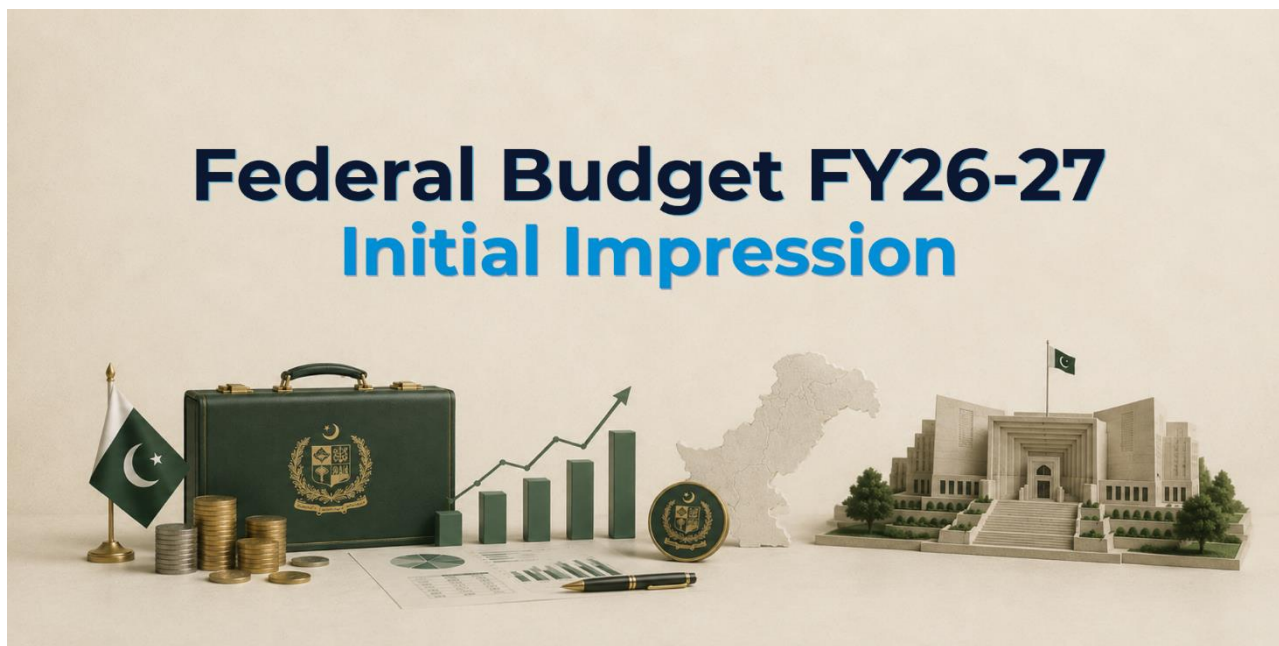


Federal Budget FY26-27 Initial Impression



Key macroeconomic targets for FY26

GDP size: PKR 143.6 trillion

GDP growth: +4.0%

Fiscal Deficit: 3.6%

Primary Surplus: 2.0%

Total Outlay: PKR 18.77trn

FBR Tax Target: PKR 15.26trn

Inflation target: 8.2%

- Finance minister presented the Budget 2027, with a total outlay of PKR 18.77 trillion.
- Tax Revenue target has been set at PKR 15.26 trillion whereas current expenditure is PKR 17.5 trillion. Overall budget deficit for FY27 is projected at PKR 5.2 trillion or PKR 3.6% of the GDP.
- Super tax abolished for earnings up to PKR 500mn while above PKR 500mn has been reduced to 8%. Tax rates for salaried class has been reduced to provide relief. Tax rates on buying and selling of property has also been reduced.

Federal Budget 2026-27

We review key summary points from Federal Budget 2026-27 announced on 12th June, 2026. The budget for FY27 has a total outlay of PKR 18.77 trillion. The revenue target is set at PKR 15.26 trillion, with non-tax revenue estimated to be PKR 5.34 trillion. Notably, interest payments will account for a significant portion, totaling PKR 8.05 trillion, which is approximately 53% of the tax revenues. In terms of development expenditure, the government has allocated PKR 1.28 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 7.02 trillion or 4.9% of the GDP, compared to 5.0% budgeted in the previous fiscal year or 4.1% revised. Overall deficit for FY27 is budgeted at 3.6% compared to 3.9% budgeted in FY26 or 3.0% revised.

