Goods FOB | 30,980 | 32,341 | 32,851 | 35,282 |
| Import of Goods FOB | 53,157 | 57,283 | 58,303 | 65,211 |
| Balance of Trade in Services | -3,110 | -2,738 | -3,201 | -4,465 |
| Exports of Services | 7,691 | 8,169 | 8,287 | 9,550 |
| Import of Services | 10,801 | 10,907 | 11,488 | 14,015 |
| Exports of Goods & Services | 38,671 | 40,510 | 41,138 | 44,832 |
| Balance of Primary Income | -8,986 | -7,648 | -8,617 | -8,498 |
| Balance of Secondary Income | 32,201 | 31,620 | 38,795 | 40,777 |
| Worker's Remittances | 30,251 | 30,278 | 37,452 | 39,437 |

Source: MoF & AKD Research

**Key Goals for the National Economic Transformation Plan**

| Measure | Unit | 2023-24 Baseline | 2028-29 Target |
|---|---|---|---|
| **Macroeconomics** | | | |
| GDP Growth | % | 2.5 | 6 |
| Per Capita Income | US$ | 1,662 | 2,405 |
| Investment | % of GDP | 13.1 | 17 |
| Inflation | % | 23.4 | 6.2 |
| Exports (G&S) | US$ Billion | 39 | 63 |
| Current Account Deficit | % of GDP | -0.2 | -1 |
| IT Exports | US$ Billion | 3.2 | 10 |
| **Enabling Environment** | | | |
| Start-ups per annum | No. | 300 | 10,000 |
| Regulatory Framework | % Readiness | 59.1 | 67 |
| Operational Efficiency | % Readiness | 65.9 | 71 |
| Primary Energy Supply | Million TOE | 82.6 | 114 |
| **Fiscal** | | | |
| Tax-to-GDP Ratio | % of GDP | 9.5 | 13.5 |
| Public Debt | % of GDP | 67 | 60 |
| **Social Sector** | | | |
| Education Spending | % of GDP | 2.1 | 4 |
| Net Primary Enrollment | % | 64 | 72 |
| Access to Higher Education | % | 9 | 15 |
| Immunization Coverage | % | 70 | 80 |
| Deliveries Assisted by Skilled Birth Attendant | % | 68 | 85 |
| Household-Owned Dwelling Unit | % | 82 | 90 |
| Households with an Improved Source of Drinking Water | % | 94 | 100 |
| Improved Toilet Facility | % | 68 | 80 |
| With a Specific Place of Hand Washing | % | 54 | 70 |
| **Zero Poverty and Hunger** | | | |
| Food Insecurity | % | 16 | 8 |
| Multidimensional Poverty | % Headcount | 41.6 | 21 |
| National Poverty Headcount | % | 21.4 | 12 |
| Infant Mortality Rate | per 1000 | 51 | 40 |
| Gender Parity Index | Index | 0.9 | 1 |
| **Transport Sector (Infrastructure)** | | | |
| Length / Road Density | Km / (no.) | 501K / 0.6 | 517K / 0.7 |
| EVM (Electric Vehicles) | % | 0-3.0 | 25 |
| Track Length | Kilometers | 7,791 | 8,100 |
| Freight Share Road | % | 96 | 90 |
| Freight Share Railways | % | 4 | 10 |
| **Water Resource Sector** | | | |
| Water Availability at Farmgate | MAF | 63.3 | 84.2 |
| Increase in Water Storage Capacity | MAF | 13.5 | 23.5 |
| Increase in Water Use Efficiency | % | 40 | 70 |

Source: MoF & AKD Research

# Tariff Rationalization

# Tariff Rationalization Plan

Govt. has reduced import duties in the budget under the National Tariff Policy 2025–30. As per the revised structure, new Customs Duty (CD) slabs of 5%, 10%, and 15% have been introduced, replacing the existing 3%, 11%, and 16% slabs. Moreover, 0% tariff has been extended to 916 PCT codes, while CD has been reduced on 2,624 PCT codes.

Additional Customs Duty (ACD) has been revised downward to 0%, 2%, 4%, and 6%, from the earlier 2%, 4%, 6%, and 7%, respectively. Regulatory Duty (RD) has been removed on 554 PCT codes and reduced on 595 PCT codes, with the maximum RD rate brought down from 90% to 50%. Furthermore, ACD and RD are planned to be completely phased out over the next 4 and 5 years, respectively. Additionally, the Fifth Schedule of the Customs Act is also scheduled for gradual elimination over the next 5 years. However, we await the issuance of the relevant SRO for a detailed breakdown of the revised ACD and RD structure.

