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Status Redefined

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Crossroads of Conflict

Changing Pak-Afghan Ties

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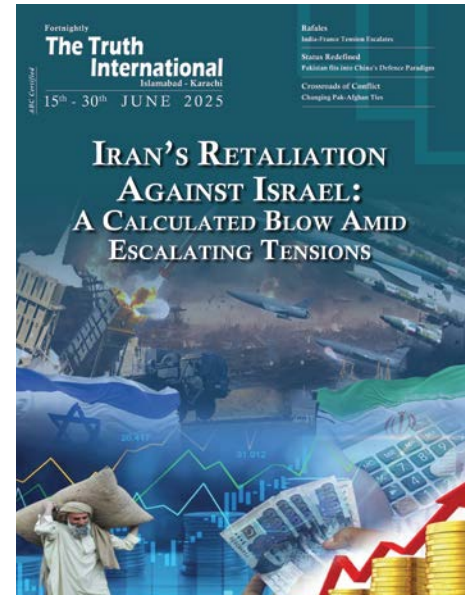
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New Budget and Heavy Reliance on Existing Taxpayers, Little Relief for Salaried Class



Finance Minister Mohammad Aurangzeb presented Rs 17.573 trillion federal budget for 2025–26 on June 10 in the National Assembly, projecting gross revenue receipts of Rs 19.278 trillion. Of this, Rs 8.206 trillion will be distributed to provinces under the National Finance Commission (NFC) award. The Federal Board of Revenue (FBR) is expected to collect Rs 14.131 trillion in taxes, with non-tax revenue projected at Rs 5.147 trillion.

On the expenditure side, current spending has been capped at Rs 16.286 trillion, slightly below the revised estimate of Rs 16.390 trillion for the outgoing fiscal year, despite a 10% hike in federal employee salaries and a 7% increase in pensions. This containment is largely attributed to reduced debt servicing costs, now budgeted at Rs 8.207 trillion—down from Rs 8.945 trillion last year.

While the pension bill saw a nominal rise from Rs 1.014 billion to Rs 1.055 billion despite the pension increase, this is mainly due to anticipated reforms that have yet to be implement-

ed. Sustainable pension reform remains a long-term challenge.

Subsidies have been reduced significantly from Rs 1.378 trillion to Rs 1.186 trillion, in line with IMF directives. However, the budget does not project any substantial proceeds from privatization, with a modest estimate of Rs 87 billion. The budget continues to lean heavily on indirect taxation mechanisms—sales tax, income tax, withholding, and advance tax—rather than broadening the tax base. To address tax evasion and leakages, the government plans to intensify digitization and implement electronic transaction monitoring systems.

Legal reforms have also been proposed to define and penalize "abettors" of tax fraud. Amendments to the Sales Tax Act include tougher enforcement tools such as restrictions on bank accounts, business closures, property seizures, and the appointment of official receivers to ensure compliance by unregistered entities. In a major policy shift, the longstanding sales tax exemption on imports and supplies of plant and

machinery to industrial units in the former FATA and PATA regions will be phased out over four years—with tax rates rising from 10% to 16%.

One of the more controversial proposals is an increase in the tax rate on profit from debt—from 15% to 20%—and the removal of the current Rs 5 million cap for individuals and associations. Critics argue this will deter savings in a country already grappling with a low savings rate and disproportionately affect retirees and fixed-income households.

Dividend income will also be taxed more heavily: the rate rises to 25% for regular dividends and 15% for mutual fund dividends. These changes may drive savers away from financial instruments and toward real estate, gold, and commodities. Notably absent from the budget is any effort to tax the incomes of retailers and wholesalers, despite longstanding demands for their inclusion in the tax net. This omission is seen as a strategic choice to avoid conflict with powerful trade lobbies such as the Tajiran Ittehad.

Taxes, Tensions & Trust Deficits: Navigating Post-Budget Challenges in Pakistan 2025-26



By Kanwal Munir

Introduction

The unveiling of Pakistan's Federal Budget for 2025–26 marks a critical juncture in the country's economic trajectory. Amid lingering IMF scrutiny, mounting public debt, and demands for social equity, Finance Minister Muhammad Aurangzeb laid bare a financial blueprint that attempts to straddle the thin line between stabilization and reform. The announcement, analysis, and aftermath of this budget unfolded in three distinct phases, each layered with complexity, resistance, and strategic maneuvering.

This article explains Phase 1 (the Economic Survey), Phase 2 (Budget Presentation), and gives an in-depth breakdown of Phase 3 (Post-Budget Developments), drawing on detailed insights from the post-budget press conference and finance ministry's disclosures.

Phase 1: The Economic Survey - Setting the Context

Before the formal unveiling of the national budget, Pakistan's annual Economic Survey serves as a foundational document, laying out the country's macroeconomic performance over the past fiscal year and framing the challenges for the year ahead. Although the press release does not delve into its specifics, the 2024–25 Economic Survey almost certainly followed traditional contours—highlighting GDP growth rates, sectoral contributions, public debt trends, fiscal deficits, inflation levels, investment flows, remittances, and employment statistics.

This year's survey was more than a statistical roundup. It was a strategic narrative tool used to justify the

austerity measures and revenue enforcement strategies that came later in the 2025–26 budget. With Pakistan under a strict IMF surveillance program, the survey likely painted a picture of economic fragility combined with pockets of resilience, an argument used to build momentum for deeper fiscal discipline.

Key macroeconomic signals from the year likely showed subdued GDP growth due to global commodity price pressures and domestic energy shortages. The government may have highlighted modest recovery in sectors such as agriculture and textiles, while manufacturing and services faced persistent constraints due to inflation, rising cost of credit, and a narrowing fiscal space.

Inflation, particularly food and energy inflation, remained a top-line concern, with average rates likely hovering in the

double digits. The fiscal deficit, projected to exceed earlier estimates, added further urgency to reform. Meanwhile, public debt servicing consumed a major portion of revenues, reducing the government's room for development spending.

The tax-to-GDP ratio, still among the lowest in the region, was another red flag raised in the survey. This was an early warning and a pretext for the stringent enforcement measures and expanded taxation net introduced in Phase 3. The survey thus served as the intellectual and political groundwork for what was to come—a budget constrained by commitments but pressed to deliver structural change.



Phase 2: Budget Presentation - Balancing Books Under Pressure

On June 10, 2025, Pakistan's Budget Day unfolded with a mix of high fiscal stakes and cautious optimism, as Finance Minister Muhammad Aurangzeb presented the federal budget for FY2025–26 to Parliament. His address reflected a delicate balancing act: on one hand, the urgent need to expand the tax net and comply with International Monetary Fund (IMF) benchmarks; on the other, a growing demand for relief amid rising living costs.

The most striking element of the budget was the target to generate Rs700 billion in additional revenue. Of this, Rs389 billion would be raised through aggressive enforcement measures, while Rs312 billion would result from new taxation policies. These figures were not mere estimates. As clarified by Finance Secretary Imdadullah

Bosal, they were already “locked” in negotiations with the IMF, leaving minimal room for post-budget maneuvering. The message was clear: the government's hands were tied by international obligations, and the space for populist policy shifts was virtually nonexistent.

To meet these goals, the government significantly expanded the Federal Board of Revenue's (FBR) enforcement powers. Under the proposed changes, the FBR could now:

- Block high-value financial transactions (such as luxury vehicle or real estate purchases, or investment in securities) by non-filers

- Seal unregistered business premises
- Confiscate goods from tax evaders
- Directly recover taxes from defaulting entities, including public sector enterprises

These sweeping powers were introduced through the Tax Laws (Amendment) Ordinance 2025, and Finance Minister Aurangzeb warned Parliament that failure to pass the enabling clauses would result in the need to impose Rs400–500 billion in additional taxes, a move that would shift the burden back onto honest taxpayers.

Simultaneously, the government announced a reduction in the first slab of income tax for salaried individuals earning Rs600,000 to Rs1.2 million per year—from 5% to 2.5%. Although an early version of the Finance Bill erroneously printed this rate as 1%, the correction was clarified in the budget speech. This move aimed to

offset the fiscal impact of increasing public sector salaries, which were raised from a proposed 6% to 10%, adding Rs28 billion to the expenditure side.

The speech set the stage for the next phase — post-budget implementation—where promises would collide with political resistance, public scrutiny, and institutional constraints.

Phase 3: Post-Budget Developments - Resistance, Revisions, and Repercussions

While the first two phases delivered a technocratic vision of economic management, the third phase, the post-budget phase, opened the floodgates to political negotiation, resistance, and public scrutiny.

IMF Conditions and the Need for Enforcement Legislation

At the post-budget press conference, Finance Minister Muhammad Aurangzeb did not mince words. With a tone uncharacteristically firm, he warned that unless Parliament passes the enabling clauses related to the proposed enforcement powers, the government would be compelled to impose an additional Rs400–500 billion in taxes. This wasn't just a message aimed at the opposition benches, it was also a clear signal to potential dissenters within the ruling coalition, allied parties, and powerful interest groups that may resist the tougher compliance framework.

The heart of the budget's success lies in its enforcement mechanisms, a cornerstone of Pakistan's deal with the International Monetary Fund (IMF). Aurangzeb emphasized that out of the Rs700 billion in projected new revenue, Rs389 billion depends entirely on these enforcement provisions. The remaining Rs312 billion comes from direct taxation measures. Having already recovered Rs400 billion through enforcement in the outgoing fiscal year, the government now aims to institutionalize tax compliance by legally empowering the Federal Board of Revenue (FBR). The intent is clear: create sustainable revenue streams through

systemic reforms, rather than temporary fixes.

Controversies: Lawmakers' Salary Hikes and Journalistic Walkout

The post-budget press conference took an unexpected turn when tensions flared between the government and the media. Journalists staged a walkout in protest after the traditional technical briefing on the Finance Bill was abruptly canceled—an essential session that typically allows the press to scrutinize and understand the finer points of fiscal policy. The move was perceived as an attempt to limit transparency. In response to the protest, Information Minister Attaullah Tarar had to make a hurried appearance to assuage the journalists' concerns and convince them to return, restoring some semblance of normalcy.

Adding fuel to the fire was the announcement of substantial salary hikes for lawmakers, cabinet ministers, and parliamentary officials, with some increases reaching as high as 550%. Finance Minister Aurangzeb justified the move by citing that the last adjustment had occurred in 2016. However, the decision drew public criticism, especially since the government declined to raise the minimum wage, citing industry non-compliance with the previous threshold. The optics were damaging—an elite raise amidst mass austerity.

Contributory Pension Scheme for Armed Forces – A Delayed Reform

Originally planned to take effect from July 1, 2025, the contributory pension scheme for military personnel has now faced delays. Finance Secretary Imdadullah Bosal acknowledged the complexities involved in implementing such a significant reform and noted that extensive consultations with the Ministry of Defence are still ongoing. The contributory pension scheme was envisioned as a landmark move aimed at making pension liabilities more sustainable in the long term by shifting from a defined benefit to a contributory system. This would potentially ease fiscal pressures on the government by sharing pension costs between the state and

the armed forces personnel. However, given the sensitive nature of defense matters and the structural changes required, the implementation has been postponed indefinitely. Both the finance minister and secretary refrained from giving a clear timeline, highlighting the challenges and need for consensus before moving forward. The delay reflects the broader complexities of reforming entrenched systems within Pakistan's public sector.

Questions Avoided: Defence Budget, Parliamentary Funds, and Special Allowances

When asked about the details concerning salary increases and special allowances for armed forces personnel, both Finance Minister Muhammad Aurangzeb and Finance Secretary Imdadullah Bosal remained notably reticent. Despite repeated inquiries, they chose not to disclose specific figures or provide a detailed explanation for the size or rationale behind these increases. This lack of transparency extended to questions about the allocation of funds for parliamentary schemes. The budget proposed an increase in the allocation to Rs70 billion, a significant rise from the Rs50 billion initially approved by the Annual Plan Coordination Committee. Yet, neither official offered any justification or explanation for this 40 percent hike in parliamentary funds. This silence raised eyebrows among observers and commentators, who questioned the priorities reflected in the budget, especially when juxtaposed with austerity measures and modest relief offered to other sectors of society. The government's reluctance to clarify these points contributed to ongoing public skepticism about fiscal discipline and equitable resource distribution.

Taxation and Tariff Reforms: Small Relief, Long-Term Vision

The government acknowledged that the tax relief measures introduced in the 2025-26 budget, for both salaried individuals and corporate entities, were relatively modest in scale. However, Finance Minister Muhammad Aurangzeb emphasized that these concessions were largely symbolic, representing a clear government intention to gradually ease the tax burden on those segments of society that have traditionally

borne a disproportionate share. This approach signals a broader shift in fiscal policy, aiming to make the tax system more equitable over time as more fiscal space becomes available.

On the structural reform front, the government has taken significant steps to simplify Pakistan's complex tariff regime. It has eliminated additional customs duties on approximately 4,000 tariff lines and reduced duties on another 2,700 lines. Importantly, around 2,000 of these tariff lines are directly linked to raw materials and intermediate goods essential for exporters, which is expected to boost Pakistan's export competitiveness. This phased reform is designed to bring the country's trade policy closer to international standards, with a targeted reduction of the average tariff rate to just above 4 percent. These measures reflect a strategic effort to modernize Pakistan's trade environment and encourage industrial growth.

Minimum Wage: Frozen Amid Industrial Resistance

The government's decision not to announce a new minimum wage in the 2025-26 budget drew significant attention and concern. Finance Minister Muhammad Aurangzeb candidly acknowledged that the private sector, particularly the industrial segment, was unwilling or unable to comply with the minimum wage rate that had been declared previously. This reluctance from the industry to implement even the existing wage standards highlights a deeper governance and enforcement challenge facing Pakistan. It points to the broader issue of regulatory weakness and limited capacity of the state to ensure labor law compliance across sectors. The failure to raise the minimum wage also reflects the delicate balance the government is trying to maintain between protecting workers' rights and avoiding further strain on businesses already grappling with inflation and economic uncertainty. Ultimately, this decision underscores the complexities involved in wage policy and labor market reforms within Pakistan's challenging economic environment.

Public Debt Management and Global Market Strategy

Pakistan faces critical debt repayment deadlines with two major international bonds maturing in September 2025 and April 2026. Finance Minister Muhammad Aurangzeb expressed confidence that the government is well-prepared to meet these obligations, signaling fiscal stability despite the country's challenging economic circumstances. This reassurance is significant, as timely repayment of these bonds is crucial for maintaining Pakistan's credibility in international financial markets and avoiding potential downgrades that could raise borrowing costs.

Looking ahead, the government has outlined plans to diversify its funding sources by issuing Panda bonds later this year. Panda bonds are debt instruments issued in Chinese capital markets and denominated in Chinese yuan, offering

Finance Minister Muhammad Aurangzeb appeared uncertain when questioned about the Debt Servicing Surcharge (DSS) on electricity, seemingly unaware of its specific mention. However, his official budget speech clearly outlined the role of the DSS, explaining that it is designed not only to service interest payments but also to facilitate the repayment of the principal amount of debt. This represents a significant fiscal tool aimed at managing Pakistan's growing electricity sector liabilities and ensuring debt sustainability within the energy sector.

To operationalize this measure effectively, the government has proposed amendments to the National Electric Power Regulatory Authority (NEPRA) Act. These amendments would grant the federal government the authority to raise the DSS

praised the Dawn Media Group for its climate change initiative, "Breathe Pakistan." He described climate change as an "existential threat" to Pakistan, emphasizing the urgent need for concerted efforts to address environmental challenges that increasingly affect the country. Aurangzeb highlighted that the climate crisis is no longer a distant or abstract concern but a daily reality for many Pakistanis.

Citing recent erratic weather events in Islamabad, including frequent hailstorms and windstorms that were previously unheard of, the minister underscored how climate change is manifesting itself in tangible, disruptive ways. This acknowledgment from a key government figure signals a growing recognition at the highest levels of policymaking about the importance of integrating sustainability into national development plans. Aurangzeb's appreciation for the "Breathe Pakistan" initiative reflects an openness to public-private collaboration in raising awareness and driving action on climate issues, marking a hopeful step towards more comprehensive climate policies in Pakistan's future.

Conclusion

The Pakistan Budget 2025–26, while anchored in reformist language and international compliance, faces daunting implementation hurdles. The government must navigate political opposition, institutional resistance, and socio-economic sensitivities to transform its fiscal vision into reality.

The post-budget phase has exposed contradictions, between transparency and opacity, between reform and reward, between fiscal prudence and populist concessions. Whether Aurangzeb's budget is remembered as a bold roadmap or a missed opportunity will depend not only on parliamentary approval but also on the state's ability to execute its plans amidst growing public skepticism and institutional inertia. In essence, the budget is not just a financial document; it is a political test of will and capability in a nation where economic decisions reverberate across every tier of society.



Pakistan an alternative avenue to raise capital while strengthening economic ties with China. Additionally, Aurangzeb indicated the government's ambition to re-enter U.S. and European capital markets in 2026. However, this move depends heavily on an improvement in Pakistan's credit ratings, which are influenced by macroeconomic stability, debt management, and compliance with international financial institutions. Successfully navigating these debt markets will be pivotal for Pakistan's economic recovery and future growth prospects.

Debt Servicing Surcharge (DSS): Ambiguity and Legal Maneuvering

During the post-budget press conference,

beyond the current statutory ceiling of 10%, but on a case-by-case basis. This flexibility is intended to help the government respond dynamically to changing financial requirements in the power sector, providing a legal framework to adjust charges as needed to meet debt obligations. While this move may be controversial, given the potential impact on electricity consumers, it reflects the government's commitment to restructuring energy sector finances in line with broader fiscal consolidation efforts.

Climate Change Acknowledgment: Breathe Pakistan Initiative

In a rare but commendable moment during the post-budget proceedings, Finance Minister Muhammad Aurangzeb publicly

2025-26 Budget: Hefty Taxes and Petty Relief



By Javed Mahmood

Finance Minister Muhammad Aurangzeb presented Rs 17.6 trillion federal budget for the fiscal year 2025–26, highlighting the government's commitment to economic stability and sustainable growth. Addressing the National Assembly amid vocal opposition protests, he outlined key achievements, including a 2.7% economic growth rate, a drop in inflation to 4.7%, and a surge in remittances to \$31.2 billion — with projections to reach \$37–38 billion by the end of the fiscal year.

