

TAG NEWS UPDATE

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CURATED POLICY, MARKETS & INDUSTRY INSIGHTS

Mother of All Trade Deals: India-EU Free Trade Agreement



India and the European Union (EU) are set to finalize one of the most significant trade agreements in recent years. Dubbed the "Mother of All Trade Deals", this agreement is expected to dramatically alter global trade dynamics, particularly for South Asia.

- **Trade Liberalization:** The deal will eliminate tariffs on a wide range of goods, boosting market access for Indian exports to the EU and vice versa.
- **Services & Investments:** There will be enhanced cooperation in sectors like IT services, banking, and telecommunications, benefiting India's services exports.
- **Sustainability Standards:** The agreement includes provisions for higher environmental standards, which will support India's push for sustainable trade practices.
- **Regulatory Alignment:** The EU and India will work towards harmonizing regulations, which could make it easier for businesses to operate across borders.
- **Technology & Innovation:** The FTA will facilitate greater collaboration in high-tech sectors, such as pharmaceuticals and green energy.
- **Labour & Social Protection:** Both parties have committed to upholding labor rights and ensuring protections in sectors where social standards are crucial.

India–EU FTA: Key Tariff Reductions

- **Machinery & Electrical Goods:** Up to 44% → 0%
- **Aircraft & Spacecraft:** Up to 11% → 0%
- **Medical & Optical Equipment:** Up to 27.5% → 0% (90% of items)
- **Chemicals:** Up to 22% → 0%
- **Pharmaceuticals:** 11% → 0%
- **Motor Vehicles:** 110% → 10% (quota of 250,000 units)

EU Agricultural & Food Products (India imports)

- **Wine:** 150% → 20–30%
- **Beer:** 110% → 50%
- **Pasta & Chocolate:** 50% → 0%
- **Olive Oil:** 45% → 0%

As the India-EU FTA progresses, its far-reaching effects are anticipated to reshape trade flows, particularly in sectors like textiles, services, and high-tech industries.

Business Community Welcomes PM's Export Incentives, Flags India-EU FTA Risks



Prime Minister Shehbaz Sharif's export incentives have been welcomed by Pakistan's business community. These incentives come at a time when India is preparing for a Free Trade Agreement (FTA) with the EU. Key recommendations include:

- Creation of an Export Development Fund
- A 300 bps cut in the export refinance rate to 4.5%
- Reduction of electricity tariff by Rs. 4 per unit.
- Retention of the EU GSP Plus status
- Introduction of a zero-percent GST regime for exporters
- Labour law reforms inspired by Bangladesh's export model

Industry leaders emphasize that quick implementation is crucial for Pakistan to remain competitive in the export sector.



IMF-Backed Strategy Shifts Pakistan Toward Export-Led Growth

Pakistan is transitioning from crisis management to export-driven expansion under the ongoing IMF agreement. Key announcements include:

- A 300 bps cut in the export refinance rate to 4.5%
- A Rs. 4.04 per unit reduction in electricity wheeling charges
- A 1% CRR cut, releasing over Rs300bn into the banking system

The IMF forecasts that governance reforms could boost Pakistan's growth rate to 5–6.5% over the next five years, with \$1.2bn in fresh disbursements expected.



Public Debt Breaches Legal Limit by Rs17 Trillion

Pakistan's public debt has exceeded the legal limit by Rs16.8 trillion, reaching 70.7% of GDP. Debt servicing now consumes nearly half of the federal budget, limiting funds for development projects.

Despite this, refinancing risks have eased as the government has extended the maturity of domestic debt. As of June 2025, public debt stands at Rs80 trillion, with external debt at \$91.8bn, primarily owed to multilateral lenders including the IMF.



World Bank Approves \$379m for Power Transmission

The World Bank has approved a \$378.9 million loan to modernize Pakistan's power transmission system, with total project financing expected to reach \$698.75 million, including contributions from the AIIB and IsDB.

The project aims to:

- Improve grid stability
- Enable large-scale renewable energy integration
- Reduce reliance on high-cost thermal generation

The modernization project will run from 2026 to 2035, addressing persistent transmission bottlenecks that increase electricity costs.



Private Sector Credit Expands by Rs589bn in FY26

Private sector credit grew by Rs589 billion during July–January FY26, supported by lower refinance rates and increased liquidity in the banking sector. While growth remains below last year's pace, lending is expected to accelerate in sectors such as large-scale manufacturing (LSM) and exports.

Gold Prices Fall Sharply

Gold prices fell by Rs25,500 per tola, reaching Rs511,862, reflecting global market corrections and reduced local demand.





GIDC Act Amendments Approved to Unlock Rs400bn

The Cabinet Committee has approved amendments to the GIDC Act of 2015, aimed at unlocking over Rs400bn tied up in litigation. This move is expected to free up funds for essential gas infrastructure projects, easing fiscal constraints



Government May Divest Remaining 25% Stake in PIA

Following the successful privatization of 75% of PIA, the government is considering selling its remaining 25% stake, valued at Rs45bn, within three months. The airline has returned to profitability following balance-sheet restructuring.



Solar Net-Metering Benefits Likely to Reduce

Nepra has proposed revisions to the net-metering rules, limiting new solar installations to 100% of the sanctioned load, down from 150%. A public hearing is scheduled for February 6.