**Sector-wise tariff change under Tariff Rationalization Plan**

| | Old | | New | | |
|---|---|---|---|---|---|
| | CD | ACD | CD | ACD | Impact |
| Automobile | | | | | |
| 4x4 CBU - 850-1,000cc | 55% | 7% | 55% | 6% | Increase in market share of imported vehicle; margin pressure for local assemblers. |
| New vehicles 1,000-1,500cc | 60% | 7% | 60% | 6% | Increase in market share of imported vehicle; margin pressure for local assemblers. |
| Old & used sport vehicle 1,300-1,500cc | 60% | 7% | 60% | 6% | Increase in market share of imported vehicle; margin pressure for local assemblers. |
| Sport vehicles 1,500-1,800cc | 75% | 7% | 75% | 6% | Increase in market share of imported vehicle; margin pressure for local assemblers. |
| 4x4 - 1,800-3,000cc | 100% | 7% | 100% | 6% | Increase in market share of imported vehicle; margin pressure for local assemblers. |
| Auto parts/ CKD kits | 35% | 7% | 35% | 6% | Would partially offset adverse impact of CBU duty reduction. |
| Tyres | | | | | |
| Used on motor cars | 16% | 4% | 15% | 2% | Impact market share of local tyre manufacturers |
| Textile | | | | | |
| Cotton Linters | 16% | 4% | 15% | 2% | Lower input cost for imports; positive for the textile sector. |
| Cotton yarn | 11% | 2% | 10% | 0% | Lower cost for importers; negative for local spinners, positive for value-added exporters. |
| Linen & Other woven from vegitables | 16% | 2% | 5% | 0% | Lower input cost for end-chain textile players like IMAGE; negative for weavers. |
| Other woven fabrics of cotton | 16% | 4% | 15% | 2% | Lower input cost for end-chain textile players like IMAGE; negative for weavers. |

# Tariff Rationalization Plan



| | Old | | New | | |
|---|---|---|---|---|---|
| | CD | ACD | CD | ACD | Impact |
| Cement | | | | | |
| Cement clinkers | 11% | 2% | 10% | 0% | Not material; main cost driver is transportation. |
| White cement, Aluminous, & other hydraulic cement | 20% | 6% | 20% | 4% | Not material; main cost driver is transportation. |
| Coal | | | | | |
| Anthracite, Bituminous, Lignite, & Peat coke | 3% | 2% | 5% | 0% | CD increase offset by ACD removal; overall neutral |
| Petroleum | | | | | |
| Motor spirit | 0% | 2% | 0% | 0% | Will reduce price of petroleum products |
| J.P.1 | 3% | 2% | 0% | 0% | Will reduce price of petroleum products |
| Spirit type jet fuel | 0% | 2% | 0% | 0% | Will reduce price of petroleum products |
| Kerosene | 0% | 2% | 0% | 0% | Will reduce price of petroleum products |
| High speed diesel oil | 11% | 2% | 10% | 0% | Will reduce price of petroleum products |
| Furnace-oil | 11% | 2% | 5% | 0% | Will reduce price of petroleum products |
| Lubricating Oils | 20% | 6% | 20% | 4% | Will reduce price of petroleum products |
| Base Oil | 11% | 2% | 10% | 0% | Will reduce price of petroleum products |
| Chemicals | | | | | |
| Ethylene | 0% | 2% | 0% | 0% | Lower input cost for PVC; would partially offset primary margin pressure for EPCL. |
| Ethylene dichloride | 0% | 2% | 0% | 0% | Lower input cost for PVC; would partially offset primary margin pressure for EPCL. |
| Vinyl chloride | 0% | 2% | 0% | 0% | Lower input cost for PVC; would partially offset primary margin pressure for EPCL. |
| PVC (Emulsion grade) | 11% | 2% | 10% | 0% | Would negatively impact primary margins of EPCL. |
| PVC (Plasticised) | 20% | 6% | 15% | 4% | Would negatively impact primary margins of EPCL. |
| PTA | 16% | 0% | 5% | 0% | Would affect primary margins of LOTCHEM. |
| Caustic soda (Solid) | 20% | 0% | 20% | 0% | - |
| Caustic soda (Aqueous) | 16% | 4% | 15% | 2% | Margins pressure for EPCL, ICL, SITC. |
| Hydrogen peroxide | 11% | 2% | 10% | 0% | Margins compression for EPCL, DOL, SPL. |
| Calcium Carbide | 11% | 2% | 10% | 0% | Margins attrition for GWCL |
| Soda Ash | 11% | 2% | 10% | 0% | Would marginally impact margins of LCI. |
| Polyester yarn | 11% | 2% | 10% | 0% | Negative for primary margins of LCI. |