For the upcoming fiscal year, the government expects economic growth of 4.2%, with inflation and interest rates each forecast at 7.5%. The budget deficit is projected at 3.9% of GDP, while the primary surplus is estimated at 2.4%. The National Economic Council (NEC) approved a total development outlay of Rs4.224 trillion, including Rs1 trillion for the federal Public Sector Development Programme (PSDP), Rs2.869 trillion for provincial Annual Development Plans (ADPs), and Rs355 billion in investments from state-owned enterprises.

The Federal Board of Revenue (FBR) is expected to generate Rs14.131 trillion in revenue, 18.7% higher than this year. Of

this, Rs8.206 trillion will be transferred to the provinces. The federal non-tax revenue target is Rs5.147 trillion, bringing the federal government's net revenue to Rs11.072 trillion. Total federal expenditures are set at Rs17.573 trillion, including Rs8.207 trillion for debt servicing and Rs16.286 trillion in current expenditures. Defence spending is budgeted at Rs2.550 trillion, while administrative expenses stand at Rs971 billion, pensions at Rs1.055 trillion, and subsidies at Rs1.186 trillion.

Aurangzeb acknowledged the critical role of overseas Pakistanis, whose remittances rose by 31% this fiscal year and contributed significantly to strengthening the current account. He also pointed to positive signs in international credit assessments, with Fitch upgrading Pakistan's rating to B- and Moody's noting improving economic indicators.

Addressing fiscal reforms, the finance minister stressed the government's focus on improving the historically low tax-to-GDP ratio of around 10%. The target is to increase this to 14% in the coming year. He noted that the FBR faces a tax gap of Rs5.5 trillion. In response, authorities blocked Rs9 billion in fake refunds and identified

Rs13 billion in fraudulent claims using artificial intelligence. Digital reforms within the FBR, such as digital production tracking for key sectors, e-invoicing, and AI-driven audit systems, have been implemented to enhance transparency and compliance. Additional tools like a centralised control unit and a restructured PRAL Board are also being introduced.

Simplified tax return forms for salaried individuals will be rolled out on July 1, 2025. In addition, the government introduced pension reforms to control the pension burden. These include discouraging early retirement, linking pension increases to the Consumer Price Index (CPI), capping family pension duration to 10 years, eliminating multiple pensions, and requiring re-employed retirees to choose between pension or salary.

Aurangzeb also highlighted the successful recovery of Rs78.4 billion by the FBR through litigation and Rs77 billion through ADR case settlements. He rejected rumours of a mini-budget and assured that no new taxes had been imposed.

On the power sector front, the minister said that professional boards now oversee

power distribution companies (DISCOs), reducing political interference and resulting in Rs140 billion in loss reductions over nine months. These companies are expected to become loss-free within five years. Electricity prices have been cut by more than 31%, although protected consumer tariffs have increased by over 50%. Revised agreements with Independent Power Producers (IPPs) are expected to save over Rs3 trillion, while the shutdown of two environmentally harmful furnace oil plants will cut emissions.

Privatisation efforts are gaining momentum, with nearly completed preparations for the sale of DISCOs in Faisalabad, Gujranwala, and Islamabad. The government also plans to finalise transactions for Pakistan International Airlines (PIA) and

Aurangzeb reported progress on public debt management, with the debt-to-GDP ratio falling below 70%. The government launched Sukuk bonds on the Pakistan Stock Exchange and plans to issue Panda bonds in China. Under the first Debt Buy Back Programme, Rs1 trillion in debt was repurchased. Active refinancing measures saved Rs850 billion, and the average loan maturity period increased by 66%. Small and medium-sized enterprise (SME) finance has also grown. By May 2025, over Rs311 billion in financing was extended to 95,000 SMEs, raising total SME financing to Rs471 billion. The government aims to expand this to Rs1.1 trillion, reaching 750,000 businesses by 2028.

Housing remains a core area for social uplift. The government will provide loans

flows and create 41,500 jobs. The project is expected to enhance exports, improve infrastructure, and provide environmental and community development benefits, making it a potential economic game-changer.

Foreign reserves at the State Bank are expected to reach \$14 billion by the end of 2025. Reforms in pharmaceuticals, IT, and export promotion through tariff reforms are expected to further support economic growth. The new "Tariff Reforms Package" includes the removal of Additional Customs Duties within four years and Regulatory Duties within five years. A four-tier customs duty structure will be adopted (0%, 5%, 10%, 15%), and maximum duty rates will be capped at 15%.

Following cabinet approval, government employees will receive salary increases in the new fiscal year. The finance minister also assured reporters that the government will maintain fiscal discipline moving forward.

Aurangzeb reported that the Benazir Income Support Programme (BISP) disbursed Rs592 billion in unconditional cash assistance and supported over 10 million children through educational stipends. Under the Nashonuma initiative, 1.5 million pregnant and lactating women and 1.6 million children received nutrition support. Additionally, 250,000 beneficiaries completed financial literacy training in one year. The government plans to expand BISP's coverage, with the Kafalat Program reaching 10 million households and the education stipend programme continuing to support around 10 million children. For the next fiscal year, Rs716 billion has been earmarked for BISP — a 21% increase from the previous year.

Meanwhile, Finance Minister Muhammad Aurangzeb managed to provide modest relief to the salaried class while also offering incentives to the real estate and construction sectors in a bid to revive the faltering industrial base and boost overall economic activity.

Alongside these relief measures, the government introduced a carbon levy of Rs2.5 per litre on petrol, diesel, and furnace oil, which is expected to double in the following fiscal year. Additional revenue-generating measures included the



the Roosevelt Hotel during FY2025–26, and advance the privatisation of GENCOs and other DISCOs. Aurangzeb noted that the International Monetary Fund (IMF) had acknowledged the government's revenue enforcement efforts, which have raised Rs389 billion. Over the next decade, the World Bank and IMF will provide \$40 billion under their country partnership frameworks, with a strong focus on climate change mitigation.

In the electricity sector, the groundwork has been laid for a competitive market structure and new legislation under NEPRA is expected to begin within three months. The oil and gas sectors also continue to receive attention, with new hydrocarbon discoveries promising greater energy security.

for low-income housing, with details to be announced by the State Bank of Pakistan. Agricultural loans increased from Rs1.785 trillion to Rs2.066 trillion year-on-year, with a focus on supporting small farmers. To modernise agriculture, the government is establishing the National Seed Development and Regulatory Authority, digitalising the seed regulatory system, and encouraging investment in seed research. The National Seed Policy 2025 and the National Agricultural Biotechnology Policy 2025 are nearing approval, with the Plant Breeders' Rights Act also being prioritised.

One of the most significant long-term development projects is Reko Diq, which completed its feasibility study in January 2025. With a lifespan of 37 years, it is projected to generate \$75 billion in cash

imposition of a 5 percent tax on large pensions, an 18 percent general sales tax on imported solar panels, and a hike in the debt servicing surcharge on electricity bills to cover not just interest payments but also principal repayment obligations. The government also announced the phased elimination of tax exemptions for the tribal areas, beginning this year.

Despite a record tax revenue shortfall of Rs1.07 trillion for the current fiscal year, the finance minister set an ambitious revenue target of Rs14.13 trillion for the next year. This represents an 18.7 percent increase over the revised estimate of Rs11.9 trillion, and surpasses the original target of Rs12.97 trillion. The target comprises approximately Rs840 billion in new tax measures and Rs1.39 trillion in automatic tax gains expected from projected inflation of 7.5 percent and economic growth of 4.2 percent. Spending will be restrained by nearly Rs2.26 trillion, equivalent to 2 percent of GDP, primarily through reductions in debt servicing costs, although at the cost of development and public welfare programs.

Although both the Federal Board of Revenue (FBR) and the provinces failed to meet their agreed surplus of Rs1.22 trillion, the provinces still managed to contribute a surplus of Rs1.01 trillion. This enabled the federal government to beat its fiscal deficit target, recording a deficit of 5.6 percent of GDP — Rs6.44 trillion — compared to the earlier projected 5.9 percent (Rs7.28 trillion), marking the lowest budget deficit since FY2015–16. This was made possible by additional tax measures worth Rs2.2 trillion (1.8 percent of GDP) and reduced expenditure, helped by the decline in interest rates from a historic high of 22 percent.

Looking ahead, the FY2025–26 budget sets a goal of further reducing the fiscal deficit to 3.9 percent of GDP (Rs5.04 trillion), dependent on achieving a provincial cash surplus of Rs1.46 trillion. The primary surplus is projected to increase to 2.4 percent of GDP, or Rs3.17 trillion, up from 2.2 percent (Rs2.5 trillion) this year.

In a notable shift, the government created some fiscal room to provide relief to the salaried class, which has borne the brunt of high taxes and shrinking real incomes amid

persistent inflation. The finance minister proposed cutting the income tax rate by half, to 2.5 percent, for annual incomes between Rs600,000 and Rs1.2 million. However, there appears to be a discrepancy, as the finance bill lists a rate of just 1 percent for this bracket, and further clarification is awaited. The annual tax for a salary of Rs1.2 million was proposed to drop to Rs6,000 from the current Rs30,000. For those earning up to Rs2.2 million annually, the tax rate will be reduced from 15 percent to 11 percent, while those earning between Rs2.2 million and Rs3.2 million will see a rate cut from 25 percent to 23 percent. Acknowledging the “brain drain” driven by excessive taxation on high earners, the minister also announced a 1 percent reduction in the surcharge on annual incomes above Rs10 million.



The government also announced a 10 percent salary hike and a 7 percent pension increase for civil servants. In a significant move, armed forces personnel will receive a 25 percent salary increase, including a special relief allowance in recognition of their recent actions following Indian aggression.

In a broader effort to stimulate the construction sector and large-scale manufacturing — which has contracted over the past three years due to soaring energy and borrowing costs — the budget introduced a range of incentives. The withholding tax on real estate purchases has been cut from 4 percent to 2.5 percent, while the current rates of 3.5 percent and 3 percent will be lowered to 2 percent and 1.5 percent, respectively. Additionally, the 7 percent federal excise duty on transfers of commer-

cial property, plots, and houses introduced last year has been proposed for elimination.

A new tax credit will be available for mortgages on homes up to 10 marla (250 square yards) and flats up to 2,000 square feet. A new mortgage financing promotion scheme was also unveiled. Furthermore, the government announced a reduction in stamp duty on property purchases in Islamabad Capital Territory from 4 percent to 1 percent and urged provinces to follow suit in reducing the tax burden on immovable property.

In the agriculture sector, the government successfully convinced the IMF to exempt fertilisers and insecticides from taxation for the current year, positioning agriculture as a cornerstone of the country's growth strategy.

On the revenue side, the government announced that the tax rate on interest income would be raised from 15 percent to 20 percent. However, small savings and investments in national savings schemes will be exempt from this increase. To formalise the digital economy, online businesses and marketplaces will be brought into the tax net, with courier companies expected to facilitate this process. Additionally, a 5 percent income tax will be levied on pensions exceeding Rs10 million annually for pensioners under 70 years of age.

To discourage cash transactions and promote a cashless economy, non-filers will now be subject to a 1 percent advance tax on cash withdrawals, up from 0.6 percent. Businesses that file taxes will be discouraged from making cash sales exceeding

Rs200,000. Other measures were announced to encourage digital payments and online financial transactions.

The government also plans to take strict action against non-filers. Only taxpayers who have submitted their wealth statements will be allowed to engage in significant financial transactions such as purchasing vehicles, real estate, securities, mutual funds, or opening certain bank accounts. In efforts to clamp down on unregistered traders, the finance minister proposed stringent penalties, including freezing of bank accounts, restrictions on property transfers, and sealing of business premises for serious violations of sales tax laws, with trade bodies expected to assist in enforcement.

those earning up to Rs2.2 million annually. For this group, the income tax rate will drop from 15% to 11%, representing a 4-percentage-point reduction. Similarly, individuals with annual incomes between Rs 600,000 and Rs 1.2 million will see their tax rate halved—from 5% to 2.5%. Higher earners are also set to benefit. Those making between Rs2.2 million and Rs3.2 million will see their tax rate reduced from 25% to 23%. Aurangzeb said the changes are designed not only to provide financial relief but also to align wages with inflation and make the tax system simpler and more balanced. To further support professionals and reduce the outflow of skilled workers, the government has proposed a 1% cut in the income surcharge for individuals earning over Rs1 million annually.

2023. For the current fiscal year, growth is estimated at 2.7%, falling short of last year's 3.6% target. Officials expect economic momentum to be bolstered by a sharp decline in borrowing costs, thanks to multiple interest rate cuts by the central bank. However, economists caution that monetary easing alone may not be sufficient, as fiscal tightening and ongoing IMF reforms could continue to weigh on private investment.

PSX cherishes the new budget

Pakistan's equity market surged today as investor confidence soared following the announcement of the federal budget for FY2025–26. Analysts credited the market rally to investor-friendly tax policies and the government's alignment with International Monetary Fund (IMF) fiscal targets. The Pakistan Stock Exchange's (PSX) benchmark KSE-100 Index surged to an intraday high of 124,135.96, marking a gain of 2,111.52 points or 1.73%. The day's low was 123,237.99, still up by 1,213.55 points or 0.9%. Market sentiment received a major boost from the decision to keep the capital gains tax (CGT) on equities unchanged at 15%, while simultaneously raising taxes on interest income — a shift seen as favoring equity investments over fixed-income instruments.

“This differential tax treatment is a key catalyst for equities. We could be seeing the early stages of a run toward 150,000 on the KSE-100 within a year,” said Soomro, an independent investment and economic analyst. The newly presented budget outlines projected revenues of Rs19.3 trillion and expenditures of Rs25.8 trillion, resulting in a federal fiscal deficit of Rs6.5 trillion (5.0% of GDP). The national fiscal deficit is projected at Rs5 trillion (3.9% of GDP), with provinces expected to deliver Rs1.5 trillion surplus — an increase from Rs1 trillion in the previous fiscal year.

The budget could trigger a re-rating of the PSX's price-to-earnings (PE) multiple from 5.2x to 7x, assuming it passes without major revisions — a move that would make equities significantly more attractive heading into FY26. Wednesday's rally builds on Tuesday's momentum, when the KSE-100 rose by 383.44 points (0.32%) to



Tax Relief for Salaried Persons

Salaried employees in Pakistan are set to benefit from significant tax relief under the federal budget for 2025–26, as the government moves to cut income tax rates for middle- and high-income earners. Presenting the budget, Finance Minister Muhammad Aurangzeb said Prime Minister Shehbaz Sharif had made it a priority to support the salaried class, which has long carried a disproportionately high tax burden.

“In response, we are introducing broad-based reductions in income tax rates for salaried individuals,” Aurangzeb announced.

The most substantial relief is planned for

“The government acknowledges that Pakistan's highly skilled professionals are burdened by some of the highest tax rates in the region,” Aurangzeb noted. “We want to give them reasons to remain in Pakistan.”

The government unveiled the full federal budget for fiscal year 2025–26 on Tuesday, with total expenditures reduced by 7% to Rs17.57 trillion (\$62 billion). However, defence spending has been significantly increased—up 20%—following a deadly conflict with India last month. The defence allocation now stands at Rs2.55 trillion (\$9 billion) for FY26, compared to Rs2.12 trillion in the outgoing fiscal year. The government is projecting GDP growth of 4.2% for the upcoming year, signaling a recovery from economic instability that brought the country close to default in

close at 122,024.44. That session saw a high of 122,611.53 and a low of 121,589.90.

Provinces to get Rs 8.205 trillion from NFC Award

The federal government has earmarked Rs 8,205 billion for distribution among Pakistan's provinces under the National Finance Commission (NFC) Award for the upcoming fiscal year, with Punjab and Sindh receiving the largest shares, according to newly released budget documents. Punjab remains the top recipient, set to receive Rs 4,760 billion from the divisible pool — a reflection of its population size. Sindh will get Rs 2,430 billion, also maintaining a strong share based on demographic and revenue considerations.

Khyber Pakhtunkhwa (KP) has been allocated Rs 1,342 billion, which includes an additional 1% share in recognition of its frontline role in the war on terror. Balochistan is slated to receive over Rs743 billion from the federal pool. Beyond these allocations, the provinces will also receive over Rs217 billion in oil and gas royalties, providing additional fiscal flexibility to support development and governance initiatives.

Compared to last year, the new allocations represent a notable increase of Rs1,208 billion in total provincial shares. Punjab's allocation rises by Rs641 billion, Sindh's by Rs291 billion, KP's by Rs207 billion, and

Balochistan's by Rs70 billion. The NFC distributions are sourced from a range of federal revenues, including income tax, capital value tax, sales tax, federal excise duty (FED), and customs duties. This expanded provincial funding is expected to strengthen local capacity to finance essential public services, particularly in health, education, and infrastructure. It comes at a time when provinces face growing inflationary pressures and rising fiscal demands.

Debt Servicing to Devour Nearly Half of Pakistan's Budget in FY2025-26

In the fiscal year 2025–26, nearly half of Pakistan's federal budget—46.7% or Rs8.2066 trillion out of a total Rs17.573 trillion—will be consumed by debt servicing, according to The News. This marks the single largest allocation in the budget, dedicated to interest payments and loan repayments, leaving limited fiscal space for health, education, and development spending.

Although the allocation is Rs739 billion (8.26%) lower than the revised estimate of Rs8.945 trillion for the outgoing fiscal year, the burden remains immense. The breakdown shows Rs7.197 trillion earmarked for domestic debt servicing and Rs1.009 trillion for foreign loan repayments.

As of end-March 2024, Pakistan's public

debt had reached a massive Rs76.01 trillion (US\$269 billion)—more than quadruple its size a decade ago. Of this, Rs51.52 trillion was domestic and Rs24.49 trillion was external debt. Public debt now stands at 66.27% of GDP, breaching the legal limit set by the Fiscal Responsibility and Debt Limitation Act (FRDLA). During the first nine months of FY2024-25, the government already paid Rs6.44 trillion in interest—66% of the annual debt servicing target. This included Rs5.78 trillion to domestic creditors and Rs656 billion to foreign lenders.

Despite government claims of improved cash-flow planning and long-term borrowing strategies, the debt trap remains a significant challenge. The growing repayment obligations are crowding out private investment, weakening the rupee, contributing to inflation, and reinforcing the country's dependency on further borrowing—a self-reinforcing cycle of fiscal stress. From July to March FY25, gross external inflows amounted to \$5.07 billion, mainly sourced from multilateral institutions (\$2.8 billion), commercial sources (\$2.01 billion), and bilateral partners (\$258 million). However, Pakistan did not issue any global bonds during this period. Meanwhile, external outflows exceeded inflows, reaching \$5.636 billion, with repayments of \$2.828 billion to multilaterals, \$1.565 billion to bilateral partners, and \$1.243 billion to commercial lenders—further straining the already pressured foreign exchange reserves.