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Exhibit: Federal Budget 2027, at a glance
 in PKR trillion

Total Resources	18.77	Total Expenditure	18.77
Tax Revenue	15.26	Current	17.50
Non-Tax Revenue	5.34	Interest Payments	8.05
Gross Revenue	20.60	Pension	1.17
Less: Provincial Share	8.85	Defense	3.00
Net Revenue	11.75	Grants to provinces	2.68
Non-bank Borrowing	2.03	Subsidies	1.09
Net External Borrowing	0.81	Running of Civil Govt	1.07
Bank Borrowing	4.01	Provision for Emergency and others	0.43
Privatization	0.16	Development	1.28
		Federal PSDP	1.00
		Net lending	0.28

Source: Ministry of Finance, IGI Research,

 Exhibit: Budget 2027, at a glance
 in PKR Billion

	FY26B	FY26R	FY27B	Change (%)
Net Receipts	11,072	10,484	11,752	12%
FBR Taxes	14,131	12,983	15,264	18%
Direct Taxes	6,902	6,432	7,613	18%
Indirect Taxes	7,229	6,551	7,651	17%
Non-Tax Revenue	5,147	5,093	5,336	5%
Provincial Share	8,206	7,592	8,848	17%
Total Expenditure	17,573	15,642	18,771	20%
Current Expenditure	16,286	15,006	17,495	17%
Mark-up Payments	8,207	6,937	8,054	16%
Domestic	7,197	6,007	6,983	16%
Foreign	1,009	931	1,071	15%
Defense	2,550	2,588	3,000	16%
Federal Fiscal Deficit	(6,501)	(5,157)	(7,020)	36%
Provincial Surplus	1,464	1,379	1,794	30%
Overall Budget Balance	(5,037)	(3,778)	(5,226)	38%
Primary Balance	3,170	3,159	2,828	-10%
% of GDP				
FBR Taxes	10.9%	10.2%	10.6%	
Non-Tax Revenue	4.0%	4.0%	3.7%	
Total Expenditure	13.6%	12.3%	13.1%	
Current Expenditure	12.6%	11.8%	12.2%	
Budget Balance	-3.9%	-3.0%	-3.6%	
Primary Balance	2.4%	2.5%	2.0%	

Source: Ministry of Finance, IGI Research

Macro-Economic Targets

Macro-Economic Targets

- GDP growth is targeted at 4.0% (current 3.70%)
- C/a Deficit is targeted at US\$ 3.6bn (current of US\$ 0.5bn)
- Exports are targeted to reach US\$ 32.9bn (current US\$ 28bn)
- Imports are targeted to reach US\$ 70bn (current US\$ 63bn).
- Remittances targeted to reach US\$ 42.4bn (current US\$ 33.8bn)
- Inflation is targeted at 8.2% (current 6.2% for 10MFY26).
- LSMI likely to grow by 6.1% in FY27.

Key Budgetary Highlights

Fiscal Balance Targets

- Federal Fiscal deficit targeted at 4.9% of the GDP (revised 4.1% of the GDP for FY26).
- Overall Budget deficit targeted to reach 3.6% of the GDP (revised 3.0% of GDP for FY26).
- Primary budget surplus targeted to reach 2.0% of the GDP (revised surplus 2.5% of GDP for FY26)

Revenue Targets

- Total Gross Revenue will increase to PKR 20.60trn (+14%/y/y from revised).
- FBR tax collection is targeted at PKR 15.26trn (up by +18%/y/y from revised).
- Provincial tax collection is estimated at PKR 8.85trn versus PKR 7.59trn (+17%/y/y from revised).
- Non-tax revenue is estimated at PKR 5.34trn versus PKR 5.09trn (up by +5%/y/y from revised)
- Total net receipts are budgeted at PKR 11.75trn against PKR 10.48trn (+12%/y/y from revised).