Source: MoF & AKD Research

# Key Budgetary Measures

# Key Revenue Measures

- Carbon levy introduced at PkR2.5/liter on MS, HSD, and RFO for FY26; to be raised to PkR5.0/liter in FY27.
- Withholding tax (WHT) on profit/interest income from savings and fixed deposits increased to 20% (vs. 15% previously), excluding National Saving Certificates.
- Tax on dividend of mutual funds to be taxed at 25%, contingent upon proportional income derived from avg. annual investments in debt securities.
- Pension income exceeding PkR10mn annually now subject to 5% income tax.
- WHT on cash withdrawals (non-filers) raised to 0.8% (from 0.6%) for withdrawals exceeding PkR50,000.
- Capital gains tax for non-residents on government securities through SCRA with holding periods under 12 months raised to 20% (vs. 10% previously).
- Minimum tax loss carry-forward period for corporates reduced from 3 years to 2 years.
- Assumed minimum annual rental income set at 4% of the fair market value for commercial properties.
- Withholding Tax on payment of digital transactions set to be raised to 2% (from 1% previously).
- GST exemption abolished on import of raw materials, plant & machinery for industrial units in FATA/PATA, with GST rate to gradually rise from 10% in FY26 to 16% by FY29.
- Standard 18% GST now applicable on

  i) below 850cc locally assembled vehicles,

  ii) sales via e-commerce platforms, and

  iii) local supply of solar panels.
- Advanced tax on sale or transfer of immovable properties revised upwards to 4.5%/5.0%/5.5% from 3.0%/3.5%/4.0%, respectively.
- New 5% levy introduced on cross-border transactions for goods/services, including digital ad payments through social media.
- Rate of new levy under National Electric Vehicle Policy:

  i) 1% of invoice price on ICE vehicles with engine capacity < 1,300 cc

  ii) 2% of invoice price on ICE vehicles with engine capacity between 1,300–1,800 cc

  iii) 3% of invoice price on ICE vehicles with engine capacity > 1,800 cc

  iv) 1% of invoice price on buses and trucks

# Key Relief Measures



- Income tax exemption for venture capital firms withdrawn.
- Super tax for corporates earning between PkR200mn–PkR500mn reduced by 0.5%.
- Salary tax slabs rationalized to 1%, 11%, and 23% (vs. 5%, 15%, and 25%) for incomes up to PkR1.2mn, PkR2.2mn, and PkR3.2mn, respectively. Moreover, super tax surcharge on high earners reduced from 10% to 9%.
- National Tariff Policy introduced, with gradual reduction in ACDs, RDs and CDs. i) ACDs will be gradually reduced to 0% in 4 years, ii) RD will be reduced to 0% in 5 years, and iii) 5th schedule to be abolished in 5 years.
- Income and WHT exemptions for FATA/PATA extended by one year.
- WHT on purchase of immovable properties revised down to 2.5%/2.0%/1.5% from 4.0%/3.5%/3.0%, respectively.
- Tax credit for interest paid on debt obtained for construction or acquisition of a house of 250 sq. yd. and a flat having 2,000 sq ft. or less area.

# Proposed Changes In Salary Tax & Super Tax

## Budget - Proposed Changes In Salary Tax Rate

| S# | Taxable Income | Old Rate of Tax | New Rate of Tax |
|---|---|---|---|
| 1 | Where taxable income does not exceed PkR600,000/- | 0% | 0% |
| 2 | Where taxable income exceeds PkR600,000 but does not exceed PkR1,200,000 | 5% of the amount exceeding PkR600,000/- | 1% of the amount exceeding PkR600,000/- |
| 3 | Where taxable income exceeds PkR1,200,000 but does not exceed PkR2,200,000 | PkR30,000 + 15% of the amount exceeding PkR1,200,000/- | PkR6,000 + 11% of the amount exceeding PkR1,200,000/- |
| 4 | Where taxable income exceeds PkR2,200,000 but does not exceed PkR3,200,000 | PkR180,000 + 25% of the amount exceeding PkR2,200,000/- | PkR116,000 + 23% of the amount exceeding PkR2,200,000/- |
| 5 | Where taxable income exceeds PkR3,200,000 but does not exceed PkR4,100,000 | PkR430,000 + 30% of the amount exceeding PkR3,200,000/- | PkR346,000 + 30% of the amount exceeding PkR3,200,000/- |
| 6 | Where taxable income exceeds PkR4,100,000 | PkR700,000 + 35% of the amount exceeding PkR4,100,000/- | PkR616,000 + 35% of the amount exceeding PkR4,100,000/- |

## Budget - Proposed Changes In Super Tax

| S# | Taxable Income | Old Rate of Tax | New Rate of Tax |
|---|---|---|---|
| 1 | Where income does not exceed PkR150mn | 0% of the income | 0% of the income |
| 2 | Where income exceeds PkR150mn but does not exceed PkR200mn | 1% of the income | 1% of the income |
| 3 | Where income exceeds PkR200mn but does not exceed PkR250mn | 2% of the income | 1.5% of the income |
| 4 | Where income exceeds PkR250mn but does not exceed PkR300mn | 3% of the income | 2.5% of the income |
| 5 | Where income exceeds PkR300mn but does not exceed PkR350mn | 4% of the income | 3.5% of the income |
| 6 | Where income exceeds PkR350mn but does not exceed PkR400mn | 6% of the income | 5.5% of the income |
| 7 | Where income exceeds PkR400mn but does not exceed PkR500mn | 8% of the income | 7.5% of the income |
| 8 | Where income exceeds PkR500mn | 10% of the income | 10% of the income |