Nationwide Dismay and Political Outrage as Pakistan Unveils Controversial Budget 2025-26 Amid Rising Regional Tensions



By Hina Kashif

The unveiling of Pakistan's federal budget for FY2025-26 has triggered a wave of political condemnation, public frustration, and concern from business and civil society stakeholders, even as the government faces mounting geopolitical tensions and economic uncertainty.

As the federal budget for 2025-26 was presented in the National Assembly this week, Leader of the Opposition Omar Ayub delivered a sharp and uncompromising critique of the government's economic policies and overall management. Speaking to reporters outside the Islamabad High Court (IHC), Ayub accused the ruling coalition of guiding Pakistan toward "economic collapse," highlighting key financial indicators that, in his view, reflect gross mismanagement and poor governance.

Ayub pointed specifically to the soaring debt burden that is consuming an ever-increasing portion of the national budget. "More than half of our entire budget is now dedicated to servicing debt," he asserted, emphasizing how this leaves little room for

development or social welfare spending. He also criticized the steep rise in the petroleum levy, which has crossed Rs100 per litre, making everyday commodities and transportation costs unbearably expensive for ordinary Pakistanis. "When we were in power, the petroleum levy was only Rs20 per litre. The government's failure to control inflation and manage fiscal policy is hurting the common man," Ayub added.

He further condemned the government for failing to increase salaries for regular government employees, even as allocations for the Prime Minister's and President's official residences have been increased. "While the working class struggles to make ends meet, those at the top continue to receive increased funds. This budget reflects a clear disconnect from the needs of ordinary citizens," he said.

In addition to economic grievances, Omar Ayub also spoke on political and judicial issues, accusing the government of using legal proceedings as a tool for political victimization. He expressed deep concern over the treatment of former Prime Minis-

ter Imran Khan and other Pakistan Tehreek-e-Insaf (PTI) leaders, alleging that they are being denied fair judicial processes. Ayub highlighted delays and irregularities in court hearings, pointing to the postponement of bail hearings and the dismantling of judicial benches. "We arrived at the Islamabad High Court on time, but Imran Khan and Bushra Bibi's bail hearing was inexplicably delayed. The courts are being manipulated to deny justice," he said.

He also raised concerns about restrictions on Imran Khan's access to his imprisoned party members, calling it a violation of fundamental rights. "We stand firmly with all our comrades who are behind bars. This political repression must end," Ayub emphasized.

Overall, Omar Ayub's statements underscored deep dissatisfaction with the federal government's policies and handling of both the economy and political affairs, setting the stage for continued opposition pressure in the months ahead.

Public Frustration Over Soaring Costs and Tax Measures

Public reaction to the government's recent budget decision to impose an 18% sales tax on imported solar panels has been swift and overwhelmingly negative, particularly among those already struggling with soaring energy costs and frequent power shortages. In a country like Pakistan, where electricity prices have skyrocketed and outages remain a persistent issue, solar panels have long been viewed as a practical and increasingly popular alternative for both households and businesses seeking to reduce their dependence on the unreliable grid.

A shop owner in Lahore's bustling Hall Road market expressed deep frustration over the new tax. "Solar panels were our only way to escape huge power bills," he explained. "Now, with this added tax, even investing in solar energy will become unaffordable for many. This move feels like a step backward for ordinary people trying to find solutions to energy problems."

The government, however, defends the imposition of the tax as a necessary step to support and revitalize the domestic solar panel manufacturing industry. According to the budget documents, the influx of cheaper imported solar panels had put significant pressure on local manufacturers, particularly small and medium-sized enterprises, making it difficult for them to compete. The 18% sales tax is therefore intended to level the playing field, encouraging local production, creating jobs, and reducing reliance on imports.

Despite these official justifications, many citizens see the policy as shortsighted and counterproductive. For thousands of households and small businesses who have embraced solar energy to offset escalating fuel costs and frequent power outages, the tax has only added to an already long list of economic hardships. Consumers worry that the additional financial burden will discourage the adoption of renewable energy solutions just as the country faces growing energy demands and environmental concerns.

In public forums and social media

platforms, the response has been critical, with users voicing concerns that the tax will hinder progress towards energy independence and exacerbate the affordability crisis for sustainable energy options. Many feel that instead of penalizing imported solar panels, the government should have focused on incentivizing renewable energy adoption to alleviate pressure on the national grid and reduce the overall cost of electricity for consumers.

Overall, the decision to tax imported solar panels has intensified public dissatisfaction with the budget's approach to energy policy, leaving many to question whether economic protectionism at the expense of consumers is the right path forward for Pakistan's energy future.



Business Community Slams Budget as "Inflationary" and "Visionless"

The Pakistan Business Forum (PBF) expressed its disappointment, claiming the budget failed to support key economic drivers like agriculture and small enterprises.

"This budget does nothing for the agriculture sector," said Ahmed Jawad, Chief Organiser of the PBF. "There are no concrete steps to meet the government's own 4.5% growth target."

He also criticized the record Rs14.1 trillion tax collection target, warning that it would result in even higher inflation and hardship for the average citizen.

While the PBF welcomed some positive developments, including a reduction in regulatory duties and excise taxes on property transactions, it stated that the overall fiscal direction remained burdensome and poorly thought out.

"We were expecting a major reduction in super tax," Jawad added. "But what we got is like throwing a pinch of salt in a sack of flour."

YouTubers Decry 18% Income Tax

One of the most controversial provisions in the new budget is the imposition of an 18% sales tax on the income of digital content creators, including YouTubers, TikTokers,

vloggers, and other online freelancers. This new tax has been met with immediate backlash from the country's growing community of digital entrepreneurs, many of whom rely on platforms like YouTube, Instagram, and Facebook for their livelihood. Previously, most online content creators operated under a relatively untaxed space or were subject to minimal income tax under special freelancer categories. With this new tax policy, even modest-earning creators are expected to pay a flat 18% tax on their gross income, significantly reducing their take-home earnings.

"We're not multinational corporations; most of us are individuals trying to make an honest living through content creation," said Hassan Ali, a Lahore-based YouTuber with 120,000 subscribers. "We invest our own money in equipment, editing, and

internet bills—and now we're being taxed like we're running major enterprises.”

Digital creators argue that the government has failed to distinguish between large-scale influencers earning substantial revenues and small or mid-level creators, many of whom make under Rs100,000 per month. This blanket tax rate, they say, disproportionately hurts those trying to grow in a digital economy that the government itself has been promoting under its so-called "Digital Pakistan" vision.

Critics also point out that while the budget does not hesitate to impose new taxes on content creators and small earners, it continues to provide fiscal privileges and perks to politicians, government officials, and elite segments, such as tax-free allowances and increased funding for official residences and foreign travel.



The lack of targeted relief measures—combined with regressive tax policies like the YouTuber tax—is being seen as part of a broader trend in which the economic burden is increasingly shifted onto the middle and lower-income segments, while elite classes remain protected. Social media has exploded with criticism, with hashtags like #NoReliefForPublic, #TaxTheElite, and #YouTuberTax trending across platforms. For many, the message is clear: the budget has failed to address the real economic challenges of ordinary Pakistanis, and has instead chosen to squeeze them further.

PPP Launches Protest Campaign Against “Elite-Centric” Budget

The Pakistan Peoples Party (PPP) rejected the budget outright, labeling it an “elite-friendly document” that neglects the working class and poor. In a press conference in Islamabad, Chaudhry Manzoor Ahmad, head of the PPP Labour Bureau, called the budget a betrayal of public interest.

“This is a budget by the rich, for the rich,” he declared. “The cabinet and parliamentarians enjoy salary hikes, while the working class is told to survive on inflation-adjusted crumbs.”

The PPP announced it would launch a nationwide protest campaign, with rallies

planned across all four provinces ahead of the budget’s final vote in parliament. The party is coordinating with labour unions and civil society organizations to mobilize street-level resistance.

Ahmad also criticized a proposal to end pensions after 10 years of retirement, terming it “inhuman and regressive,” particularly in a time of rising poverty and economic uncertainty.

“When the World Bank is warning us of an increase in poverty, we should be taking steps to protect, not punish, our workers,” he said.

Economic Tensions Rise as PIA Alters Flight Routes Due to Regional Conflict

Amid domestic unrest, Pakistan International Airlines (PIA) was forced to revise international flight routes following Iran’s airspace restrictions prompted by escalating tensions with Israel. The change affects flights to Gulf nations, Toronto, and Paris, which are now rerouted through Omani airspace.

The move comes after Iran imposed restrictions in response to Israeli military aggression, including a reported strike on Iran’s Natanz nuclear facility. These geopolitical developments are further complicating Pakistan’s efforts to stabilize its economy and attract foreign investment.

Public Sentiment: Anger, Despair, and Protest

Across the country, ordinary citizens expressed growing despair. Many criticized the government for focusing on elite privileges while ignoring basic needs like food affordability, job creation, and power relief.

“We are paying taxes we never paid before, but where is the return?” asked a schoolteacher in Rawalpindi. “Prices are high, services are low, and now even electricity from the sun will be taxed.”

On social media, hashtags like #Budget2025Fail, #TaxTheElite, and #SolarTax trended nationwide, as thousands posted videos and comments decrying new levies, higher fuel prices, and cuts to essential services.

The federal budget for the fiscal year 2025–26 has ignited widespread dissatisfaction among the general public, with salaried workers, small business owners, freelancers, and digital content creators expressing particular frustration. In a climate marked by persistent inflation, soaring utility costs, and declining quality of public services, the budget falls short of addressing the pressing financial challenges faced by ordinary Pakistanis. Despite

mounting economic pressures, there is a noticeable absence of substantial relief measures aimed at easing the everyday burden on citizens.

Many are dismayed by the lack of meaningful income tax reductions, which could have provided some respite for the growing number of salaried individuals and freelancers struggling to make ends meet. Additionally, the government has not announced any increase in the minimum wage, leaving lower-income workers vulnerable to the rising cost of living. Essential commodities such as electricity, fuel, and staple foods continue to see price hikes, with no major subsidies or price controls introduced to mitigate these increases. This has intensified public anxiety and fostered a sense that the budget prioritizes fiscal targets over the welfare of the common people.

Small business owners and freelancers, including the burgeoning community of digital content creators and YouTubers, feel particularly targeted by the new fiscal measures. Many of these independent workers rely on fluctuating incomes and were hoping for supportive policies to help them thrive amid economic uncertainty. Instead, the imposition of an 18% tax on digital earnings has only added to their financial strain, prompting widespread criticism and concerns over the lack of support for Pakistan's growing digital



economy. The cumulative effect of these budget decisions has fueled a growing perception that the government is disconnected from the everyday realities of its citizens, intensifying calls for more inclusive and compassionate economic policies.

What Lies Ahead?

With political opposition mobilizing, the business community wary, and public sentiment boiling, the government faces growing pressure to amend the budget or face mass protests. The coalition's insistence on pushing through its economic agenda amid rising living costs and regional instability could deepen polarization and

social unrest.

Even supporters of the government appear frustrated by the lack of targeted relief. As one Karachi-based economist put it:

“This is a survival budget, not a growth budget. And unfortunately, even survival is not guaranteed under such conditions.”

The coming weeks will be critical as the budget is debated in Parliament and opposition parties prepare for street-level resistance. Whether the government can withstand the backlash and implement its fiscal vision remains to be seen in what is fast becoming a summer of discontent in Pakistan.



Budget 2025-26: Pakistan's Bold Fiscal Push With Tax Relief for Lower-Income Earners, Swift Action on Non-Filers



By Romana Afsheen

Pakistan's Finance Bill 2025–26 charts a transformative course for the country's struggling tax regime. It combines generous income tax reductions for lower- and middle-income earners with unprecedented enforcement mechanisms targeting non-filers. With a revenue target of Rs 14.131 trillion—over Rs 2.5 trillion above last year's collections—the fiscal package reflects a dual strategy: incentivize compliance while penalizing non-participation.

Tax Relief for Salaried Individuals: A Lifeline for the Masses

One of the most striking features of Budget 2025–26 is its sweeping tax relief aimed at salaried employees. The government is committed to providing roughly Rs 60 billion in tax breaks to workers, with the most substantial reductions benefiting those earning between Rs 600,000 and Rs 3.2 million annually.

- **Rs 600,000–1.2 million bracket:** Tax rate slashed to 1%, down from 5%,

yielding up to 80% relief.

- **Rs 1.2 million–Rs 2.2 million:** Rate reduced to 11%, from 15%, trimming the fixed slab from Rs 30,000 to Rs 6,000.
- **Rs 2.2 million–Rs 3.2 million:** Rate drops to 23% (from 25%), with lower fixed sums (Rs 116,000 instead of Rs 180,000).
- **Rs 3.2 million–Rs 4.1 million:** Fixed tax reduced to Rs 346,000 (from Rs 430,000), though the marginal rate remains 30%.
- **Over Rs 4.1 million:** Fixed tax lowered to Rs 616,000 (from Rs 700,000), marginal rate stays at 35%.

The surcharge for salaried individuals has also dropped from 10% to 9%, offering further relief. Together, these adjustments form a progressive framework, easing pressure on 80% of taxpayers in registered employment.

A closer look at the impact reveals how real these benefits can be. For example,

someone earning Rs 150,000 per month—Rs 1.8 million annually—sees tax liability nearly halved. While upper-income earners do not receive rate cuts, the reduced fixed amounts still offer some financial relief. Pensioners with earnings exceeding Rs 10 million face a modest new 5% tax on that portion of their income.

By aligning the salary exemption threshold at Rs 50,000 monthly (a status quo from previous budgets) and crafting tailored reductions, the government has acknowledged the need for relief among salaried Pakistanis, especially after inflationary pressures of 2024–25.

Revenue Imperative: Saved Tax Must Be Earned Elsewhere

These concessions cost an estimated Rs 58 billion—a sizeable concession. To hit the Rs 14.131 trillion revenue goal, the budget includes:

- Rs 670 billion in additional tax and enforcement measures.

- Minus Rs 58 billion in relief, yielding a net revenue gain of Rs 623 billion.
- Split roughly into Rs 281 billion from new taxes and Rs 389 billion through enforcement strategies.

These figures underscore the scale of the government's ambition. Without new measures, projected autonomous growth—based on 4.2% GDP expansion and 7.5% inflation—would have brought revenue to Rs 12.845 trillion. The proposed measures aim to make up the remaining Rs 1.286 trillion gap through policy intervention.

Non-Filer Crackdown: A Watershed Moment in Compliance Enforcement

At the heart of this budget lies a transformative enforcement drive aimed at non-filers—individuals and businesses not on the FBR's Active Taxpayer List (ATL), lacking filed returns or sufficient declared resources.

Section 114C, inserted into the Income Tax Ordinance 2001, prohibits “ineligible persons” (non-filers or those unable to justify assets) from engaging in major financial transactions. Here's how the clampdown works:

1. **Property & Vehicles:** Non-filers cannot buy or register immovable property or motor vehicles once a notification threshold is announced.
2. **Bank Accounts:** Under Section 14AC, the FBR commissioner can instruct banks to block accounts belonging to unregistered individuals.
3. **Securities & Mutual Funds:** Non-filers are ineligible to buy or sell securities or mutual fund units.
4. **Cash Withdrawals:** Non-filers face a 1% withholding tax on all cash withdrawals, up from 0.6%.
5. **New Accounts Prohibited:** Banks cannot open current, savings, or investment accounts for non-filers (excluding Asaan and pensioner accounts).

6. **High-Risk Data Sharing:** Section 175AA empowers the FBR to share detailed data—income, turnover, bank accounts, wealth statements, identification—with banks, which must flag discrepancies.
7. **Utility & Mobile Service Checks:** Telecom and public utility companies will be required to verify filer status, barring services to non-filers.
8. **Travel Restrictions:** Non-filers can be restricted from purchasing domestic or international flight tickets and, in some cases, denied access to gas or electricity.

Adding heft, a withholding tax of 90% can be applied to remittances, card transactions, or cash withdrawals by non-filers—a de facto blocking strategy encouraging compliance.



This enforcement-driven architecture effectively ties tax compliance to everyday financial and lifestyle privileges. It is a sweeping change that redefines the consequences for non-filers, moving beyond occasional audits and fines to everyday utility compliance.

Real Estate Reforms: Mixed Blessings

Separate tax relief measures for taxpayers coincide with tightened non-filer restrictions, producing a complicated landscape in real estate.

For buyers:

- **Withholding tax** on purchases reduced—4% to 2.5%, 3.5% to 2%, and 3% to 1.5%.

- **Federal Excise Duty (FED)** on property transactions abolished.
- Stamp duty in Islamabad slashed from 4% to 1%.

These cuts are intended to revive the moribund real estate market. However, the government simultaneously hikes tax for sellers: 3% to 4.5% (properties up to Rs 50 million), 5% for Rs 50–100 million, and 5.5% for transactions beyond Rs 100 million. The contrasting incentives for buyer and seller have attracted sharp criticism.

Akbar Sheikh, former chair of ABAD, described the buyer-focused relief as “very strange,” urging broader, seller-inclusive measures. Asad Tariq, a realtor, expressed concern about asset disclosures and new eligibility hurdles. The real-world dynamics—such as threshold notifications

and account freezes—may ultimately determine whether the market responds positively or slows further.

Real-World Impact: Feedback from Stakeholders

Responses have streamed in from diverse corners:

- **Real estate developers and realtors** lament that incentivizing only buyers, while penalizing sellers, breeds imbalance and may stall transactions—especially with eligibility checks in place.
- **Industry players and manufacturers** involved in solar panels, hybrid vehicles, food items, etc., raised

- concerns about sales tax changes and cost implications.
- **Non-filers**, particularly cash-heavy rural participants in real estate or agriculture, fear exclusion from financial systems, with restricted account access, mobile services, and high transactional taxes.
- **Pensioner groups** are unsettled by the new 5% levy on pensions above Rs 10 million, signaling a shift toward taxing high-earner retirees.
- **Civil society and legal experts** worry about potential harassment or discriminatory application of the new rules, calling for clear appeals mechanisms.
- **Sales tax on items previously exempt or lower-rated:** solar panels, imported pet food, chocolates, cereal bars fall under third-schedule; bun and rusk become exempt; concession rates on vermicelli and sheermal withdrawn.
- **Hybrid vehicles** incur an 18% sales tax; solar panels also taxed at 18%.
- **FATA/PATA** electricity and sales tax exemptions extended to June 30, 2026, supporting marginalized regions.