Taxation Updates: FBR, Income Tax, and Sales Tax

FBR Tax Collection Rises 16% in January

The FBR collected Rs1.031 trillion in January, marking a 16% year-on-year increase. However, the monthly target was missed by Rs16bn. Direct taxes led the strong performance, with income tax rising 26% and sales tax growing 12%. The gains were supported by reforms in enforcement, digitisation, and a rebound in large-scale manufacturing.

From July to January FY26, the FBR collected Rs7.176 trillion, about Rs345bn below target but still 11% higher than last year. The recent court ruling supporting the super tax could unlock Rs300bn, helping narrow the revenue gap.

However, The FPCCI has warned that recovering Rs300bn in super tax all at once could lead to a liquidity crunch. The federation proposed spreading the recovery over five years to ensure a smoother transition while supporting export-led reforms and further reductions in energy costs.



Federal Constitutional Court revives the legality of the Super Tax in Pakistan

The Honorable Federal Constitutional Court (formerly the Honorable Supreme Court of Pakistan), in its recent judgment, regarding writ petitions filed against the chargeability and constitutional standing of the super tax on businesses in Pakistan.

In its decision, the Honorable Federal Constitutional Court also upheld and revived the retrospective application of the super tax and the increased rate of super tax for specified sectors of businesses. It is important to note that this was previously declared discriminatory and ultra vires to the applicable laws and the Constitution of Pakistan.

Following this landmark, albeit contested, decision, the FBR field formations have been instructed to initiate or reopen legal proceedings to recover the super tax, with an aim to recover around Rs. 300 billion in super tax revenue.

Super Tax – Legal Status and Applicable Rates

- **Applicability:** Levied under Section 4C on income exceeding Rs. 150 million.
- **Rates:** Standard Super Tax ranges from 1% to 10%.
- **Specified Sectors:** Banking, oil & gas, fertiliser, cement, steel, sugar, and select textile segments.
- **Legal Status:** Constitutionality and retrospective application upheld by the Federal Constitutional Court.
- **Enforcement:** FBR authorised to reopen cases, targeting Rs. 300 billion in recoveries.



Reduction of Time Limit

SRO 14(I)/2026 Issued:

FBR has issued SRO 14(I)/2026, amending the previous notification SRO 1444(I)/2024, whereby the time limit for condonation of certain conditions has been reduced from three years to two years, effective immediately.

This reduction shortens the compliance window for businesses and requires faster completion of documentation, filings, and related regulatory actions. Companies are advised to reassess internal timelines and ensure timely compliance under the revised framework.



Penalties for Non-Compliance with E-invoicing:

FBR will impose penalties starting from January 2026 for businesses that fail to integrate with the system for issuing electronic sales tax invoices. Non-compliance beyond the deadlines for registration, system testing, and e-invoicing will lead to enforcement actions.

Track & Trace System (TTS):

FBR has issued an RFI to explore advanced technology solutions for Track & Trace, Electronic Monitoring, and DNA/Forensic Authentication, aimed at strengthening tax compliance and anti-counterfeiting measures.





Sugar Mill Violations:

FBR continues to enforce strict actions against sugar mills for non-compliance with the Track and Trace System. This forms part of the government's zero-tolerance policy against tax evasion.



Valuation Reduction for Used Mobile Phones:

FBR has revised customs valuations for used mobile phones, lowering duties and taxes on imports. This is expected to reduce retail prices and encourage more affordable access to mobile technology.



Minimum Tax Relief for Distributors Section 113

The Lahore High Court has significantly reduced the Minimum Tax burden on distributors under Section 113 of the Income Tax Ordinance, 2001. Previously, tax was levied on the gross sales value, but the judgment now applies tax only to the distributor's margin, leading to a drastic reduction in tax liability of around 95%. This change ensures that distributors are taxed on their actual income, not the entire sales turnover, offering substantial tax relief for businesses.



Corporate Compliance Updates

Election of Directors: SECP has extended the gap between the expiry of a director's term and the AGM from 15 to 30 days, allowing elections to be held within this extended period.

Capital Raising for Listed Companies: SECP has amended regulations to ease capital raising for financially viable but stressed listed companies, permitting rights issues despite CIB overdues, with NOCs from financial institutions. Enhanced disclosure requirements have been introduced to boost transparency and investor confidence.

This newsletter provides a detailed look at the most recent economic and policy updates, including changes in taxation, business incentives, and international relations. For more updates, stay tuned for next month's issue.



TRADEMARK LAW

2025 SLD 825 = 2025 CLD 50 (Sindh High Court)

In a recent ruling, the Sindh High Court upheld the protection of well-known trademarks under the Trade Marks Ordinance, 2001. The NTN mark was recognized as well-known, and the NBN mark, deemed confusingly similar, was refused registration. The court emphasized that businesses cannot register or use marks resembling well-known trademarks without risking rejection, affirming that well-known marks enjoy broad protection, even against partially similar marks.

This newsletter provides a detailed look at the most recent economic and policy updates, including changes in taxation, business incentives, labor law, trademark law, and more. For further updates, stay tuned for next month's issue.



Safder Muhammad

Fellow Chartered Accountant

Contact Details

 71 Block C3 Gulberg III, Lahore, 54660

 +92-300 8485843

 info@msafdar.com  www.msafdar.com  linkedin.com/in/safder-muhammad