Source: MoF & AKD Research

# Sectors Review

# Construction Materials (Cement and Steel) — Positive

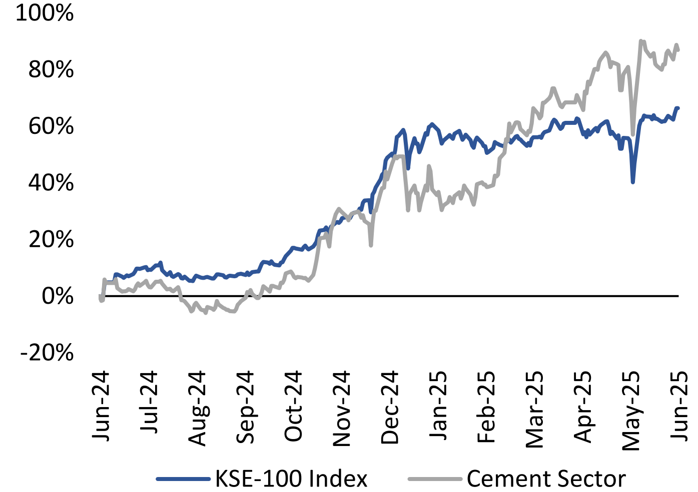
**Key Measures**

- Total federal PSDP allocation for FY26 is set at PkR1.0tn (↓9% against FY25 budgeted allocation). Additionally, provincial PSDP allocation is PkR2.87tn (↑20%YoY), bringing total PSDP allocation to PkR4.2tn (↑15%YoY).
- GST exemption abolished on import of industrial inputs, plant & machinery for industries in FATA/PATA and supplies within FATA/PATA, with GST rate to gradually rise from 10% in FY26 to 16% by FY29.
- Individuals can claim a tax credit for interest paid on a loan used to build or buy a personal house (upto 2,50sq. yd.) or flat (upto 2,000sq. ft).
- WHT on purchase of immovable properties revised down to 2.5%/2.0%/1.5% from 4.0%/3.5%/3.0%, respectively. At the same time, transfer or sale of immovable properties have been revised upwards to 4.5%/5.0%/5.5% from 3.0%/3.5%/4.0%, respectively.
- Reduction in ACD to 0% (from 2%) and rationalization of CD to 10% (from 11%) on steel products i.e. long and flat-steel products (CRC and HDGC).

**Comments**

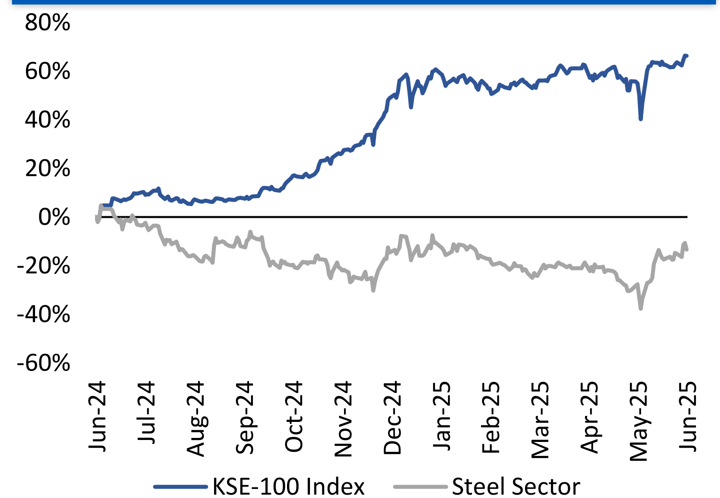
- Despite a decline in the federal PSDP, we expect improved overall utilization this year due to the higher allocation in provincial PSDP, supporting demand for construction materials. For this reason, we forecast local cement demand to grow by 6%YoY in FY26.
- FATA/PATA regions have historically benefited from constitutional protections that provide tax and duty exemptions, allowing them to supply non-tax paid goods to the mainland. However gradual, increase in GST is a welcome move for steel and ghee manufacturers in the listed space, who are already grappling with low demand and declining gross margins, promoting a level playing field in the sector space.
- Tax credits on loans for housing construction is expected to provide modest relief to the struggling construction/real estate sector.
- The reduction in ACD and CD on finished products produced by domestic steel manufacturers is viewed as negative, potentially raising competition from importers, anticipated to erode gross profitability due to intensified pricing competition.