On digital economy regulation, the budget expands definitions for e-commerce and online marketplaces, bringing websites and apps under tax umbrellas with renewed clarifications in the Sales Tax Act's Eleventh Schedule.

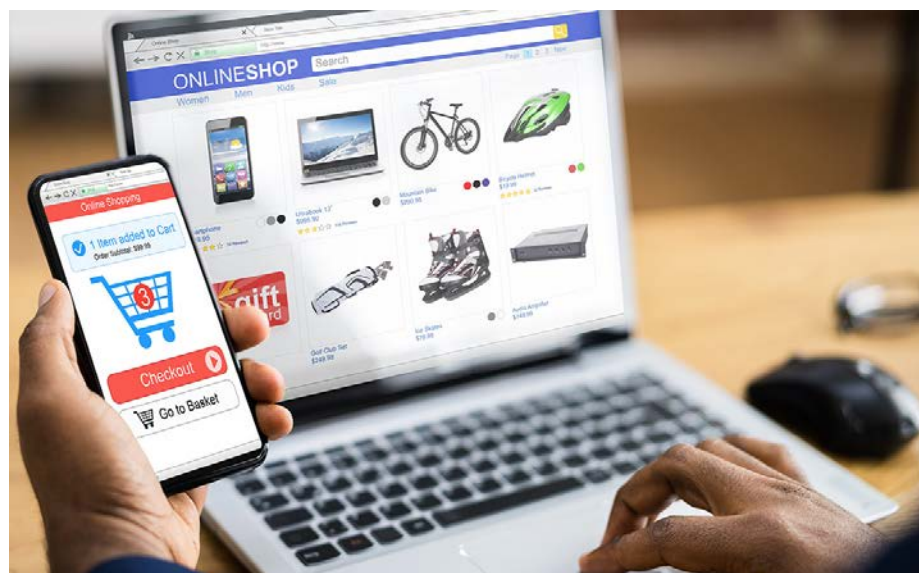
3. **Public Communication:** Citizens across urban and rural Pakistan need clarity—Which transactions now require filer status? How to appeal account freezes? What happens if tax returns aren't filed timely?
4. **Grievance Redressal:** The expanded powers for freezing accounts and restricting services necessitate appeals mechanisms and oversight—without them, accusations of harassment are inevitable.
5. **Regulatory Frameworks:** Implementing thresholds for property transactions and clarity for non-filer categories requires timely notifications and proper documentation standards.

Without institutional readiness, enforcement risks being patchy, retaliatory, or skewed toward wealthier or connected individuals, undermining the intended nationwide impact.

Political & Social Ramifications: A Tightrope Walk

The Finance Bill touches every aspect of everyday life—from where you can get a bank account or open a SIM card, to whether you can buy a car or book a flight ticket. Consequently, this package is as much a test of political conviction as it is fiscal strategy.

- **Rural backlash** may arise as non-filer farmers and traders find themselves cut off from liquidity or basic services.
- **Elite opposition** could mount as high-net-worth individuals face restrictions on financial freedom, travel, or gas/electricity services.
- **Civil liberties concerns** may be raised over data usage and potential for discrimination—e.g., whether digital checks could form a surveillance apparatus.
- **Legal scrutiny:** With such raw enforcement powers, the potential for wrongful freeze orders or misclassification of filer status could lead to litigation or public protests.



Digital & E-Commerce Levies: Catching Up with Technology

To align with global taxation trends and plug revenue gaps, the budget includes:

- **Digital Transactions Proceeds Levy:** a 2% tax on gross value of digitally ordered goods/services.
- **Withholding on digital payments:** intermediaries and courier services will collect sales tax at an increased rate of 2% (from 1%).
- **Profit on debt:** taxed at 20%, up from the previous 15%. Dividends taxed at 25%; mutual fund dividends at 15%.

Institutional Preparedness: The Elephant in the Room

The scope and technical scale of these reforms demand exceptional coordination and resilience within Pakistan's tax and financial infrastructure. Critical components include:

1. **Data Connectivity:** FBR must establish real-time API links with banks, telecoms, utilities to check and update filer status.
2. **Awareness & Training:** Tax officials, bank staff, utility and telecom employees must be equipped to implement and enforce rules fairly.

The government faces a balancing act—ensuring enforcement does not translate into overreach, and that safeguards and processes allow redress. Strong public-forum campaigns, easy-to-use online portals, and offline help desks will be critical to prevent mistrust.

International Comparisons: Pakistan as a Global Experiment

Several countries tie financial privileges—like account opening—to tax compliance. But Pakistan's approach, combining data-sharing with active transaction bans (at banks, properties, SIMs, utility services), is bold, assertive, and drawn from digital tax enforcement trends in OECD and Asian economies.

- **UK and Canada** link tax filing to financial account eligibility, but with advanced admin frameworks and public service backstops.
- **Australia** uses common reporting standards and automatic exchange frameworks, without outright bans.
- **Developing countries (e.g., Indonesia)** also tax digital transactions, but enforcement remains limited by digital capacity.

Pakistan is taking this paradigm further, converting compliance into a prerequisite for everyday transactions—potentially expediting the formalisation of large, previously unmonitored economic sectors.

Execution Risks & Success Factors

The success of these reforms depends on execution across multiple dimensions:

- **Tech readiness:** Real-time data checks must be reliable, fast, and secure.
- **Policy clarity:** Threshold notifications for vehicles or properties; details of Asaan/pensioner accounts; exemption lists.
- **Public outreach:** Evidence-based campaigns demonstrating benefits to ordinary citizens (e.g., reduced taxes, digital convenience).

- **Enforcement fairness:** Documentation for any account freeze; ombudsman or tribunal for disputes.
- **Feedback loops:** Monitoring non-filer registrations, digital transaction volumes, real estate activity, banking system liquidity.

Fail fast to correct missteps—otherwise implementation flaws could fuel evasion, cash-driven economies, or financial exclusion.

Economic Outlook: Growth, Formalization & Inclusivity

If well executed, the budget could yield:

- **Revenue gains:** Coming from enforcement and digital tax measures, reducing reliance on deficits or borrowing.

conditions improve, the combination of tax relief and compliance could unlock pent-up demand.

Yet risks remain rural disenchantment, informality resurgence via hawala or smurfing, and corner-retail sector suffering under new levies on staples.

Conclusion: A Pivotal Moment

Pakistan's Finance Bill 2025–26 is more than a fiscal strategy—it is a structural leap. With both carrots and sticks, the government seeks to reshape how Pakistanis engage with taxes, finance, and the modern economy. From Rs 60 billion in relief for wage-earners to Rs 623 billion in net revenue increases, and from Rs 14+ trillion collection targets to unprecedented bans and levies on non-filers, the blueprint is ambitious.



- **Increased registrations:** Non-filers may rush to register, creating opportunities for future reforms like progressive property taxes.
- **Digital formalization:** As banks become the center of tax enforcement, more transactions may shift to traceable channels.
- **Financial inclusion:** Middle-income earners who benefit from tax relief may feel more incentivised to join the formal economy.
- **Real estate revival:** If seller-side

But ambition is only the first step. Implementation, fairness, transparency, and swift course correction will determine whether this becomes a global case study in tax modernization—or a cautionary tale of heavy-handed reform. For now, Pakistan stands at a critical junction. Staking everything on non-filer restrictions, digital tax frameworks, and sector-specific incentives, the government has drawn its line. Whether this initiative delivers on its promise depends not just on policy design, but on effective execution—where every teller, taxpayer, and telecom vendor becomes part of a new fiscal architecture for tomorrow.

Economic Survey reveals Pakistan is on the path towards growth



By Javed Mahmood

Federal Finance Minister Muhammad Aurangzeb, presenting the Pakistan Economic Survey 2024–25 on Monday, announced that the country's Gross Domestic Product (GDP) grew by 2.7%, while inflation stood at 4.6% during the outgoing fiscal year.

The annual survey, unveiled ahead of the federal budget announcement scheduled for Tuesday, offers a comprehensive analysis of Pakistan's socio-economic performance. It outlines key fiscal indicators, including GDP growth, tax revenue, industrial output, public debt, trade performance, employment levels, population trends, and climate change impacts.

Aurangzeb emphasized the significant drop in the policy rate, which fell from 22% to 11%, crediting recent power sector reforms for record recoveries. He also highlighted a 7% increase in exports, underscoring Pakistan's rising Information Technology (IT) potential, with freelancers earning \$400 million and IT exports reaching \$2.8 billion.

On the external front, imports rose by 11.7%, yet the current account posted a

\$1.9 billion surplus (July–April), bolstered by a 26% increase in revenue collection. Aurangzeb noted that remittances surged by \$10 billion over the past two years, strengthening the country's foreign exchange position.

Despite global inflation averaging 6.8% over the past two years and now at 0.3%, Pakistan's foreign exchange reserves improved markedly this year, indicating growing economic stability.

The finance minister projected a medium-term GDP growth rate of 5.7%, affirming that the country is on a positive economic trajectory. He praised the caretaker government for maintaining alignment with the International Monetary Fund (IMF) programme, and reiterated the need for continued structural reforms, particularly within the Federal Board of Revenue (FBR).

“Economic transformation takes time—typically two to three years,” Aurangzeb stated. “We're moving in the right direction, and now we must focus on sustaining GDP stability.”

The Economic Survey 2024–25, released just ahead of Pakistan's federal budget, presents a picture of cautious optimism as the country shows signs of economic stabilization while remaining vulnerable under the \$7 billion IMF program. The budget for the upcoming fiscal year, beginning in July, was unveiled on Tuesday (June 10).

Here's a breakdown of the key findings, as analysed by Arif Habib Limited:

Economic Performance

- **GDP Growth:** The economy expanded by 2.68% in FY25, with GDP at current prices rising 9.1% to Rs114.7 trillion. Per capita income increased 9.7% to \$1,824.
- **Inflation:** Headline inflation fell sharply—0.3% in April 2025 compared to 17.3% a year earlier. Average inflation from July to April stood at 4.7%, down from 26%.
- **Investment & Savings:** The investment-to-GDP ratio improved to 13.8%, while the savings-to-GDP ratio rose to 14.1%.

Sectoral Highlights

- **Agriculture:** Grew by just 0.56%, with livestock expanding 4.72%. Major crops declined 13.49%, impacted by reduced cultivation and adverse weather.
- **Industry:** Registered 4.77% growth, supported by small-scale manufacturing. Large-scale manufacturing shrank 1.5%, hampered by high costs and supply issues.
- **Services:** Expanded 2.91%, remaining the dominant sector with a 58.4% share in GDP. Growth was driven by retail, transport, and public services.

Fiscal and Monetary Developments

- **Fiscal Position:** Pakistan recorded its first quarterly fiscal surplus in 24 years (Rs1,896 billion, or 1.7% of GDP in 1QFY25). The full-year fiscal deficit narrowed to 2.6%, and the primary surplus reached 3.0%.
- **Interest Rates:** The policy rate was reduced to 11% in May 2025 from a peak of 22%, reflecting eased inflation and lower energy/food prices.
- **Money & Credit:** Broad Money (M2) grew 4.5%, while private sector credit surged to Rs767.6 billion. Consumer financing rebounded, increasing Rs71.4 billion.

External Sector

- **Stock Market:** The KSE-100 index soared 50.2%, closing at 117,807 points in March 2025, buoyed by macro stability and IMF progress.
- **Current Account:** Posted a \$1.9 billion surplus, reversing a \$1.3 billion deficit last year. Forex reserves rose to \$16.64 billion.
- **Remittances:** Hit a record high of \$4.1 billion in March, totaling \$31.2 billion (up 31% YoY) from July to April FY25.

Debt & Financial Innovation

- **Public Debt:** Stood at Rs76 trillion by March 2025 (domestic: Rs51.5 trillion; external: Rs24.5 trillion or \$87 billion).

- **Debt Management:** The government retired Rs2.4 trillion in short-term T-bills and introduced new instruments like a 2-year zero-coupon PIB and 1-month T-bill. Strategic buybacks totaled Rs1 trillion.
- **Green Finance:** Pakistan launched its first Green Sukuk worth Rs30 billion and secured \$1.4 billion under the IMF's RSF for climate resilience.

Outlook

- **Growth Projections:** Real GDP is projected to reach potential in FY26, with medium-term growth estimated at 5.7%, backed by macro stability and reforms under the URAAN Pakistan strategy.

Pakistan's public debt has reached an unprecedented Rs76.01 trillion (\$269 billion) as of March 2025, marking a nearly 4.5-fold increase since 2015 and exposing the country's chronic fiscal mismanagement and dependency on borrowing.

According to the Pakistan Economic Survey 2024–25, public debt now stands at 66.27% of GDP, exceeding the statutory limit set by the Fiscal Responsibility and Debt Limitation Act (FRDLA) — a worrying sign for a struggling economy with limited fiscal space.

From General Pervez Musharraf's tenure to the current government, successive administrations have leaned heavily on borrowing. Since 2008, the country's debt has grown by 994%, and by 337% in the last



- **Inflation Outlook:** Expected to remain between 5–7%, supported by global disinflation and domestic food security.
- **Current Account:** Forecasted to stay manageable at 0.8% of GDP, driven by export growth, controlled imports, and strong remittances.
- **Policy Focus:** Export diversification, regional trade ties, and fiscal consolidation through tax reforms and privatisation are key priorities.
- **Risks:** Slower global trade, tighter immigration policies abroad, and return migration pose challenges to exports and remittance inflows, necessitating stronger domestic job creation and labour absorption.

decade alone. Each Pakistani — including newborns — now effectively carries Rs277,462 in public debt.

Decades of Debt Accumulation

- 2001: Rs3.68 trillion
- 2008 (end of Musharraf era): Rs6.13 trillion
- 2013 (end of PPP govt): Rs14.29 trillion
- 2018 (end of PML-N govt): Rs24.95 trillion
- Mar 2022 (end of PTI govt): Rs44.37 trillion
- Post-PTI period to Mar 2025: Rs31.64 trillion added

Since April 2022, an additional Rs31.64 trillion has been added in just three years — one of the fastest debt surges in Pakistan's history.

Domestic vs External Debt

- Domestic Debt: Rs51.52 trillion
- External Debt: Rs24.49 trillion (\$87.4 billion)

In the first nine months of FY2025, Rs6.44 trillion was spent on interest payments, or 66% of the Rs9.78 trillion annual budget allocation. Most of this — Rs5.78 trillion — went toward domestic debt servicing, while Rs656 billion covered external interest payments.

Strategic Shifts in Borrowing

The government has increasingly shifted toward long-term debt instruments to manage refinancing risks and extend the maturity profile:

- Pakistan Investment Bonds (PIBs): Rose by Rs5.6 trillion
- Government Ijara Sukuk: Increased by Rs1.2 trillion
- Prize Bonds: Minor rise of Rs16 billion
- Permanent Debt: Now 78% of total domestic debt (up from 70%)

In contrast, floating debt, mainly in the form of Market Treasury Bills, dropped from Rs10.25 trillion in June 2024 to Rs7.86 trillion by March 2025 — a reduction of Rs2.4 trillion, reflecting a deliberate move away from short-term borrowing.

Unfunded debt — mostly in the form of National Savings Schemes — edged up slightly by Rs137 billion to Rs2.94 trillion.

External Debt Breakdown

Total external public debt stood at \$87.4 billion, with:

- Government Debt: \$79.13 billion
- IMF Loans: \$8.27 billion (including \$4.4B from SBP and \$3.9B federal)
- Long-Term Debt: \$78.18 billion
- Short-Term Debt: \$950 million

Composition of Long-Term External Debt:

- Multilateral Loans: \$40.47 billion (51.8%)
- Bilateral (Paris Club): \$5.94 billion (7.6%)
- Bilateral (Non-Paris Club): \$17.86 billion (22.8%)
- Eurobonds/Sukuk: \$6.8 billion (8.7%)
- Commercial Bank Loans: \$5.85 billion (7.5%)
- Other Sources: 1.5% (e.g., Naya Pakistan, Pakistan Banao Certificates)

No Eurobonds or international Sukuk were issued during the first nine months of FY2025, reflecting limited market access. At the same time, external repayments totaled \$5.64 billion, exceeding gross inflows of \$5.07 billion, indicating pressure on the external account.

Key Debt Management Measures

- Introduction of 2-year zero-coupon PIBs, raising Rs610 billion
- Launch of 10-year Ijara Sukuk (fixed and floating) to attract Islamic investors
- Shift from short- to long-term borrowing to lower rollover risks

Conclusion

Despite the Ministry of Finance touting improved debt maturity and better cash-flow planning, Pakistan's public debt trajectory remains deeply concerning. The economic reliance on debt — amid low revenue collection, limited export growth, and high expenditure — highlights the urgent need for structural fiscal reforms to avoid a deeper crisis.

Federal Finance Minister Muhammad Aurangzeb presented the Pakistan Economic Survey 2024–25, highlighting modest but broad-based signs of economic recovery. GDP growth reached 2.7%—below the initial 3.6% target but aligned with revised projections. Inflation significantly eased, averaging 4.6%, with April 2025 CPI recorded at a multi-decade low of 0.3%.

The survey sets the stage for the federal

budget, to be unveiled in the National Assembly on Tuesday, and details the fiscal year's economic performance, challenges, and outlook.

