Day Break

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Key macroeconomic targets for FY26

GDP size: PKR 129.6 trillion

GDP growth: +4.2%

Manufacturing: +4.7%

Agriculture: +4.5%

LSMI: +3.5%

Inflation: +7.5%

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Pakistan Federal Budget

Initial Impression: Pakistan Budget 2025-26

- Finance minister presented the Budget 2026, with an total outlay of PKR 17.57 trillion.
- Tax Revenue target has been set at PKR 14.31 trillion whereas current expenditure is PKR 16.3 trillion.
- Overall budget deficit for FY26 is projected at PKR 5.0 trillion or PKR 3.9% of the GDP.
- GDP growth for FY26 is targeted at 4.2% whereas inflation is estimated at 7.5%.

Federal Budget 2025-26

We review key summary points from 2025-26 budget speech announced on 10th June, 2025. The budget for the fiscal year has a total outlay of PKR 17.57 trillion. The revenue target is set at PKR 14.13 trillion, with non-tax revenue estimated to be PKR 5.15 trillion. Notably, interest payments will account for a significant portion, totaling PKR 8.21 trillion, which is approximately 75% of the tax revenues. In terms of development expenditure, the government has allocated PKR 1.29 trillion, with the federal PSDP (Public Sector Development Program) set at PKR 1.0 trillion. As a result, the federal budgeted deficit for the year stands at PKR 6.50 trillion or 5.0% of the GDP, representing a decline compared to 6.5% in the previous fiscal year. Overall deficit for FY26 is budgeted at 3.9% compared to 5.6% in FY25.

Exhibit: Federal Budget 2026, at a glance
in PKR trillion

Total Resources	**17.57**	**Total Expenditure**	**17.57**
Tax Revenue	14.13	Current	16.29
Non-Tax Revenue	5.15	Interest Payments	8.21
Gross Revenue	19.28	Pension	1.06
Less: Provincial Share	8.21	Defense	2.55
Net Revenue	**11.07**	Grants to provinces	1.93
Non-bank Borrowing	2.87	Subsidies	1.19
Net External Borrowing	0.11	Running of Civil Govt	0.97
Bank Borrowing	3.44	Provision for Emergency and others	0.39
Privatization	0.09	Development	1.29
		Federal PSDP	1.00
		Net lending	0.29

Source: Ministry of Finance, IGI Research,

Exhibit: Budget 2026, at a glance
in PKR Billion

	FY25B	FY25R	FY26B	Change (%)
Net Receipts	10,377	9,805	11,072	13%
FBR Taxes	12,970	11,900	14,131	19%
Direct Taxes	5,512	5,826	6,902	18%
Indirect Taxes	7,458	6,074	7,229	19%
Non-Tax Revenue	4,845	4,902	5,147	5%
Provincial Share	7,438	6,997	8,206	17%
Total Expenditure	18,877	17,249	17,573	2%
Current Expenditure	17,203	16,390	16,286	-1%
Mark-up Payments	9,775	8,945	8,207	-8%
Domestic	8,736	7,907	7,197	-9%
Foreign	1,039	1,039	1,009	-3%
Defense	2,122	2,181	2,550	17%
Budget Balance	(7,283)	(6,435)	(5,037)	-22%
Primary Balance	2,492	2,510	3,170	26%
% of GDP				
FBR Taxes	10.4%	10.4%	10.9%	
Non-Tax Revenue	3.9%	4.3%	4.0%	
Total Expenditure	15.2%	15.0%	13.6%	
Current Expenditure	13.9%	14.3%	12.6%	
Budget Balance	-5.9%	-5.6%	-3.9%	
Primary Balance	2.0%	2.2%	2.4%	

Source: Ministry of Finance, IGI Research

Macro-Economic Targets

Macro-Economic Targets

- GDP growth is targeted at 4.2% (current 2.68%)
- C/a Deficit is targeted at US$ 1.6bn (current surplus of US$ 1.88bn for 10MFY25)
- Exports are targeted to reach US$ 35bn (current US$ 27.3bn)
- Imports are targeted to reach US$ 65bn (current US$ 48.6bn).
- Inflation is targeted at 7.5% (current 4.9%).
- LSMI likely to grow by 3.5% in FY26.