**Cement Sector vs. KSE100 Index**




Source: PSX & AKD Research

**Steel Sector vs. KSE100 Index**




Source: PSX & AKD Research

# Automobiles Sector — Negative

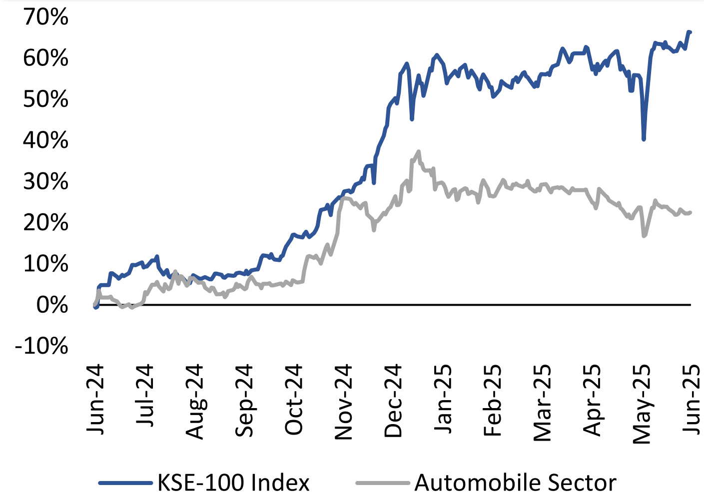
**Key Measures:**

- ❑ Sales tax concession on Locally manufactured or assembled motorcars of cylinder capacity (upto 850cc at 12.5%) omitted and brought at par with the standardized rate of 18%.
- ❑ National Tariff Policy introduced, with gradual reduction in ACDs and RDs. i) ACDs will be gradually reduced to 0% (currently 7%) in 4 years, ii) RD will be reduced to 0% in 5 years (currently 15-90%).
- ❑ New Energy Vehicle Adoption Levy shall be imposed on all internal combustion engine motor vehicles, whether locally manufactured, assembled, or imported, at the following rates: 1% of the invoice price for vehicles with an engine capacity of less than 1,300cc, 2% of the invoice price for vehicles with an engine capacity between 1,300cc and 1,800cc, and 3% of the invoice price for vehicles with an engine capacity exceeding 1,800cc.

**Comments:**

- ❑ Sales tax on vehicles with engine capacities below 850cc has increased from 12.5% to 18%, leading to higher end-consumer prices and potentially hindering growth in the economical vehicle segment.
- ❑ We anticipate a 22%/20%YoY growth in the auto sector for FY26 and FY27, respectively, compared to our earlier estimates of 21%/19%YoY.
- ❑ We believe local OEMs to adjust prices conservatively to address the widening gap with imported vehicles following reducing import duties. Consequently, local manufacturers will face margin compression over the next five years, as they try to balance between remaining price competitive.
- ❑ The newly introduced New Energy Vehicle Adoption Levy is expected to negatively impact the profitability of local OEMs, as manufacturers will be required to absorb the cost of the levy— for internal combustion engine (ICE) vehicles. This will adversely affect companies such as INDU, HCAR, SAZEW, GAL, and GHNI. However, HUBC is likely to benefit as the primary local partner for BYD's electric vehicles.

Automobiles Sector vs. KSE100 Index




Source: PSX & AKD Research

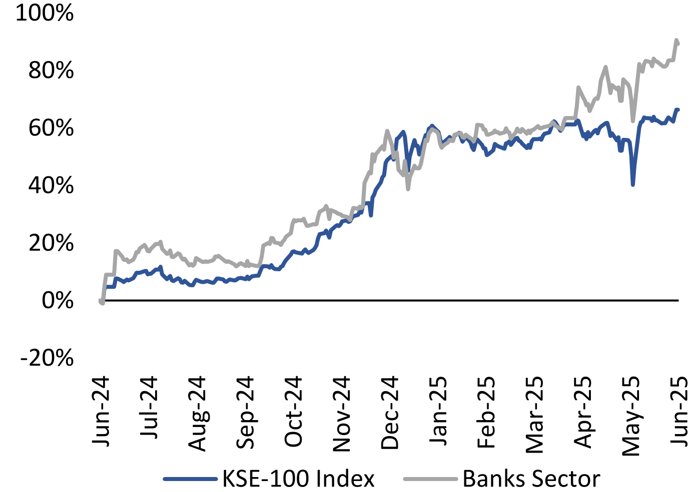
**Key Measures**

- Increase in tax rate on profit on debt to 20% from 15%.
- Increase in WHT on cash withdrawals by non-filers to 0.8% from 0.6%.
- Major efforts by the government to formalize the economy and promote a shift towards a cashless system.
- Government targets to raise a total of PkR2.0tn from Ijara Sukuks and Bai-Muajjal instruments.
- Stricter regulation on tax-allowable provisions.
- Depreciation of Right-of-Use assets and interest on finance leases under IFRS 16 disallowed as deductible expenses.