Key Highlights:

Macroeconomic Indicators

- GDP Growth: 2.7% (target: 3.6%)
- Inflation: 4.6% (July–April average); April at 0.3%
- Fiscal Deficit: 2.6% of GDP
- Primary Surplus: Rs3.47 trillion (3.0% of GDP)
- Policy Rate: Slashed from 22% to 11%
- Forex Reserves: Rose to \$16.64 billion
- Exchange Rate: Stabilized at Rs278.72/USD

Revenue & Taxation

- Total Revenues: Rs13.37 trillion (36.7%)
 - Tax Revenues: Rs9.3 trillion (26.3%)
 - Non-Tax Revenues: Rs4.23 trillion (68%)
- FBR Collections: Rs9.3 trillion
- Tax Filers: Doubled year-on-year

External Sector

- Exports: \$26.9 billion (6.4%)
- Imports: \$48.3 billion (7.5%)
- Trade Deficit: \$21.3 billion
- Current Account: \$1.9 billion surplus (vs. \$200M deficit last year)
- Remittances: \$31.2 billion (31% YoY)

Sectoral Performance

Agriculture

- Growth: 0.56% (lowest in 9 years)
- Major Crops: 13.5%, Cotton Ginning 19%
- Livestock: 4.7%, Other Crops 4.8%

- Notable Crop Trends:
 - o Maize 15.4%, Rice 1.4%
 - o Potato 11.5%, Onion 15.9%

Industry

- Overall Growth: 4.77%
 - o LSM: 1.5%
 - o Mining & Quarrying: 3.4%
 - o Electricity, Gas & Water: 28.9%
 - o Construction: 6.6%

Services

- Overall Growth: 2.91%
 - o Wholesale & Retail Trade: 0.14%
 - o Transport & Storage: 2.2%
 - o Finance & Insurance: 3.2%
 - o Govt Services: 9.9%
 - o Private Services: 3.6%

Information Technology

- Freelancer Earnings: \$400 million
- IT Exports: \$2.8 billion

Social Protection & Education

Benazir Income Support Programme (BISP)

- Total Allocation: Rs471 billion
 - o Kafaalat: Rs366.9 billion for 8.5M families
 - o Taleemi Wazaif: Rs55.4 billion for 7.96M children
 - o Nashonuma: Rs5.48 billion for 0.7M mothers and children

Education

- Spending: 0.8% of GDP
- Literacy Rate: Overall 60.6%
 - o Male: 68% | Female: 52.8%
- Universities: 269 (160 public, 109 private)
- Higher Education Allocation: Rs61.1 billion

- PhD Faculty Proportion: 37.97%

Outlook & Minister's Remarks

Finance Minister Aurangzeb lauded the progress made under the IMF programme and credited structural reforms with stabilising the economy. However, he warned against unsustainable, consumption-led growth:

“Don’t get into a sugar rush... such growth spikes disrupt our balance of payments.”

Looking ahead, Pakistan projects 4.2% GDP growth in FY2025 and aims for a medium-term trajectory of 5.7%, supported by reforms in tax collection, investment, and exports.

targets. Inflation has dropped to historically low levels due to tight macroeconomic policies and lower food and energy prices, although core inflation remains high at about 9%. Economic growth is recovering but was slower than expected in the first half of FY25 due to weak agricultural yields and subdued industrial performance.

The Extended Fund Facility (EFF), a 37-month program approved in September 2024, remains on track. By the end of December 2024, all seven quantitative performance criteria (QPCs) and five out of eight indicative targets (ITs) were met. Most structural benchmarks (SBs) were also achieved, and the successful completion of the first review will unlock SDR 760 million (around US\$1 billion), bringing total disbursements to SDR 1.52 billion.



Despite improvements, challenges remain—particularly in agriculture, industrial output, and climate resilience. Yet, with a stabilised macroeconomic base, the country appears better positioned for sustainable recovery.

IMF and Economic Performance

Pakistan’s economic outlook is improving, reflecting the positive impact of continued reform efforts. Financial and external indicators have strengthened, with a current account surplus during the first eight months of FY25 and foreign exchange reserves exceeding program

The policy focus under the EFF remains on sustaining recent gains and promoting inclusive growth. Fiscal consolidation continues, with the FY25 primary surplus on track. However, further revenue reforms are needed to strengthen collections and reduce debt while maintaining room for social and development spending. Monetary policy is expected to remain tight and responsive to inflation data, and exchange rate flexibility remains essential for absorbing shocks and rebuilding reserves.

In the energy sector, timely tariff adjustments and improved collection have significantly curbed the accumulation of circular debt. Power sector circular debt rose by PRs 166 billion through February—well below

targets—while gas sector circular debt also remained contained due to continued tariff reforms.

The Resilience and Sustainability Facility (RSF) is being pursued to address climate-related risks. The proposed SDR 1 billion arrangement aims to enhance disaster resilience, improve water resource efficiency, strengthen disaster response coordination, boost climate risk disclosures, and support Pakistan's climate mitigation commitments.

On the external side, Pakistan recorded a US\$0.7 billion current account surplus over the first eight months of FY25, a notable turnaround from the US\$1.7 billion deficit a year prior. Remittances and exports remained robust. Foreign exchange reserves stood at US\$10.7 billion at end-March, slightly below their November peak due to debt repayments. Sovereign bond spreads had narrowed but rose sharply in April following new tariff announcements. The exchange rate remained stable, and the SBP adopted a new regulatory framework for exchange companies starting January 2025.

The SBP's tight monetary stance led to significant disinflation, prompting a cumulative 10-percentage-point policy rate cut from June 2024 to January 2025, with the rate held steady at 12% in March. Private sector credit growth moderated due to tighter policies and temporary tax avoidance maneuvers by banks.

Fiscal discipline was maintained, with the general government recording a primary surplus of PRs 2.26 trillion (2% of GDP) in H1 FY25. Federal Board of Revenue (FBR) revenues grew 26% year-on-year but fell short of targets due to lower import activity. Direct tax collections outperformed, partly offsetting indirect tax shortfalls. Social spending through BISP met targets, but development and other expenditures lagged due to administrative delays.

In terms of program benchmarks, all end-December 2024 QPCs and continuous PCs were met. Most indicative targets were achieved, though there were shortfalls in health and education spending, and some tax revenue targets. Nine structural benchmarks were met, including key reforms on fiscal planning and monetary policy, while

three were missed, though some have since been implemented. Delays occurred in passing civil service and sovereign wealth fund legislation, and challenges persist in addressing undercapitalized banks and captive power producers.

The macroeconomic outlook has been moderately revised. FY25 growth is now expected at 2.6% due to global uncertainties and weaker H1 activity, with some recovery anticipated in the second half. Inflation is forecast to rise in the short term due to base effects but should return to the 5–7% target range by FY26. The current account deficit is now projected to be minimal at US\$0.2 billion (0.1% of GDP) in FY25, with medium-term widening

federal and provincial levels. Provinces have amended their Agricultural Income Tax (AIT) laws to align with federal rules, effective in 2025. Efforts to streamline GST and implement property tax reforms are underway. A new cost-benefit approach to tax proposals and a review of tax expenditures will guide the FY26 budget. The Tajir Dost scheme to bring traders into the tax net underperformed, but alternative measures, including higher withholding taxes, have improved compliance. A bill to eliminate the “non-filer” category has been submitted to Parliament.

Federal-provincial relations have strengthened under the National Fiscal Pact signed in September 2024. Provinces agreed to



expected as imports recover. Foreign exchange reserves are set to improve, bolstered by support from multilateral and bilateral partners and RSF disbursements. Access to commercial financing remains limited, though a small Panda bond issuance is anticipated in FY26.

Fiscal targets are within reach, despite downward revisions to nominal GDP and tax revenue. Expenditure savings are expected to ensure the FY25 primary surplus is met. The government continues to prioritize tax litigation resolution—potentially unlocking PRs 120 billion—and has implemented cost controls, including holding back PRs 87 billion in PSDP allocations as contingency.

Tax reforms are advancing at both the

assume more spending responsibilities and enhance their tax efforts. From FY26, PSDP projects affecting only one province will be financed by the respective province. The federal government's right-sizing initiative is also progressing, although further effort may be needed to align with devolution under the 18th Amendment. A framework is being considered for investing provincial cash surpluses in federal securities.

Despite progress, downside risks remain high. These include possible adverse effects from new tariffs, geopolitical tensions, global commodity price hikes, reduced remittances, and domestic policy slippages. Climate-related vulnerabilities continue to pose a significant long-term challenge.

Pakistan's 2025-26 Budget: Bold Reforms and Strategic Economic Direction



By Irtiza Kazmi

KARACHI: Pakistan's Federal Budget for the fiscal year 2025-26, scheduled for presentation on June 10, 2025, is poised to introduce a series of bold fiscal and structural reforms aimed at steering the country toward sustainable economic growth and macroeconomic stability. According to statements from the Finance Ministry and key economic experts, the budget will not only focus on balancing revenues and expenditures but also emphasize long-term economic resilience and structural transformation.

Strategic Focus on Structural Reforms

The government plans to accelerate reforms in critical sectors such as taxation, energy, and State-Owned Enterprises (SOEs). The budget aims to move away from the traditional consumption-led growth model that has historically led to recurrent balance of payments crises. Instead, it will prioritize export-led growth and fiscal discipline. A significant highlight is the planned privat-

ization of major SOEs, including the relaunch of Pakistan International Airlines (PIA) privatization and the privatization of three power distribution companies by the end of 2025. These moves are expected to improve operational efficiency and reduce fiscal burdens on the government (Finance Ministry, 2025). Debt management reforms will also be a key component, with efforts to modernize debt restructuring processes to lower servicing costs while creating economic value. The government envisions growing Pakistan's economy to \$3 trillion by 2047, addressing challenges such as rapid population growth and climate change through partnerships with international organizations like the World Bank (World Bank Pakistan Economic Update, 2025).

Taxation Reforms and Revenue Mobilization

The 2025-26 budget is expected to introduce sweeping reforms in the tax system to broaden the tax base and enhance

compliance. The Finance Ministry has announced plans to simplify tax return filing for salaried taxpayers by reducing the number of data points from approximately 140-150 to just nine, with implementation targeted for September 2025 (Finance Ministry Press Release, May 2025). Additionally, the government aims to bring new categories of income earners into the tax net, including freelancers, YouTubers, vloggers, and other social media influencers, potentially generating an additional Rs500-600 billion in revenue. Pensioners with monthly pensions exceeding Rs400,000 may also be subject to new taxes, expected to raise Rs20-40 billion. Health-related taxes are on the agenda as well, with proposals to impose levies on ultraprocessed food items and increase excise duties on cigarettes and snacks to promote public health awareness. The government is also considering removing the "non-filer" category to restrict non-filers from major economic transactions such as vehicle and real estate purchases. In line with IMF program requirements, the Petro-

leum Development Levy (PDL) is likely to be increased, including the introduction of levies on furnace oil and a gradual carbon tax on petrol and diesel. These measures could raise between Rs35-80 billion in additional revenues. Furthermore, federal excise duties on fertilizers and pesticides may be increased to encourage sustainable agricultural practices (IMF Staff Report, 2025).

The budget is also expected to remove certain GST exemptions and concessionary rates in specific regions and sectors, with provinces introducing agriculture income taxes. Some relief measures for salaried individuals and the real estate sector are anticipated, along with relaxed import duties and age limits on vehicles and subsidies on housing finance to stimulate economic activity.

IMF Negotiations and Fiscal Discipline

The budget presentation was postponed from June 2 to June 10, 2025, due to ongoing negotiations with the International Monetary Fund (IMF) concerning subsidy caps and fiscal targets. Pakistan remains under the IMF's Extended Fund Facility (EFF), which imposes strict limits on subsidy expenditures and requires fiscal discipline. The Finance Ministry is working to reconcile budgetary figures with the IMF's conditions while pursuing reforms



aimed at broadening the tax base and reducing fiscal deficits. This balance is critical to maintaining macroeconomic stability and securing continued international financial support.

Support for National Security and Economic Stability

Reflecting national priorities, the budget will ensure continued support for the armed forces amid recent regional tensions. The finance minister has emphasized the importance of export-led growth, noting that Pakistan's economy has surpassed the \$400 billion mark, signalling progress toward economic resilience.

Conclusion

Pakistan's 2025-26 budget is shaping up to be a landmark fiscal plan characterized by bold reforms, strategic economic planning, and a commitment to fiscal discipline. By focusing on structural reforms, expanding the tax base, accelerating privatization, and modernizing debt management, the government aims to set Pakistan on a sustainable growth trajectory while addressing long-term challenges such as climate change and demographic pressures. The final budget presentation on June 10, 2025, will be closely watched by economists, investors, and international partners as a barometer of Pakistan's economic direction in the coming years.



Iran's Retaliation Against Israel: A Calculated Blow Amid Escalating Tensions



By Kanwal Munir

Introduction

In a dramatic escalation of hostilities, Iran has launched its most direct and forceful retaliation against Israel following a devastating Israeli air campaign that struck deep into Iranian territory. This article focuses primarily on Iran's calculated military response, the scale of damage inflicted on Israel, associated casualties, and the wider geopolitical ramifications. With both nations entrenched in a spiral of retaliation, the possibility of a broader regional war has come closer than ever. This analysis delves into the specifics of Iran's strike, its coordination with regional allies, and the consequences rippling through the international community.

The Catalyst: Israel's Preemptive Strikes on Iran

On June 13, 2025, the fragile calm between Iran and Israel shattered when Israel launched "Operation Rising Lion," a massive, coordinated

military campaign against Iran. In what Israeli officials described as a preemptive strike, more than 100 high-value targets across Iran were hit by airstrikes and drones. The operation concentrated on key nuclear and military sites, including the heavily fortified Natanz and Fordow nuclear enrichment facilities, as well as defense installations in Isfahan. The objective was clear: to significantly degrade Iran's nuclear capabilities and eliminate its top strategic leadership.

The strikes proved deadly and effective. Among the high-profile casualties were top commanders of Iran's Islamic Revolutionary Guard Corps (IRGC): General Mohammad Bagheri, General Hossein Salami, and General Amir Ali Hajizadeh, all central figures in Iran's military doctrine and regional operations. The attack also killed Fereydoon Abbasi, a key nuclear scientist and senior figure in Iran's nuclear development program. Several other scientists and military officials were also reported dead or severely injured.

The Israeli government justified the operation as a critical security measure, claiming Iran's advancing nuclear program posed an imminent threat to Israeli national security and regional stability. However, the attack sparked outrage in Tehran and across Iran's regional allies. It was not only a blow to Iran's military and scientific community but also a direct challenge to Iranian sovereignty. The strike marked a dangerous escalation, with Iran vowing a decisive response. Within hours, the world braced for a retaliatory wave that would soon materialize with devastating effect.

Iran's Retaliation: Unleashing a Coordinated Barrage

Within just 24 hours of Israel's devastating "Operation Rising Lion," Iran launched a massive and unprecedented retaliation against Israeli territory, signaling a dramatic escalation in the long-standing conflict between the two nations. The Iranian response involved the coordinated launch of over 150

ballistic missiles alongside a significant number of armed drones, targeting key Israeli urban centers, military bases, and critical infrastructure. This swift and large-scale missile barrage marked one of the most direct and forceful military actions Iran has ever taken against Israel.

What made this retaliation particularly notable was its coordination with Iran's regional proxies, especially the Iran-aligned Houthi movement in Yemen. For the first time, the Houthis openly acknowledged their role in the attacks, publicly declaring that their missile launches were conducted in close cooperation with Tehran. This public admission highlighted a new phase of regional coordination and underscored Iran's strategic use of proxy groups to extend its military reach. The Yemeni missile strikes primarily targeted central Israel's Jaffa region, adding another front to the Iranian counteroffensive.



Iranian military spokesperson Yehya Sarea framed the missile and drone barrage not just as a military strike but as a symbolic victory. He declared the operation a "triumph for the oppressed Palestinian and Iranian peoples," emphasizing the ideological narrative that underpins Iran's confrontational posture toward Israel. This statement reflected Iran's broader strategy of positioning itself as a champion of resistance against Israeli policies and Western influence in the Middle East.

Despite Israel's advanced missile defense systems, including the Iron Dome and U.S.-supplied interceptors, several Iranian missiles penetrated these defenses and

caused significant damage. The barrage struck urban areas including Tel Aviv, Ramat Gan, and Rishon LeZion, as well as military installations near the Israeli Defense Ministry complex. The attacks resulted in multiple casualties and widespread infrastructure damage, highlighting the vulnerability of even heavily defended Israeli cities to sustained missile and drone assaults.

The retaliation showcased Iran's growing missile capabilities and its willingness to use them aggressively in response to Israeli military actions. It also illustrated the increasingly intertwined nature of Iran's regional alliances, with proxy groups like the Houthis playing active combat roles. The rapid escalation underscored the risks of a wider regional conflict, as Iran's actions directly challenged Israel's security and demonstrated Tehran's ability to project power deep into Israeli territory.

Iran's missile barrage also served as a clear message to the international community. By striking at civilian and military targets alike, Tehran sought to assert that Israeli strikes on Iranian soil would have immediate and costly consequences. The involvement of proxy forces further complicated the conflict's dynamics, threatening to expand the confrontation beyond the two main adversaries.

Targets and Impact Zones in Israel

The Iranian missile barrage targeted central Israel, striking key urban areas including

Tel Aviv, Ramat Gan, and Rishon LeZion, as well as strategic sites near the Defense Ministry complex. Despite Israel's advanced Iron Dome system and support from U.S. missile defenses, several missiles successfully penetrated these protective layers, hitting populated neighborhoods. The attacks caused widespread fires across Tel Aviv and surrounding cities, leading to the collapse of multiple buildings. Infrastructure throughout the affected areas sustained significant damage, disrupting daily life and emergency services. The strikes underscored vulnerabilities despite Israel's sophisticated defense network.

Casualties and Civilian Impact in Israel

Iran's strikes caused considerable civilian harm. Between four and six Israelis were killed, including three fatalities confirmed in Tel Aviv. Casualty estimates vary, but injuries range from 40 to more than 170 individuals. Channel 12 reported 63 injuries and one fatality, while Walla News cited as many as 172 injuries. Residential buildings in Ramat Gan were devastated—nine were destroyed. Office towers and high-rises in central Tel Aviv were also hit, forcing thousands to evacuate.

Public services were thrown into disarray. Ben-Gurion International Airport was shut down. The Israeli parliament was forced to suspend an emergency session, and the government activated nationwide alerts urging civilians to shelter. Reserve troops were mobilized, and emergency hospitals were overwhelmed.

Symbolic and Strategic Messaging

Iran's selection of targets was both symbolic and strategically calculated. By launching strikes near Israel's Defense Ministry complex, Tehran aimed to deliver a clear message of deterrence, showcasing its capability to directly challenge Israel's core military command. This bold move signified a shift from Iran's usual reliance on proxy forces to a more overt and direct form of retaliation. The active participation of allied groups like the Houthis further amplified the regional implications, signaling that any escalation could rapidly

expand into a multi-front conflict involving multiple actors, thereby raising the stakes for Israel and its allies.

IAEA Findings and Fallout

The International Atomic Energy Agency (IAEA) conducted a detailed assessment of the damage inflicted on Iran's nuclear facilities after the Israeli strikes, confirming that above-ground centrifuge units at Natanz and Fordow were severely damaged. Crucially, the agency found no evidence of radioactive leaks or breaches in the underground containment structures, suggesting that Iran's core nuclear material remained secure and contained. Despite

announced the talks were halted "until further notice," a move that effectively ends any short-term prospect of reviving the Joint Comprehensive Plan of Action (JCPOA).