Key Budgetary Highlights

Fiscal Balance Targets

- Budget deficit targeted to reach 3.9% of the gdp (current 2.59% of gdp)
- Primary budget surplus targeted to reach 2.4% of the gdp (current surplus 3.0% of gdp)

Revenue Targets

- Total Gross Revenue will increase to PKR 19.28trn (+15%).
- FBR tax collection is targeted at PKR 14.13trn (up by +19%)
- Provincial tax collection is estimated at PKR 8.21trn versus PKR 6.99trn (+17%y)
- Non-tax revenue is estimated at PKR 5.15trn versus PKR 4.90trn (up by +5%)
- Total net receipts are budgeted at PKR 11.07trn (+13%y)

Expenditure Targets

- Debt servicing cost projected at PKR 8.21trn down 8%y (current PKR 8.95trn)
- Domestic debt servicing cost projected at PKR 7.20trn (down 9%y)
- Foreign debt servicing cost PKR 1.01trn (down 3%y)
- Subsidy amount decreased to PKR 1.19trn from current PKR 1.38trn.
- Defense budget projected to grow by +17% to PKR 2.55trn (current 2.18trn)
- Pension amount increased to PKR 1.06trn from PKR 1.01trn.
- Running of civil government budget increase PKR 0.97trn from PKR 0.89trn

Development Targets

- Under development budget, PSDP has been decreased to PKR 1.0trn while overall development budget declining to PKR 1.29trn.

Key Budgetary Measures

Key Salient Features of Federal Budget 2026

Key Tax Measures

Income Tax Measures

Revenue measures

- Pension income received by an individual below the age of 70 years and over and above of PKR 10mn has been charged to tax at the flat rate of 5%. There will be 0% tax rate on pension income not exceeding PKR 10mn.
- Adjustable withholding tax rate on cash withdrawal on non-filers proposed to be increased from 0.6% to 0.8%.
- Tax rate on profit on debt has been proposed to be increased from 15% to 20%.
- The dividend tax rate has been enhanced to 25% & 15% on dividend from mutual funds.
- Cap of PKR 5mn under final tax has been proposed to be removed for Individuals and AoPs while for companies it will remain adjustable.

Relief measures

- Super tax rates reduced by 0.5% under each slab for income between PKR 200mn to PKR 500mn (which is progressive between the range of 2%-8%). Tax rate for income between PKR 150-200mn remains unchanged at 1% while rate for income exceeding PKR 500mn also remains unchanged at 10%.
- Tax rates for salaried individuals earning up to PKR 3.2mn annually has been reduced while surcharge rate of 10% has been reduced to 9% for salaried individuals only. For Individuals earnings above PKR 3.2mn tax rates remain unchanged while fixed tax amount has been reduced.
- Income tax exemption for FATA/PATA region along with WHT exemption has been extended by 1 year to Jun-2026.

Streamlining Measures

- Purchases from unregistered persons will make the buyer liable, and 10% of the related expenditure will be disallowed as a deduction.
- If a vendor receives cash payment over PKR 200,000 for a single sale, 50% of the related purchase expenditure will be disallowed.
- Tax exemption on industries operating in Special Economic Zones and Special Technology Zones has been restricted to TY 2035 or expiry of 10 year exemption period, whichever is earlier.

- The carry-forward period for adjusting the minimum tax on turnover has been shortened from three years to two years.

Procedural Measures:

- All online marketplaces, payment intermediaries, and courier services must submit a statement to the Commissioner. This statement should include data about sellers who provide goods ordered online and services delivered digitally.
- Online marketplaces are required to register all sellers using their platform for e-commerce.