**Comments**

- The increase in tax rate on profit on debt may discourage savings and term deposits, potentially hampering deposit growth.
- The increase in WHT on cash withdrawals by non-filers may reduce open-currency in circulation.
- Efforts by the government to move towards a more formal economy by restricting non-filers could lead to greater utilization of the formal banking channels, potentially generating deposit growth.
- Government's target to raise PkR2.0tn out of PkR2.66tn through Islamic instruments would benefit Islamic banks by providing them with greater investment opportunities.
- Stricter regulations on tax-allowable provisions would result in higher tax expenses due to potentially lower deductible provision amounts, although this is expected to normalize in the long run.
- This would result in any difference between the amount expensed and the allowable expense since the implementation of IFRS 16 (i.e., 2020) being netted off. If the amount expensed was greater than the allowable expense, the difference would be taxed in FY25. Conversely, if the amount expensed was less than the allowable expense, the difference would be allowed as a deduction in FY25.

Banking Sector vs. KSE100 Index




Source: PSX & AKD Research

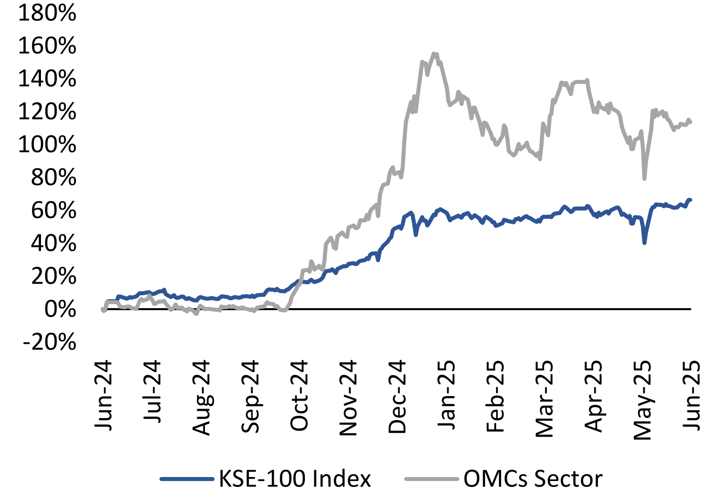
**Key Measures**

- ❑ Petroleum Development Levy (PDL) collection target has been set at PkR1.47tn for FY26, up from the revised estimate of PkR1.16tn in FY25.
- ❑ New carbon levy introduced at PkR2.5/liter on MS, HSD and RFO for FY26, to be increased to PkR5.0/liter in FY27.
- ❑ Under the National Tariff Policy, ACD on petroleum products has been reduced to 0% (from 2%), including lubricants.
- ❑ Custom Duty on HSD, JP & LDO rationalized to 10% (from 11% previously).

**Comments**

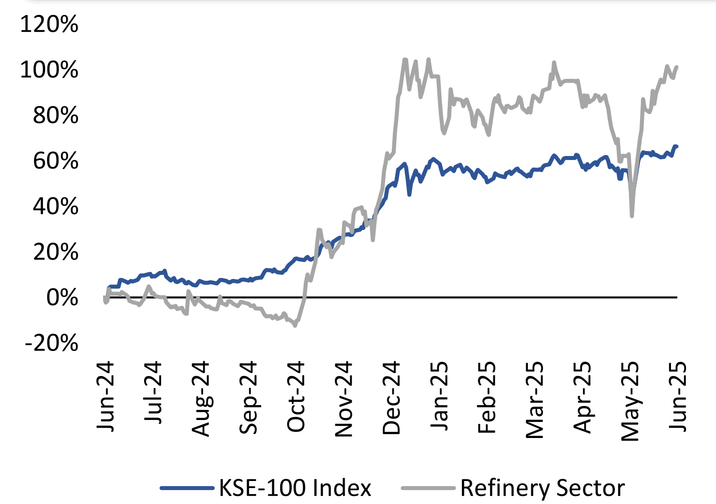
- ❑ The petroleum levy target seems attainable, assuming similar volumes for FY26 under the current PDL setting. However, upward movement in international oil prices could lead to significant price hikes from here-on, as the PDL is currently set at its highest level.
- ❑ The 2% reduction in ACD on petroleum products and the introduction of a carbon tax on fuel products are expected to offset each other and result in a neutral impact.
- ❑ The clearance of power sector circular debt through amendments in the NEPRA Act to fast-track the refinancing of previous overdue stock is expected to improve the overall liquidity position of the sector.