Iran also issued stark warnings to Western powers, threatening to target U.S., British, and French military bases in the Middle East should they support or participate in future Israeli actions. These threats led to an urgent repositioning of U.S. and NATO assets throughout the region.

Global and Regional Reaction

Following Iran's counterstrike against

The Role of Regional Proxies and Allies

Iran's retaliation against Israel stood out not only for its unprecedented scale but also for the explicit and public involvement of its regional proxies, marking a significant shift in the conflict's dynamics. Yemen's Houthi forces openly claimed responsibility for additional missile launches aimed at Israeli targets, signaling a new level of coordination with Tehran's military strategy. Meanwhile, Hezbollah in Lebanon has publicly expressed its readiness to support Iran's efforts, raising fears of a wider front opening against Israel from the north. There are also growing concerns that Palestinian groups, including Hamas, may escalate their own operations in solidarity with Iran's retaliation.

These developments suggest a move toward a more openly declared and coordinated Axis of Resistance, an alliance of Iran and its proxies, which risks transforming what was initially a bilateral conflict into a broader regional confrontation. The potential for simultaneous attacks from multiple fronts could severely destabilize the already fragile security landscape in the Middle East. In response, regional powers like Turkey, Saudi Arabia, and the United Arab Emirates have condemned the escalating violence and called for an immediate cessation of hostilities. However, beneath their diplomatic calls for peace, these countries are quietly preparing for any fallout or spillover effects that might impact their own national security and economic interests. This delicate balancing act highlights the broader geopolitical complexities that surround the conflict and the potential for its consequences to reverberate well beyond Iran and Israel.

Strategic Military Movements

In response to the rapid escalation between Iran and Israel, the United States has significantly bolstered its military presence in the Middle East to deter further conflict and protect its interests and allies in the region. This build-up includes the deployment of aircraft carrier strike groups, advanced missile defense systems, and enhanced surveillance and intelli-



this, the IAEA expressed growing frustration with Iran's increasing lack of transparency and cooperation, highlighting that Tehran had become notably uncooperative in recent months regarding inspections and information sharing. In response, Iranian officials warned that any formal censure or condemnation from the IAEA could provoke further retaliation, raising concerns about the potential for escalating tensions surrounding Iran's nuclear program.

Suspension of Nuclear Talks and Diplomatic Breakdown

In response to the Israeli strikes and perceived Western complicity, Iran suspended all ongoing nuclear negotiations with the United States, which had been mediated by Oman. Iranian officials

Israel, the United Nations Security Council quickly convened an emergency session to address the rapidly escalating conflict. UN Secretary-General António Guterres urged both Iran and Israel to exercise maximum restraint, emphasizing that the Middle East could not withstand another large-scale war. The session saw contrasting responses: Russia and China condemned Israel's initial attacks on Iranian territory, while Western powers called on all parties to de-escalate tensions and pursue diplomatic solutions.

The conflict's ripple effects were felt globally, as oil prices surged, with Brent crude rising above \$110 per barrel amid concerns over potential supply disruptions. Global stock markets reacted sharply, experiencing significant losses, particularly across Middle Eastern exchanges, and heightened volatility in the energy sector underscored growing economic uncertainties.

gence-gathering assets. These measures aim to provide rapid response capabilities and strengthen regional security amid growing tensions.

Meanwhile, Israel remains on the highest state of alert, fully activating its multi-layered missile defense networks, including the Iron Dome, David's Sling, and Arrow systems, to intercept incoming threats from Iran and its proxies. The Israeli military is also mobilizing reserve forces and reinforcing its readiness to respond to any new attacks.

On the Iranian side, the Islamic Revolutionary Guard Corps has elevated its military alert level, placing its strategic missile forces on standby and preparing for potential further engagements. This mutual military readiness underscores the precarious nature of the current standoff, with both sides poised for rapid escalation should hostilities continue.

Conclusion

Iran's retaliation against Israel marks a historic moment in their decades-long shadow war. The scale, coordination, and boldness of the missile and drone strikes signal a new phase of open confrontation.



With significant casualties, severe infrastructure damage, and the collapse of nuclear diplomacy, the Middle East stands on the edge of a wider and more destructive conflict.

The international community faces a critical test. Without urgent diplomatic intervention, the risk of miscalculation

remains dangerously high. Iran's message is clear: it will not accept unchecked aggression. Israel, on the other hand, appears prepared to continue its campaign against Iranian threats. The days ahead may well determine whether this escalation becomes a turning point toward peace—or the ignition point of a devastating regional war.



Israel's airstrikes eliminate top Iranian Generals and Nuclear Scientists



By Javed Mahmood & Hina Kashif

Tehran was struck by a wave of Israeli airstrikes early Friday, resulting in the deaths of several senior Iranian officials, including top commanders of the Islamic Revolutionary Guard Corps (IRGC) and leading figures in Iran's nuclear program. Among the high-ranking casualties were IRGC Commander-in-Chief Major General Hossein Salami and Major General Gholamali Rashid, head of the Khatam al-Anbia Headquarters. Their deaths represent a significant loss for Iran's military leadership.

The strikes also claimed the lives of two prominent nuclear scientists: Mohammad Mahdi Tehrani, president of Islamic Azad University, and Fereydoon Abbasi, former chief of the Atomic Energy Organization of Iran. Both played pivotal roles in advancing Iran's nuclear and scientific research capabilities. The Israeli assault reportedly targeted multiple locations across the capital, including residential areas, leading to civilian casualties and widespread panic. In response to the attacks, all flights at Imam Khomeini International Airport have been suspended, reflecting the severity of the security situation.

These developments come just two days before a scheduled round of nuclear negotiations between Iran and the United States, raising fears of further destabilization in an already volatile region.

Iran retaliates

Iran launched around 100 drones toward Israel on Friday in retaliation for a massive wave of Israeli airstrikes that targeted key military and nuclear infrastructure across Iran, killing senior commanders and scientists. The Israeli military said it was actively working to intercept the incoming UAVs.

"Iran launched approximately 100 UAVs toward Israeli territory, which we are working to intercept," said Israeli military spokesperson Brigadier General Effie Defrin. He also confirmed that Israel deployed 200 fighter jets to hit roughly 100 targets across Iran in what has been dubbed Operation Rising Lion.

The Israeli offensive resulted in the death of IRGC Commander Hossein Salami, and Iranian state media reported that the Islamic Revolutionary Guard Corps headquarters in Tehran was also struck. The attack

claimed civilian lives, including children, after residential areas were hit.

"This is a decisive moment in Israel's history," Prime Minister Benjamin Netanyahu said in a recorded address. "Operation Rising Lion is a targeted military campaign to eliminate the existential threat posed by Iran. This operation will continue until that threat is removed."

Iran's Supreme Leader Ayatollah Ali Khamenei condemned the assault as a "wicked and bloody crime" and warned that Israel would face "a bitter fate." Israeli military officials said dozens of critical nuclear and military installations were targeted, including the uranium enrichment facility at Natanz. According to one official, Iran now possesses enough enriched material to construct up to 15 nuclear weapons within days. While the United States denied involvement in the operation, tensions are escalating rapidly across the region. The U.S. military has raised alert levels and is preparing for potential evacuation scenarios for American civilians, according to a U.S. official.

In addition to the airstrikes, Israel's Mossad intelligence agency reportedly carried out

covert sabotage operations inside Iran, targeting strategic missile sites and air defense infrastructure, Axios reported, citing senior Israeli sources. Among those killed in the Israeli strikes were nuclear scientists Fereydoon Abbasi and Mohammad Mehdi Tehrani, both of whom were central figures in Iran's nuclear research program.

The International Atomic Energy Agency (IAEA) confirmed that Iran reported no increase in radiation levels at the Natanz site. The IAEA also noted that Iran's only operational nuclear power plant in Bushehr had not been hit. Back in Israel, Tel Aviv's Ben Gurion Airport was shut down as the military remained on high alert for Iranian retaliation. Defense Minister Israel Katz said a counterattack was imminent: "Following our pre-emptive strike, we expect a missile and drone assault on Israel's civilian population."

Israel's Chief of Staff Eyal Zamir said tens of thousands of troops had been deployed along the borders. "We are in the midst of a historic campaign to eliminate an existential threat. This is unlike any previous operation," he said. Foreign Minister Gideon Saar held back-to-back calls with international counterparts to explain Israel's position, according to the foreign ministry. As both sides brace for further military action, the conflict has plunged the Middle East into a period of acute instability, with fears of a wider war spreading across the region.

Iran appoints new military chiefs

In the aftermath of a devastating Israeli airstrike that killed several top Iranian military leaders, Supreme Leader Ayatollah Ali Khamenei has appointed Rear Admiral Habibollah Sayyari as the interim Chief of Staff of the Iranian Armed Forces. The appointment follows the assassination of General Mohammad Bagheri, Iran's highest-ranking military officer, in a targeted strike on Tehran.

In a separate move, Major General Ahmad Vahidi has been named the new Commander of the Islamic Revolutionary Guard Corps (IRGC), succeeding the slain IRGC chief, Major General Hossein Salami. The appointments mark a swift and

significant reshuffle at the highest levels of Iran's military leadership, following what Iranian officials describe as one of the gravest attacks on the country's defense establishment in recent history.

According to Iran's semi-official Fars News Agency, General Bagheri was killed early Friday during a wave of Israeli missile strikes that struck multiple locations across the capital, including military installations and residential areas. Bagheri had played a central role in shaping Iran's military doctrine and coordinating between the regular armed forces and the IRGC.



The same strikes also killed Major General Salami, IRGC Commander-in-Chief, and Major General Gholamali Rashid, head of the Khatam al-Anbia Headquarters, Iran's principal operational command center. The attack further claimed the lives of two key figures in Iran's nuclear program — Dr. Mohammad Mahdi Tehrani, president of Islamic Azad University, and Dr. Fereydoon Abbasi, former head of the Atomic Energy Organization of Iran. The Israeli strikes triggered immediate fallout. Flights were suspended at Imam Khomeini International Airport due to security concerns, while Iranian media reported numerous civilian casualties as several residential areas were hit alongside military targets.

Iranian Foreign Ministry officials directly blamed the United States, asserting the airstrikes could not have occurred without American coordination or approval. Citing Article 51 of the UN Charter, the ministry vowed that Iran reserves the right to

respond and warned of "serious consequences" for both Israel and its allies.

U.S. President Donald Trump claimed he had been informed in advance of the planned Israeli action but denied any American involvement. He added that U.S. CENTCOM forces remain on high alert and will respond if threatened.

Meanwhile, Saudi Arabia condemned the Israeli operation as a "blatant act of aggression" and a violation of international law, calling on the United Nations Security Council to intervene to prevent a wider regional conflict.

Middle East on the Brink: Israel-Iran Tensions Explode Over Natanz Strike, Drone Retaliation, and Regional Fallout

In one of the most dangerous escalations in the modern Middle East conflict landscape, Israel and Iran have exchanged a series of high-stakes military actions that now threaten to draw the broader region into a direct confrontation. At the center of this volatile episode is the Israeli military operation "Rising Lion", which struck key Iranian military and nuclear facilities, including the highly sensitive Natanz uranium enrichment site. In response, Iran launched over 100 drones toward Israeli territory, raising global fears of an uncontrollable regional war.

This escalation comes after years of shadow warfare, covert sabotage, cyberattacks, and diplomatic breakdowns between the two long-standing adversaries. The new overt nature of these attacks represents a dramatic shift in the tempo and scope of the conflict.

Strike on Natanz: A Direct Hit on Iran's Nuclear Core

The International Atomic Energy Agency (IAEA), the United Nations' nuclear watchdog, confirmed on Friday that Iran's Natanz uranium enrichment site was hit during the Israeli airstrike. This confirmation came from IAEA Director-General Rafael Grossi, who expressed "deep concern" over the attack and emphasized that the agency was actively coordinating with its inspectors in Iran.

"The Agency can confirm that the Natanz site was among the targets," said Grossi. "We are in contact with Iranian authorities regarding radiation levels and are coordinating with our inspectors on the ground."

Natanz, located about 250 kilometers south of Tehran, has long been considered the heart of Iran's nuclear program. The facility houses thousands of centrifuges capable of enriching uranium to weapons-grade levels and has frequently been the focal point of Western and Israeli concerns about Iran's potential pursuit of nuclear weapons.

The strike reportedly targeted both surface structures and underground installations, although no abnormal radiation levels have yet been reported. The IAEA stated that inspections and damage assessments are ongoing.

What Is Natanz and Why Does It Matter?

Natanz is a critical component of Iran's nuclear infrastructure. It includes both the Fuel Enrichment Plant (FEP) and the Pilot Fuel Enrichment Plant (PFEP), where centrifuges are used to enrich uranium. This enrichment process, while technically legal under the Nuclear Non-Proliferation Treaty (NPT), becomes deeply controversial when the levels of enrichment exceed the thresholds necessary for civilian energy use—raising concerns about weaponization.

Israel has long warned that Iran is approaching "breakout capability"—the point at which it can build a nuclear weapon in a short period. A senior Israeli military official told media on Friday that

Iran has enough highly enriched uranium to construct up to 15 nuclear bombs within days. Iran denies these allegations, maintaining that its program is strictly for peaceful, civilian purposes.

Nonetheless, the symbolism and strategic importance of Natanz make its targeting a clear signal: Israel is willing to take direct military action to prevent what it views as an existential nuclear threat.

"Operation Rising Lion": Israel's Military Campaign

In a televised national address, Israeli Prime Minister Benjamin Netanyahu declared the operation "a defining moment in our nation's defense." He said that Operation Rising Lion was launched to dismantle Iran's nuclear weapons infrastructure and degrade its ability to launch ballistic missile strikes.



According to Israeli sources, dozens of strategic Iranian sites were targeted, including:

- The Natanz enrichment facility
- Ballistic missile manufacturing sites
- Command centers of the Islamic Revolutionary Guard Corps (IRGC)
- Residences and offices of nuclear scientists and military officials

Most notably, Iranian state media reported that Major General Hossein Salami, the

commander of the IRGC, was killed in the Israeli airstrikes. His death, if confirmed, would be one of the most high-profile assassinations in recent history, comparable to the U.S. killing of Qassem Soleimani in 2020.

Iran also reported civilian casualties in a residential area of Tehran near an alleged IRGC facility. Images and videos circulating on social media showed destroyed buildings and people sifting through rubble.

Iran's Response: Over 100 Drones Launched Toward Israel

In swift retaliation, Iran launched more than 100 drones aimed at Israeli military and strategic infrastructure. Though many were intercepted by Israel's Iron Dome and David's Sling air defense systems, some were believed to have reached sensitive areas.

Iran framed the drone strikes as a proportional response, warning that "any further aggression would be met with even harsher retaliation." In an official statement, the Iranian government said:

"The Islamic Republic reserves the right to defend its sovereignty. These strikes are a direct response to Israel's blatant violation of international law and the murder of Iranian officials."

This exchange marks a dangerous shift from proxy conflict to direct state-on-state engagement.

Jordan Closes Its Airspace Amid Fear of Spillover

Caught in the crossfire is Jordan, which shares borders with both Israel and Iraq—a close Iranian ally. On Friday, Jordan announced the closure of its airspace as a precautionary measure.

Government spokesperson Mohammad Momani stated:

“Jordan’s national security is a red line, and it will not allow any attempt to threaten its security or the safety of its citizens.”

The Civil Aviation Regulatory Commission (CARC) suspended all inbound, outbound, and transit flights, citing risks to civilian air travel and adherence to international protocols, including the Chicago Convention.

This isn’t the first time Jordan has taken such action. In April 2024, Jordan intercepted Iranian drones entering its airspace en route to Israel, sparking controversy at home and abroad. The latest closure reflects the growing unpredictability of the conflict and Jordan’s vulnerable position.

Global Reactions: Condemnations, Warnings, and Diplomatic Push

The rapid escalation has triggered alarm across global capitals. The United Nations Security Council is expected to hold an emergency session in the coming days. Preliminary statements from EU and U.S. officials call for immediate de-escalation.

U.S. Secretary of State Antony Blinken urged restraint on both sides, stating:

“We are closely monitoring the situation. Further escalation will not serve anyone’s interests. Diplomatic solutions remain possible but require restraint from all parties involved.”

Russian and Chinese officials also expressed concern, warning that regional instability could spiral into global economic and security disruptions—especially given

the oil-rich geography and major shipping lanes in the Persian Gulf.

A Brief History of the Israel-Iran Conflict

The current crisis cannot be viewed in isolation. Israel and Iran have been locked in a shadow war for over a decade, involving:

- Cyberattacks (such as Stuxnet, which targeted Natanz in 2010)
- Assassinations of Iranian nuclear scientists
- Proxy wars in Syria, Lebanon, Iraq, and Yemen
- Covert sabotage of infrastructure
- Targeted airstrikes on weapons convoys and missile depots

The nuclear file has always been the centerpiece. The 2015 Joint Comprehensive Plan of Action (JCPOA), commonly known as the Iran nuclear deal, was aimed at capping Iran’s nuclear activities. However, the U.S. withdrew from the deal in 2018 under President Trump, leading Iran to resume enrichment activities at higher levels.

Since then, efforts to revive the agreement have failed, and military confrontation has increasingly replaced diplomacy.

Potential Scenarios in the future

1. All-Out War

Though still unlikely, continued escalation could lead to a regional war involving not only Israel and Iran but also Hezbollah in Lebanon, Shia militias in Iraq, the Houthis in Yemen, and potentially U.S. forces in the region.

2. Continued Tit-for-Tat

More likely is a prolonged phase of military exchanges, drone attacks, and covert sabotage. This would keep the region in a high-alert status with periodic flare-ups.

3. Renewed Diplomatic Efforts

The most hopeful scenario involves pressure from global powers to force a

return to diplomacy, possibly with a new version of the JCPOA that addresses both nuclear and regional security concerns.

Conclusion: A Flashpoint With Global Consequences

The events of June 2025 mark a turning point in the already volatile Middle East. The Israeli strike on Natanz, the death of senior Iranian officials, Iran’s retaliatory drone attack, and Jordan’s airspace closure reflect a deepening crisis with far-reaching consequences.

While both Israel and Iran claim to be acting defensively, the reality is a dangerous spiral of action and reaction that could easily slip beyond the control of either side. With nuclear facilities under attack, missiles in the air, and regional countries taking drastic security measures, the world is now watching not just a bilateral conflict—but a potential conflagration that could reshape the geopolitics of the 21st century.