Sales Tax Measures

Revenue Measures:

- Sales tax exemption on supplies, imports and imports of plant and machinery by industrial units in FATA/PATA region has been withdrawn. Sales tax exemption will be withdrawn gradually with 10% sales tax applicable in FY26, 12% in FY27, 14% in FY28 and 16% in FY29.
- Sales tax collection expanded to digital payments & COD; withholding rate raised from 1% to 2%.
- Third Schedule expansion: Retail-level taxation introduced on imported chocolates, coffee, pet food, cereal bars.
- Removal of exemption on solar panels.
- Reduced rates (12.5%) on small cars (upto 850cc) and 10% on certain food items (vermicillies, sheer mall) is withdrawn

Relief Measures

- FATA/PATA consumers granted 1 more year of electricity tax exemption till 30-Jun-2026
- Exemption proposed for bun and rusk as relief for lower-income groups
- "Personal use only" restriction removed for importing medicines like *Cystagon, Cysta Drops, Trientine*—aimed at easing access for patients

Streamlining Measures:

- Cargo tracking system Introduced for real-time monitoring of goods; supports e-bilty enforcement
- Anti-tax fraud measures include clear legal definition of "abettor"; harsher penalties; separation of civil vs. criminal liability.
- Legal provisions for freezing bank accounts, seizing property, sealing business premises for unregistered persons

- FBR to limit input tax adjustments to control fraud, with an appeal mechanism.
- FBR empowered to hire up to 2000 auditors and experts for tax compliance functions
- Appeals before CIR (Appeals) no longer limited to cases below Rs. 10 million; all major sections now appealable. Option to directly approach ATIR also introduced.
- Time limit for condonation now capped at 2 years; can be extended further only in high-revenue-loss cases via committee.

Custom Duty measures

Revenue Measures:

- Abolishment of Additional Customs Duty over 4 years.
- Abolishment of Regulatory Duties over 4 years.
- 5th schedule of Customs Act 1969 to be abolished in 5 years.
- Customs duty slabs reduced to 0%, 5%, 10% and 15%.
- Existing tariff slabs of 3%, 11% and 16% have been abolished which has been replaced by the introduction of new slabs of 5%, 10% and 15%.

Relief Measures

- 0% tariff slab extended to further PCT 916 PCT codes from previously applicable on 2,201 tariff lines.
- CD reduced on goods falling under 2,624 PCT codes.
- Reduction in ACD from 2% to 0% on 4,383 tariff lines falling under tariff slabs of 0%, 5% and 10%, except 95 tariff lines still chargeable to ACD at 2%.
- Reduction in ACD from 4% to 2% on 518 tariff lines under 15% tariff slab.
- Reduction in ACD from 6% to 4% on 2,166 tariff lines under 20% tariff slab.
- Reduction in ACD from 7% to 6% on 468 tariff lines under 20% or above tariff slab.
- 0% customs duty applicable on a total of 381 Active Pharmaceutical Ingredients (APIs).
- Regulatory duty (RD) on goods falling under 554 PCT codes removed.
- Rate of RD reduced on goods falling under 595 PCT Codes.
- Maximum rate of RD reduced from 90% to 50%.

FED Measures

Key Relief Measures:

- Federal Excise duty on the allotment and transfer of residential and commercial plots in proposed to be withdrawn.

Other Measures

- Ineligible persons will be barred from purchase of Motor vehicles above 800cc, Property and Securities.
- Eligible persons are those who have sufficient resources in their wealth statements.
- Banks and custodians maintaining Investors Portfolio Securities (IPS) account must deduct tax on capital gains arising disposal of debt securities (including debt securities) and deposit with the Government.
- Carbon levy of PKR 2.5/ltr has been proposed on Motor Spirit, High Speed Diesel and Furnace Oil for FY26 which will be enhanced to PKR 5/ltr for FY27 while Petroleum Levy will now be charged on Furnace Oil on rates determined by the Federal Government.

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