OMCs Sector vs. KSE100 Index




Source: PSX & AKD Research

Refinery Sector vs. KSE100 Index




Source: PSX & AKD Research

# Oil & Gas (E&Ps and Gas Distribution) — Positive

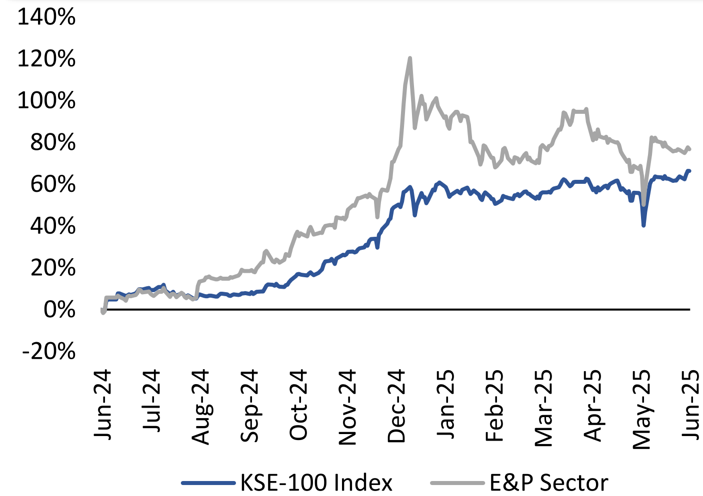
**Key Measures**

- Planned competitive bidding rounds for offshore exploration blocks to take place during the year.
- The planned revision in petroleum policies aims to implement better pricing mechanisms, including changes to the policy for tight gas introduced in PP12, as outlined in the FM's speech.
- Subsidy to SNGPL for the diversion of RLNG to domestic consumers budgeted at nil for FY26 (vs. PkR10bn in FY25).

**Comments**

- Introduction of bidding rounds for offshore blocks and the revision of petroleum policies are expected to significantly enhance the confidence of local and foreign E&P operators, possibly enhancing FDI and encouraging greater exploration efforts from the firms.
- The non-provision of a subsidy to SNGPL for the diversion of RLNG to domestic consumers in FY26 may be viewed as negative for both SNGPL and PSO.
- The clearance of power sector circular debt through amendments in the NEPRA Act to fast-track the refinancing of previous overdue stock is expected to improve the overall liquidity position of the sector.

E&P Sector vs. KSE100 Index




Source: PSX & AKD Research

# Power — Positive

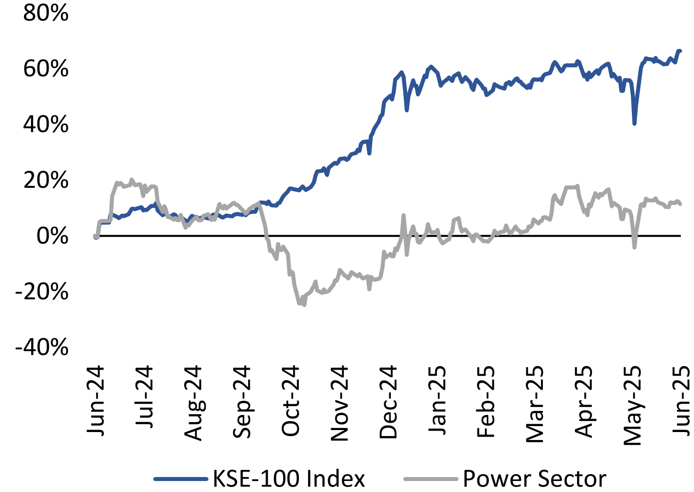
**Key Measures**

- ❑ Power sector subsidy set at PkR1.04tn for FY26. Notably, tariff differential subsidy (TDS) for DISCOs, K-Electric and payment to IPPs stand at PkR250bn/125bn/95bn, respectively.
- ❑ Through the NEPRA act, govt' is aiming to introduce a Debt Sustainability Strategy (DSS), with a proposal under review to impose a 10% surcharge on electricity bills under the DSS framework, which will help manage debt servicing (principle + interest) effectively.

**Comments**

- ❑ Power sector subsidy, albeit lower than previous year disbursement of PkR1.2tn, will keep the buildup of power sector arrears in check, standing as positive for entire energy chain.
- ❑ The introduction of debt servicing surcharge in electricity bills will help GoP watering down its liabilities taken on account of the refinancing plan of the power circular debt, while also keeping future buildup in arrears under check.

Power Sector vs. KSE100 Index




Source: PSX & AKD Research

# Chemicals —Negative

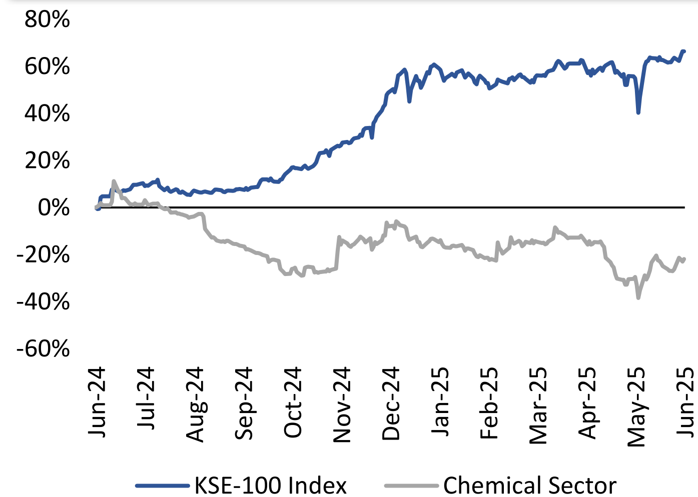
**Key Measures**

- ❑ Reduction in tariffs of PVC, PTA, Caustic Soda, Hydrogen Peroxide, Soda Ash, and Polyester Yarn.
- ❑ Incremental increase in PSDP allocation to support construction activity.