U.S. Distances Itself

U.S. President Donald Trump reiterated that the U.S. had no role in the Israeli strikes and emphasized the importance of diplomacy. “We hope to return to negotiations. But Iran cannot be allowed to develop nuclear weapons,” Trump said in a Fox News interview. Despite Washington’s denial, Israeli officials told local media that the operation was coordinated with the United States. However, U.S. Secretary of State Marco Rubio insisted the strikes were unilateral and that America’s focus remains on protecting its personnel in the region.

“We are not involved in the strikes,” Rubio said. “But let me be clear: Iran must not target American assets or personnel.”

Saudi Arabia condemns the Israeli attack

Saudi Arabia has issued a strong condemnation of Israel’s large-scale military strikes on Iran, calling the assault a clear violation of international law and a threat to regional stability.

The condemnation follows Israeli airstrikes

that targeted Iran's nuclear infrastructure, ballistic missile factories, and top military commanders in what Israeli Prime Minister Benjamin Netanyahu described as Operation Rising Lion. The operation reportedly struck dozens of strategic sites, including the Natanz uranium enrichment facility, prompting fears of a major regional escalation.

"We are at a decisive moment in Israel's history," Netanyahu said in a recorded statement. "This operation will continue for as many days as it takes to remove the Iranian threat to Israel's very survival."

Iranian state media confirmed that Hossein Salami, commander of the Islamic Revolutionary Guard Corps (IRGC), was killed in the strikes. Explosions were reported in Tehran and at the Natanz facility, and Iranian sources said children were among the casualties in a residential area hit during the attack.

Responding to the offensive, the Saudi Foreign Ministry released a statement denouncing the Israeli actions:

"Saudi Arabia expresses its strong condemnation and denunciation of the blatant Israeli aggressions against the brotherly Islamic Republic of Iran, which undermine its sovereignty and security and constitute a clear violation of international laws and norms."

An Israeli military official stated that the operation involved striking dozens of nuclear and military targets, including missile production facilities and air defense systems. The official claimed Iran had accumulated enough enriched uranium to produce up to 15 nuclear bombs in a matter of days. In parallel with the airstrikes, Israel's intelligence agency Mossad is said to have conducted covert sabotage operations targeting Iran's missile and defense infrastructure, according to Axios, citing a senior Israeli source.

As the situation escalated, Tel Aviv's Ben Gurion Airport was closed, and Israel placed its air defense units on high alert in anticipation of retaliatory drone or missile strikes from Iran. The international community is now bracing for Iran's response, while diplomatic efforts are reportedly underway. Oman's Foreign Minister confirmed that the country will

host a new round of U.S.-Iran nuclear talks on Sunday — a meeting that now takes on even greater urgency amid the escalating conflict.

Pakistan Condemns Israeli Strikes on Iran as "Unjustified Aggression" and Violation of International Law

Pakistan on Friday issued a strong condemnation of what it called Israel's "unjustified and illegitimate" military aggression against the Islamic Republic of Iran, warning that such actions pose a grave threat to regional and global peace. In a statement from the Foreign Office, Pakistan denounced the Israeli airstrikes as a blatant violation of Iran's sovereignty and territorial integrity, asserting that the attacks directly contravene the United Nations Charter and foundational principles of international law.



"Iran has the right to self-defence under Article 51 of the UN Charter," the statement emphasized.

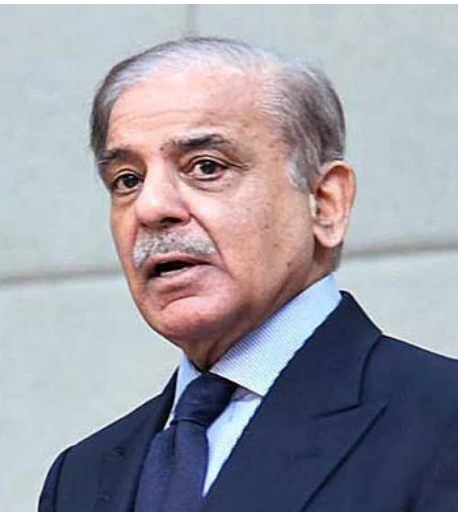
The condemnation followed a wide-ranging Israeli military operation launched on Friday, targeting Iranian nuclear facilities, ballistic missile production centers, and senior military figures. The strikes were described by Israeli leaders as the beginning of a sustained campaign aimed at preventing Iran from acquiring nuclear weapons.

Iranian state media and eyewitnesses reported multiple explosions, including at

the Natanz uranium enrichment site — the heart of Iran's nuclear program. Iran's elite Revolutionary Guards Corps confirmed the death of its commander, Hossein Salami, while media reported that the IRGC headquarters in Tehran had also been hit. Civilian casualties, including children, were reported in a residential area of the capital. Reacting to the unfolding crisis, the Pakistani Foreign Office reaffirmed Islamabad's unwavering support for Iran, calling the Israeli strikes a "flagrant provocation" with dangerous implications for the wider Middle East and beyond.

"Pakistan stands in resolute solidarity with the people of Iran and unequivocally denounces these provocations, which constitute a serious threat to peace, security, and regional stability," the Foreign Office said. It urged the international community and the United Nations to intervene swiftly:

"The world must uphold international law, demand an immediate halt to the



aggression, and hold Israel accountable for its actions."

Deputy Prime Minister and Foreign Minister Ishaq Dar also condemned the strikes in a post on X (formerly Twitter), calling them a "brazen violation of Iran's sovereignty" and an "abhorrent action" that undermines international law and the conscience of humanity.

"Pakistan stands firmly with the government and people of Iran during this critical moment," Dar stated.

Rafale Under Fire - India-France Tensions Escalate After Combat Setback with Pakistan



By Romana Afsheen

A sharp diplomatic rift has emerged between India and France following the reported loss of several Indian Air Force (IAF) fighter jets during recent hostilities with Pakistan — including the high-profile French-built Dassault Rafale. Once celebrated as a symbol of India's growing airpower and strategic autonomy, the Rafale is now at the center of a swirling controversy. The conflict has not only sparked debate in military and political circles within New Delhi, but has also raised alarm in Paris, where defence officials are grappling with international scrutiny of one of Europe's most high-profile weapons exports. As questions mount over the performance of the Rafale in live combat and over the opacity surrounding the source-code and audit disputes, the incident threatens to unravel both the credibility of India's frontline air strategy, and the resilience of Indo-French defence ties built painstakingly over decades.

The Crisis in the Skies

According to military sources and independent analysts, the Pakistan Air Force (PAF)

successfully downed six Indian jets during the early stages of the May 2025 escalation. Among the reported losses were three Rafales, a Su-30MKI, a MiG-29, and a Mirage 2000. These aircraft were allegedly hit during deep-strike operations over Pakistani territory, primarily targeting infrastructure and logistics hubs.

While India's defence leadership initially refrained from publicly acknowledging the extent of the losses, the situation came to a head when Chief of Defence Staff General Anil Chauhan indirectly confirmed the downing of multiple aircraft. Speaking during the Shangri-La Dialogue in Singapore, General Chauhan emphasized that the focus should not be on the number of jets lost but on understanding the strategic and operational failures that led to their downfall.

"The key issue is not how many aircraft were shot down, but why it happened," he said. His remarks, meant to redirect attention toward tactical shortcomings, inadvertently stoked further controversy by confirming what had until then only been speculated.

Diplomatic Fallout with France

The situation took a dramatic turn when Dassault Aviation, the manufacturer of the Rafale, refused India's request to access the aircraft's proprietary source code. This move significantly limits India's ability to fully evaluate or enhance the performance of its Rafales. The refusal, seen by Indian officials as a lack of transparency and flexibility, has further strained bilateral ties.

Dassault, meanwhile, has attempted to deflect criticism, attributing the losses to operational lapses and maintenance errors on the part of the IAF. According to company statements, the Rafales had performed within expected parameters, and any setbacks were likely due to the ways in which they were deployed and serviced. The Indian side, however, pushed back by denying Dassault audit teams access to the IAF fleet, fearing the inspections could be used to pin the blame squarely on Indian command and control failures.

The tension underscores a deeper trust

deficit, raising uncomfortable questions about India's reliance on foreign-manufactured platforms for critical defense capabilities.

Shockwaves Across Global Markets

The reverberations of the confrontation have reached financial markets, where Dassault Aviation's shares suffered a noticeable dip following early reports of the downed Rafales. The symbolic blow to France's flagship export has not gone unnoticed among other international buyers.



Indonesia, which recently signed a multi-billion-dollar agreement to purchase Rafale fighters, is reportedly reassessing the deal. Sources in Jakarta indicate that concerns have emerged regarding the Rafale's performance under real-world combat conditions, particularly in high-intensity engagements against well-equipped adversaries.

European defence analysts have also begun to reevaluate the strategic assumptions that underpinned the marketing of French fighter jets. Some have questioned whether the Rafale's multirole capabilities, designed with flexibility and air superiority in mind, are adequate in conflict scenarios involving contested airspace and advanced surface-to-air missile systems.

Strategic Missteps and Questions of Doctrine

The loss of advanced fighter jets in a single operational cycle is more than just a tactical setback — it reflects possible flaws in India's broader strategic doctrine. The operational blueprint of India's air strikes reportedly involved long-range deep penetrations without adequate electronic warfare or suppression of enemy air defence (SEAD) support. Analysts suggest this may have made even high-end platforms like the Rafale vulnerable to Pakistani air defences and interceptors.

More importantly, the crisis brings India's command hierarchy and coordination under scrutiny. The apparent failure to anticipate or counter Pakistani air tactics raises concerns about the quality of intelligence and threat assessment at the highest levels of operational planning.

India's air strategy, often perceived as rooted in Cold War-era thinking, may now be facing its most significant test in decades. Military planners are being forced to revisit the assumption that technological superiority alone can deliver battlefield dominance — a belief shaken by the events of May 2025.

The Politics of Secrecy and Disclosure

Within India, the controversy has sparked a fierce debate over military transparency and public accountability. While national security considerations often limit the public disclosure of combat details, the partial revelations by General Chauhan have triggered a backlash both within political circles and the military establishment.

Some defence commentators argue that greater openness could foster better institutional learning and democratic oversight. Others warn that too much transparency in times of crisis can have destabilizing consequences — potentially demoralizing troops, damaging diplomatic ties, and exposing critical vulnerabilities to adversaries.

Yet what remains clear is that the attempt to downplay or obscure the losses has backfired. The combination of leaked reports, foreign media coverage, and political opposition pressure has ensured that the issue will remain in the public eye for the foreseeable future.

Wider Impact on Indo-French Defence Cooperation

The present tensions are not limited to technical disagreements. They cut to the heart of the Indo-French defence partnership — a relationship long hailed as a model of global strategic collaboration. Joint exercises, naval cooperation, and nuclear energy ventures are now under increased scrutiny.

French diplomats are reportedly concerned about the optics of being seen as uncooperative in a crisis, particularly at a time when Paris is pushing for greater defence autonomy from the U.S. and increased arms sales to non-NATO partners. For India, the episode serves as a cautionary tale about relying too heavily on strategic partnerships where technological sovereignty remains elusive.

Questions are also being raised about the viability of future arms deals, including India's prospective acquisition of French submarines and stealth drones. Indian



officials are reportedly pushing for greater guarantees on customization rights, technology transfer, and system interoperability — demands that may complicate future negotiations.

Political Firestorm in India as Military Admissions Stir Controversy

What began as a military setback has now evolved into a full-blown political crisis in India. The fallout from the loss of Indian Air Force jets in combat with Pakistan — and the subsequent admission by General Anil Chauhan — has unleashed a torrent of criticism from political opposition, civil society, and even segments of the ruling establishment.

The General's Remarks and Their Aftermath

General Chauhan's statement, made during an international security conference, was initially framed as a strategic reflection on the challenges of modern warfare. However, within hours, his comments had ignited a media and political storm.

Opposition leaders accused the government of misleading the public about the outcome

of Operation Sindoor, the codename for India's military operation against Pakistan. Critics argue that the government painted the operation as a resounding success while concealing serious losses, including the temporary grounding of parts of the IAF fleet.

Defence analyst Pravin Sawhney was among the first to call for General Chauhan's resignation, stating that the comments revealed not only poor planning but also a failure in strategic communication. "This is not just a military issue — it is a matter of national credibility," Sawhney remarked. "A country that cannot protect its narrative loses more than jets — it loses trust."

Opposition Pushes Back

The Congress Party, India's principal opposition force, quickly capitalized on the situation. Party president Mallikarjun Kharge called for an emergency session of Parliament, demanding an independent inquiry into the defence lapses. "The public deserves the truth," he stated in a press conference. "Not spin, not patriotic rhetoric, but real answers about what went wrong."

Other opposition parties echoed the call for accountability, arguing that transparency was essential not only to restore public

confidence but also to ensure operational improvements in the future.

Rifts Within the Ruling Coalition

Unusually, dissenting voices also emerged from within the ruling BJP and its affiliates. Senior leader Subramanian Swamy publicly criticized the government's lack of transparency and questioned the Prime Minister's handling of the crisis. Members of hardline nationalist groups expressed disappointment that the government had failed to present a unified narrative and called for greater clarity on the effectiveness of India's air power doctrine.

The political rift has revealed fault lines within India's defense establishment, where military leadership has traditionally enjoyed a degree of insulation from public scrutiny. The current situation appears to be eroding that buffer.

Civil-Military Relations in Focus

For decades, India's civil-military relations have operated on a model that grants significant operational autonomy to the armed forces while keeping them subordinate to civilian political leadership. However, the evolving crisis has blurred those lines.

General Chauhan's remarks, though likely made in good faith, have exposed the

armed forces to a level of political backlash rarely seen in India's modern history. Civilian leaders, in turn, now face mounting pressure to exert greater oversight, possibly through formal legislative scrutiny or independent watchdog mechanisms.

The debate over how to balance operational secrecy with democratic accountability has returned to the forefront — with no easy answers in sight.

Broader Strategic Implications

Beyond India's internal political dynamics, the controversy has strategic implications for South Asia's security environment. Pakistan's ability to score visible victories in the air has boosted its military morale and reinforced its deterrence posture.

More critically, the episode may alter India's procurement priorities. Pressure is mounting for India to reduce its dependence on foreign-built platforms and fast-track its indigenous defence manufacturing programs. However, shifting away from high-performance imports like the Rafale is neither quick nor straightforward. Building domestic capacity will take years and require sustained political commitment, financial investment, and technological innovation.

India's adversaries — including China — are undoubtedly watching closely. The episode has revealed gaps in India's air defence integration, combat preparedness,

and crisis communication. If not addressed promptly, these gaps could undermine India's strategic posture in future conflicts.

Global Reverberations and Defence Market Fallout

France, too, has taken a hit. The diplomatic friction with India has cast a shadow over its ambitions to be a leading exporter of high-end defence platforms. Dassault Aviation may find it more difficult to close future deals, especially in regions like Southeast Asia and the Middle East, where military buyers closely monitor the real-world performance of hardware.

At the same time, the episode has reignited debate in European policy circles about how much control exporting countries should retain over their defence technologies once transferred. India's request for source code access touches on a core tension in global arms trade: the conflict between national sovereignty and vendor rights.

A New Era of Strategic Reckoning

As the dust settles, what remains is a reckoning for both India and France — one that cuts across military, diplomatic, and political dimensions. India must re-examine its defence doctrine, revisit its procurement processes, and recalibrate its civil-military balance. France must reflect on the

long-term implications of restricting technological access to its partners, even if done to protect proprietary interests.

Ultimately, the May 2025 conflict may be remembered not just for the aircraft lost or the political careers shaken, but for the lessons it forced both nations — and many others — to confront.

The fallout from the May 2025 conflict has exposed deep vulnerabilities—not only in aerial combat strategies, but also in the geopolitical trust that underpins major defence alliances. India's struggle to reconcile its operational setbacks with its strategic ambitions has collided head-on with France's insistence on protecting proprietary technologies and national reputation. The controversy surrounding the Rafale jets is no longer confined to military performance alone; it has become a litmus test for transparency, sovereignty, and the evolving nature of international defence partnerships. As New Delhi faces mounting internal pressure to hold decision-makers accountable and Paris scrambles to contain the reputational damage, the episode stands as a sobering reminder: in modern warfare, high-tech hardware is only as effective as the clarity, trust, and strategic foresight that support its deployment. Whether this moment becomes a catalyst for reform or a symptom of deeper fractures remains to be seen—but its reverberations are already being felt far beyond South Asia's skies.



Client Status redefined; Pakistan fits into the Chinese Defence paradigm



By Naqi Akbar

The four days war or skirmish between the traditional warring neighbors, Pakistan and India, might have been a flash news item for a few days, later dissolving into oblivion with time. However, for geo political observers, it formally heralded the new era for the Pakistani nation state; a formal realignment with the Chinese defence system, besides repositioning itself vis a vis the Pentagon; not totally disengaging but a way of distancing itself from the western plans. On the domestic front, the Pakistani nation state formalized its current form of hybrid way of governance on the back of a short military victory arising out of a battle, not even a total war. The formalization of the hybrid system for all practical purposes means that Pakistan international and domestic setups in place now take the same path as did the Shah of Iran and President Marcos of Philippines for the United States during much of the 60s and 70s, before making way for the success of democratic movements in place in the above-mentioned nation states.

Elaborating further, the Pakistani alignment with the Chinese military and political leadership dates back to the period between 2016 to date. During that time the

Indian foreign office with active support from Western governments tried to net in Pakistan under the accusation of terror charges, specifically in the backdrop of 26/11 or Mumbai attacks orchestrated by the Lashkar Tayyaba, a hard fact debated vociferously by the Pakistani press during that period of time; 2008/09.

During the period between 2016 to date, many times the Veto was managed in Pakistani favor or for that matter in favor of Hafiz Saeed by Chinese, the state in the Security Council having the right of Veto. At that point of time, it looked a friendly favor by an erstwhile friend.

During that period, the 2019 escalation between India and Pakistan in the backdrop of Pulwama was managed more or less by the Pakistani defence forces on their own. The strike package of US Built F-16, French Mirages and locally manufactured JF 17 managed to orchestrate a response to the Indians Balakot strike on February 25, 2019 with the counter strike codenamed 'Swift Retort' on February 27, 2019.

The Trump and Biden administrations subtle distancing from Pakistan, in fact

meant that their traditional allies in the Pakistani power corridors, the military bureaucracy had to find new clients in the international scenario. While there was no complete disconnect between the General Headquarters and the Pentagon, the way was opened for greater cooperation with the Chinese in the days to come. To put it directly, the current attrition after Phalag-am incident in the Indian controlled Kashmir exposed or established the military bond between the Chinese and Pakistani defence forces. Keeping in view the protocols of these arrangement, it meant that the Chinese engagement with Pakistan in the era of defence cooperation went beyond the traditional rules of engagement.

Here we may point out that similar arrangement on the Indian side was witnessed in 1971 when the recently developed AWACS aircraft of Soviet origin at that point of time TU 126 Moss used to forewarn the Indian Air Force before time the Pakistan Air Force intruding aircraft in the December 1971 short war between India and Pakistan.

Coming back to the recent conflict, in an era of aerial dogfights conducted in the

domain of “Beyond Visual Range” or BVR, it has been discussed in a number of write ups that it was the Chinese AWACS system coupled with Jamming facilities and other platforms which caught the IAF 72 jets strong strike package with surprise. Here it is important to note that the Pakistani package of 40 aircraft did not even have any F 16, as it was reported by the international observers like Global Defence Agency, which from a perspective meant that Pakistanis did not want the western observers to catch Pakistani involvement in the Chinese defence systems, until the show was over; downing of 6 combat jets of IAF.

Likewise, the media was soon filled with talk of early deployment or commissioning of stealth Chinese made J 35, with reports that Pakistani pilots were already having hands on experience with those latest fifth generation jets. In one of the Tweets Pakistani observers were candid in saying that what was happening was not just a traditional defence cooperation rather it was a fusion of technology and how it was to be executed. To put it more directly, Pakistan other than the partner in defence aspect and its geo political aspect was also being groomed as a financial partner in the growing Chinese industry making its headway in the international arms and ammunition market.

As things stand, despite the fact that Indian political and military leadership is trying to make a brave face, it is a hard fact that they are reading between the lines that any escalation in the form of Operation Sindoor II will not just be met apparently by the Pakistani defence forces, but by the Chinese technological might.

These developments are being studied with interest by the western powers too. US president Trump candid remarks about Pakistan, not accusing rather lauding the mix of Pakistani political leadership indicates that west realizes and is repositioning itself as to how to deal with the Pakistan ‘repackaged’.

This new alliance with China defines itself in two ways; firstly, Pakistan will be in a durable military alliance with China. It means that both the countries will be cushioning each other politically as well as diplomatically.

Politically, in the context of the two political systems mentioned in the early paragraphs; the one under the Shah of Iran and the one under Ferdinand Marcos which were propped up by the cold war era United States, any continuance of the current hybrid in Pakistan will have direct bearing in that being linked up with Chinese. In simple words, the continuance

of the structured system of governance as against a completely functioning democracy will have negative PR bearings for China, of supporting a client state with restricted democratic credentials.

For the Pakistani political development goal posts, the pace is likely to be low. With the West a bit unconcerned and Chinese having a lesser degree of democratic niceties, Pakistan political stalemate will continue in one form or another. With the opposition mostly controlled and compromised, the current governance practices are unlikely to give way to any political reform within.

Conclusively, Pakistan had successfully marketed its geo strategic position for another rising power. However, in the process, it has traded one master for another. The resulting political roadmap is fraught with incomplete development paradigms; what is given importance as a matter of great national security importance are new gadgets used by a technological elite. What is ignored is the involvement of the man on the street in the rewards of the system, pathetically the man on the street is a cheering human fodder for the fight of lions and beasts (read geo political short wars) with less faith in the system and even lesser morsel in the stomach!



Crossroads of Conflict and Cooperation: The Shifting Landscape of Pakistan-Afghanistan Relations in 2025



By Kanwal Munir

Introduction

Pakistan and Afghanistan share a deeply interwoven yet often turbulent relationship rooted in shared history, cultural affinity, and a long, disputed border. In 2025, their ties are at a pivotal juncture. While diplomatic efforts have resumed, most notably through China-mediated trilateral talks, tensions persist over issues such as cross-border militancy, refugee repatriation, and the unresolved status of the Durand Line. Pakistan's recent decision to restore ambassador-level ties with the Taliban government marks a major policy shift, even as security concerns, particularly involving the Tehrik-e-Taliban Pakistan (TTP), continue to strain relations. At the same time, economic opportunities such as Afghanistan's potential integration into the China-Pakistan Economic Corridor (CPEC) offer a chance for regional connectivity and cooperation. This article examines the evolving dynamics of Pakistan-Afghanistan relations in 2025, highlighting the complex interplay of diplomacy, conflict, humanitarian pressures, and emerging economic strategies that are shaping the future of this critical regional partnership.

Diplomatic Reset: Ambassadors Return Amid Tentative Thaw

In a landmark move reflecting a strategic recalibration of regional diplomacy, Pakistan announced on May 30, 2025, that it would upgrade its diplomatic engagement with the Taliban-led government in Afghanistan by appointing a full ambassador to Kabul. This appointment marks the first such gesture since the Taliban's return to power in August 2021, replacing the lower-level diplomatic representation through a chargé d'affaires. The decision underscores a significant shift in Islamabad's approach—one that balances pragmatism with geopolitical necessity.

The announcement came on the heels of a trilateral dialogue in Beijing, hosted by China and attended by Pakistani Foreign Minister Ishaq Dar, Afghan Acting Foreign Minister Amir Khan Muttaqi, and Chinese Foreign Minister Wang Yi. The meeting focused on rebuilding trust, boosting regional economic ties, and coordinating on security threats, particularly those emanating from terrorist networks operat-

ing across the Pakistan-Afghanistan border. During the talks, China played a key mediating role in encouraging both sides to enhance formal communication channels and resolve longstanding tensions.

In a reciprocal gesture, the Afghan Taliban government stated it would also appoint an ambassador to Islamabad, thereby restoring full diplomatic representation between the two capitals for the first time in nearly four years. Although neither Pakistan nor any other country has formally recognized the Taliban regime, the elevation of diplomatic ties is widely seen as a *de facto* acknowledgment of the Taliban's governing authority, albeit short of official recognition.

Islamabad's decision is motivated by a desire to establish a more structured and predictable dialogue with the *de facto* Afghan authorities, particularly amid escalating cross-border violence, the Tehrik-i-Taliban Pakistan (TTP) insurgency, and the ongoing refugee repatriation crisis. With India increasing its diplomatic and humanitarian presence in Kabul, Pakistan also sees closer engagement to maintain its traditional influence in Afghanistan and to counterbalance competing powers in the region.

By reestablishing full diplomatic ties, Pakistan hopes to achieve more effective coordination on security operations, border management, and economic integration, including Afghanistan's potential participation in projects like the China-Pakistan Economic Corridor (CPEC). While the move is controversial domestically—especially among those concerned about the Taliban's human rights record and support for militant groups—it represents a pragmatic recognition of the realities on the ground and an attempt to manage bilateral tensions through dialogue rather than isolation.

China's Quiet Mediation: The Trilateral Nexus

The Beijing talks in May 2025 marked a significant diplomatic milestone in the evolving trilateral relationship between China, Pakistan, and Afghanistan. Held amid mounting regional instability and growing transnational threats, the dialogue reflected China's increasingly assertive role as a regional stabilizer and mediator. Beijing's motivations are deeply rooted in its desire to secure its western frontiers, particularly the Xinjiang region, against the spillover of extremism, while simultaneously advancing its flagship Belt and Road Initiative (BRI) through a more stable and cooperative Afghan corridor.

One of the major outcomes of the talks was the in-principal agreement between Islamabad and Kabul to restore full diplomatic relations, including the appointment of ambassadors. This is particularly significant as it marks the first formal elevation of ties between Pakistan and the Taliban-led government since the latter's return to power in 2021. In addition to diplomatic normalization, both sides also agreed to enhance counterterrorism cooperation—an area of intense concern for Pakistan, especially given the resurgence of TTP activities allegedly based in Afghan territory.

Another major focus was Afghanistan's possible inclusion in the China-Pakistan Economic Corridor (CPEC), a move that could help revive Afghanistan's war-torn economy while integrating it more deeply into regional infrastructure and trade networks. While the specifics remain

unclear, the trilateral agreement symbolized a rare convergence of strategic interests and a willingness to jointly address persistent challenges.

China's ability to bring both parties to the table, especially amid India's growing diplomatic presence in Kabul, underscores its emerging clout in South-Central Asia. Beijing's role as a stabilizing actor may prove essential in sustaining any lasting peace between Islamabad and Kabul.

The TTP Challenge: Cross-Border Militancy Persists

Despite renewed diplomatic engagement, security continues to be the most fragile and volatile dimension of Pakistan-Afghanistan relations. At the center of this tension is the persistent issue of cross-border militancy, particularly the activities of Tehrik-e-Taliban Pakistan (TTP), a banned militant group responsible for numerous attacks within Pakistan. Islamabad has consistently accused the Taliban regime of providing sanctuary to TTP operatives in eastern Afghanistan—a claim Kabul routinely denies, though evidence and intelligence reports suggest otherwise.

On May 29, 2025, Pakistani law enforcement agencies launched a high-stakes intelligence-based operation in Rawalakot, Azad Jammu & Kashmir. The operation resulted in the deaths of four TTP militants, who had been linked to a series of recent attacks in Khyber Pakhtunkhwa and Balochistan. Tragically, the encounter also claimed the lives of two police officers. Pakistani authorities allege that the militants had crossed over from Afghanistan and were planning additional strikes inside the country. This incident followed a series of cross-border assaults on Pakistani security posts, further escalating military alertness along the frontier.

Tensions flared earlier in February 2025 near the Helmand province when border troops from both nations exchanged fire over the construction of new outposts. The skirmishes, though brief, mirrored earlier flashpoints at Torkham and Chaman crossings, highlighting the fragility of peace along the Durand Line—a disputed colonial-era border that the Taliban govern-

ment still refuses to formally recognize.

Islamabad has repeatedly called on the Taliban to dismantle TTP sanctuaries and fulfill counterterrorism commitments. However, the Taliban leadership has so far offered only vague statements, avoiding any concrete military or political action. Analysts believe this reluctance stems from internal divisions within the Taliban ranks, many of whom share ideological roots with the TTP and remain hesitant to provoke dissent within their own movement. This ambiguous stance continues to fuel mistrust and hinders meaningful progress on the security front between the two neighbors.

Islamabad Eyes the UNSC 1988 Sanctions Committee

In a strategic move to enhance its diplomatic influence on the international stage, Pakistan is actively pursuing leadership of the United Nations Security Council's 1988 Sanctions Committee. This committee is tasked with overseeing the implementation and enforcement of sanctions against Taliban leaders and affiliated entities, established in response to the Taliban's historical ties to terrorism and narcotics trafficking. By aiming to chair this influential body, Pakistan seeks to position itself at the center of global decision-making concerning the Taliban regime.

If Islamabad succeeds in securing this role, it could significantly shape the international discourse around Taliban compliance with security and counterterrorism commitments. Pakistan would gain the ability to advocate for adjustments in sanctions based on Kabul's cooperation, potentially pushing for easing restrictions as an incentive for positive behavior or tightening them in case of violations. This would grant Islamabad a stronger voice in guiding the international community's approach to Afghanistan's evolving political landscape.

However, Pakistan's bid faces skepticism from various quarters. Critics question Islamabad's neutrality due to its historical and ongoing complex relationship with different Taliban factions, some of which have received support in the past. Pakistan's perceived partiality could undermine its credibility as an impartial enforcer

of sanctions. Moreover, its vested interests in Afghanistan's stability and regional security may influence its decisions within the committee, raising concerns about possible conflicts of interest. Nonetheless, Pakistan views this diplomatic opportunity to assert greater regional influence and shape outcomes favorable to its strategic interests.

Refugee Crisis and Deportations: Humanitarian Fallout

Amid mounting domestic pressures and a deteriorating economic situation, Pakistan intensified its efforts to deport undocumented Afghan nationals starting in late

instructed to relocate away from major urban hubs such as Islamabad and Rawalpindi, further disrupting established communities.

This approach has sparked widespread condemnation from international human rights organizations, including Amnesty International, Human Rights Watch, and the United Nations High Commissioner for Refugees (UNHCR). Activists warn that vulnerable groups—particularly more than 50 women's rights defenders who sought refuge in Pakistan to escape Taliban persecution—face grave risks if forcibly returned to Afghanistan, where their safety cannot be guaranteed.

UN agencies have appealed to Pakistan to halt these deportations or, at the very least,

exploring the possibility of constructing dams on transboundary rivers that flow from Afghanistan into Pakistan. While Kabul has yet to formally acknowledge or clarify these plans, the development has raised significant alarm in Islamabad. Already grappling with chronic water scarcity, dwindling glacier reserves, and the looming impacts of climate change, Pakistan views any upstream manipulation of river flows as a potential threat to its agricultural and economic stability.

The lack of a formal water-sharing agreement between the two neighbors adds to the complexity of the issue. Despite sharing several key rivers, including the Kabul and Kunar rivers, Afghanistan and Pakistan have never established a comprehensive legal framework for managing or allocating water resources. Any unilateral construction of dams by Afghanistan could thus spark diplomatic friction or even legal confrontations in international forums.

Regional analysts have been quick to draw comparisons between this potential dispute and India's contentious dam projects in Jammu and Kashmir, which have long fueled tensions between New Delhi and Islamabad. A similar dynamic, they warn, could emerge between Kabul and Islamabad, further undermining efforts to build trust and cooperation.

Moreover, the water issue underscores a deeper, often overlooked layer of the bilateral relationship—one where environmental security and resource management may increasingly intersect with traditional concerns over terrorism, borders, and refugees. If not proactively addressed, the dispute over water could evolve into a significant flashpoint, complicating any broader rapprochement between the two nations and adding yet another obstacle to regional stability.

Economic and Infrastructure Cooperation: A Glimmer of Hope

Amid persistent political tensions and recurring security crises, economic integration stands out as a rare but significant area of potential cooperation between Pakistan



2023. By May 2025, over 844,000 Afghans have been repatriated, with many returning involuntarily under coercive circumstances. This mass deportation campaign reflects Islamabad's growing frustration with the prolonged presence of Afghan refugees, which it views as a significant social, economic, and security burden.

The campaign's second phase specifically targeted holders of the Afghan Citizen Card (ACC), who were given a firm deadline of March 31, 2025, to voluntarily leave Pakistan. Meanwhile, individuals holding Proof of Registration (PoR) cards were granted a temporary reprieve with an extended deadline until June 30, 2025. However, even PoR cardholders have been

to create humanitarian corridors to ensure safe passage. However, the Pakistani government maintains that ongoing security threats and mounting economic challenges necessitate such drastic measures. The resulting influx of returnees is exacerbating Afghanistan's already fragile humanitarian situation, compounding problems like decimated infrastructure, soaring unemployment, and limited access to basic services, thus deepening regional instability.

Water Tensions: A New Flashpoint Emerges

In early 2025, unconfirmed reports began circulating that the Taliban government is

and Afghanistan. At the heart of this opportunity is the Uzbekistan–Afghanistan–Pakistan Railway Project (UAPRP), a trilateral infrastructure initiative that seeks to boost regional connectivity and unlock new trade routes linking Central and South Asia.

The proposed 573-kilometer railway line would stretch from Tashkent through Kabul to Peshawar, drastically reducing cargo transit times from 30 days to just 10 and lowering freight costs substantially. If realized, the project could turn Afghanistan into a strategic land bridge, facilitating smoother trade between landlocked Central Asian republics and global markets via Pakistani seaports. For Pakistan, the railway promises reduced dependence on maritime trade routes and expanded access to Central Asian markets.

Despite its promise, the project faces daunting challenges. Chief among them are funding gaps, ongoing political instability in Afghanistan, and security threats along the proposed route—particularly in Taliban-controlled areas that remain prone to insurgent attacks and lawlessness. Nevertheless, feasibility studies and environmental assessments are progressing, and all three governments have reaffirmed their commitment to the plan.

In parallel, Afghanistan's potential integration into the China-Pakistan Economic Corridor (CPEC)—discussed during the May 2025 Beijing trilateral summit—offers additional economic lifelines for the Taliban government. While reactions from Pakistani opposition leaders and civil society groups have been mixed, the ruling government views economic engagement as a potential lever to moderate Taliban behavior. By embedding Afghanistan in regional infrastructure and trade networks, Islamabad hopes to encourage Kabul to adopt a more cooperative and pragmatic stance on security and diplomacy.

India Factor: The Elephant in the Room

India's expanding presence in post-2021 Afghanistan is a subtle yet significant factor influencing Pakistan's evolving policy toward the Taliban regime. While New Delhi, like most countries, has not formally recognized the Taliban government, it has

tactically re-engaged with Kabul through diplomatic and developmental channels. India reopened its embassy in Kabul in mid-2022 and has since pledged substantial humanitarian assistance, including food, medical supplies, and infrastructure support—efforts widely interpreted as an attempt to re-establish its soft power in Afghanistan.

This growing Indian footprint has not gone unnoticed in Islamabad. Pakistan has long considered Afghanistan within its strategic sphere of influence and views Indian involvement as a geopolitical threat, especially given the historical tensions between the two nuclear-armed neighbors.



Indian reconstruction efforts and diplomatic visibility are perceived by Pakistan's security establishment as a means for New Delhi to gain intelligence footholds and leverage against Islamabad, particularly along the sensitive Durand Line and in Balochistan.

Some regional analysts argue that Pakistan's recent diplomatic overtures—including the decision to restore full ambassadorial-level relations and push for Afghanistan's inclusion in regional infrastructure projects—may be, in part, a countermeasure to India's re-entry. By increasing its engagement and offering economic incentives, Islamabad aims to prevent Kabul from pivoting too closely toward New Delhi.

While Afghanistan's Taliban-led govern-

ment has so far balanced its ties cautiously, the perception of a growing India-Afghanistan axis could prompt further recalibrations in Pakistan's strategy. The rivalry over influence in Kabul is thus quietly intensifying, adding a competitive dimension to an already intricate regional chessboard.

Conclusion

The Pakistan-Afghanistan relationship in 2025 is best described as a cautious reset layered over enduring mistrust. Diplomatic channels have reopened, and trilateral frameworks offer an avenue for constructive dialogue. Yet, cross-border militancy,

deportation controversies, and emerging water disputes continue to cast a long shadow. China's mediation has given the process some momentum, but long-term peace and cooperation will depend on sustained commitment from both Islamabad and Kabul—backed by international stakeholders willing to support regional stability.

In essence, the current thaw is fragile. A failure to manage expectations, address mutual grievances, or contain violence could quickly reverse gains and plunge the relationship back into hostility. But with calibrated diplomacy, inclusive development, and responsible governance, this may yet be a turning point in South Asia's most turbulent bilateral equation.



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