**Comments**

- ❑ We expect reduction in import duties to exert pressure on primary margins of local producers, thereby negatively affecting the overall profitability of chemical sector.
- ❑ Improvement in construction activity is expected to support demand, particularly for PVC and allied products, partially offsetting the margin pressure.

Chemical Sector vs. KSE100 Index




Source: PSX & AKD Research

# Textile Sector — Neutral to Positive

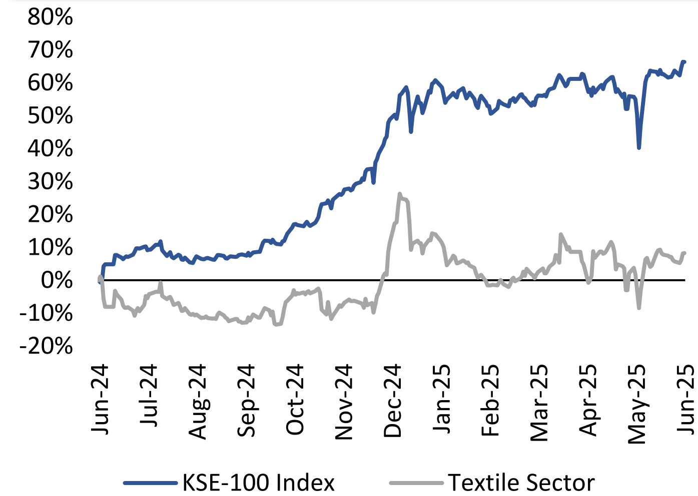
**Key Measures**

- ❑ Reduction in duties of input raw materials including cotton, yarn, woven fabrics, and related chemicals.
- ❑ No increase in minimum wage rate and higher subsidy allocation under the Export Finance Scheme (EFS).

**Comments**

- ❑ We expect duty reductions on raw materials to be positive for value-added textile exporters (e.g., IMAGE), amid decline in their input cost. However, lower duties on yarn and woven fabrics would negatively impact the margins of spinners and weavers.
- ❑ Stable minimum wage supports margin preservation for textile manufacturers.
- ❑ Enhanced subsidies under EFS would support exporters' liquidity and enhance competitiveness, benefiting overall export proceeds.

Textile Sector vs. KSE100 Index




Source: PSX & AKD Research

# Fertilizer — Neutral

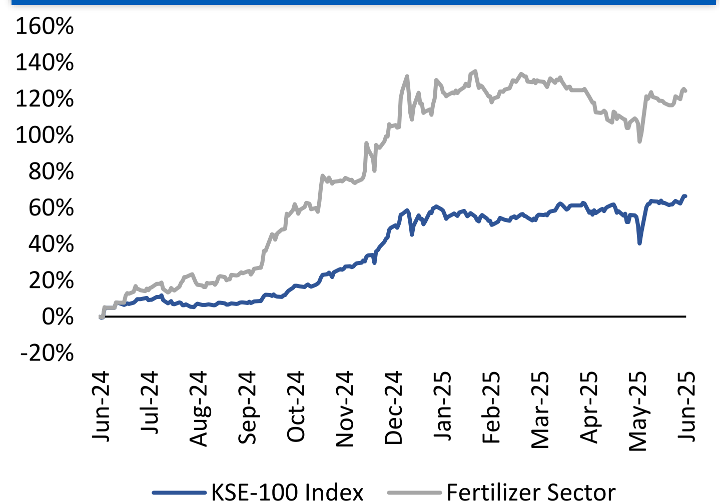
**Key Measures**

- ❑ Subsidy allocation for urea imports increased to PkR15bn and Kissan Package allocation raised to PkR7.0bn.
- ❑ Removal of subsidy for production and supply of urea fertilizer plants.
- ❑ Reduction in customs duty on seed imports.

**Comments**

- ❑ We do not foresee utilization of the urea import subsidy, given elevated local inventory position.
- ❑ Removal of subsidy for production and supply of fertilizer plants would likely to reduce gas subsidies for RLNG-based producers, namely Pak Arab (FATIMA) and AGL; negative for both. However, broadly positive for the sector, as it would help control the excess supply in a high-inventory environment.
- ❑ Enhancement Kissan Package and reduction in seed prices are expected to improve farm economics, thereby supporting fertilizer demand.

Fertilizer Sector vs. KSE100 Index




Source: PSX & AKD Research

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- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

*New Rating Definitions*

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Neutral > 0% to < 15% expected total return

Sell < 0% expected total return

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