Expenditure Targets

- Debt servicing cost projected at PKR 8.05trn up +16%/y/y (revised PKR 6.94trn)
- Domestic debt servicing cost projected at PKR 6.98trn up +9%/y/y (revised PKR 6.0trn)
- Foreign debt servicing cost PKR 1.07trn up +15%/y/y (revised PKR 0.93trn)
- Subsidy amount decreased to PKR 1.09trn from revised PKR 1.16trn.
- Defense budget projected to grow by +16%/y/y to PKR 3.0trn (revised 2.59trn)

- Pension amount increased to PKR 1.17trn from FY26 revised PKR 1.06trn.
- Running of civil government budget increase PKR 1.07trn from FY26 revised PKR 1.02trn.
- Benazir Income Support Program (BISP) has been set at PKR 0.82trn.

Development Targets

- Under development budget, PSDP has been set at PKR 1.0trn while overall development budget declining to PKR 1.28trn.

Key Budgetary Measures

Key Salient Features of Federal Budget 2027

Key Tax Measures

Income Tax Measures

Revenue measures

- Minimum tax rate for distributors and wholesalers has been increased from 0.25% to 0.5% subject to meeting documentation required.
- Imposition of tax on sham life insurance policies to discourage misuse of life insurance policies.
- Introduction of Withholding Tax (WHT) on income of digital content creators and social media influencers.
- Exemption from higher tax rates on capital gains from listed securities for non-ATL persons has been withdrawn.
- Banks and electronic money institutions will report high-value transactions for comparison with tax returns to detect mismatches.
- Businesses may be required to install systems for real-time reporting; non-compliance may lead to disallowed expenses.
- Penalties for non-compliance (late filings, integration failures, incorrect withholding claims, etc.) have been increased.
- Fixed tax asan scheme for retailers earning up to PKR 200mn. The retailers will pay minimum PKR 25,000 annually or 1% of the sales.

Relief measures

- Super tax for first 6 slabs has been removed with earnings up to PKR 500mn while income above PKR 500mn will attract super tax at the rate of 8% from previous 10%. These concessions however, do not apply to banking, E&P and fertilizer sectors.
- For relief to exporters, Tax on export proceeds has been reduced from 2% (1% WHT and 1% advance tax) to 1.25% which will be the minimum tax rate and EFS markup reduced to 4.5%. Reduced tax rate of 0.25% for exporters of IT and IT enabled services has been extended till Jun-29 from Jun-26 previously.
- WHT on purchase of property for filers has been reduced to 1.25% from 2.5% while tax on property sales has been reduced from 5.5% to 2.75%.
- Advance tax on e-commerce transactions shall be adjustable for sellers having turnover of more than PKR 200mn.
- Reduction in advance tax on foreign transactions made through debit, credit and prepaid cards has been reduced to 0.5% from 5% previously.

- Section 7E, imposing tax on deemed income from immovable property, has been abolished.
- A 10% tax credit on investments in FBR-integrated electronic systems has been introduced.
- Advance tax on payments for foreign television plays and advertisements has been withdrawn.
- Income tax exemption has been extended to specified charitable and welfare organizations, eliminating the need for annual exemption approvals.
- Income of qualifying Special Purpose Vehicles established for asset-backed securitization has been exempted from taxation.
- Capital Value Tax on foreign movable and immovable assets of resident Pakistanis has been abolished.
- The turnover threshold for withholding tax exemption for small traders has been increased from PKR 100 million to PKR 200 million.
- Eligible Funds and nonprofit organizations meeting prescribed conditions shall be entitled to automatic issuance of exemption certificates.
- Law regarding cost basis determination of inherited immovable property and tax treatment of family settlements after death has been clarified

Streamlining Measures

- A National Faceless Centre to be established to conduct faceless audits, assessments and appeals.
- The role of NCCPL in computation and determination of capital gains on listed securities has been expanded and clarified.
- Companies shall be required to submit financial statements in electronically readable formats to facilitate automated processing and analysis.
- The scope of special procedures for small traders and shopkeepers has been expanded through amendments in section 99B.
- Introduction of provisions to define authorized shipping agents and strengthen taxation and improve compliance relating to non-resident shipping operations.

Sales Tax Measures

Revenue Measures:

- Charging a 3% VAT to manufacturers who resell imported raw materials exactly as they bought them.
- Expansion of the Third Schedule to ensure sales tax collection at consumer price by manufacturers at the manufacturing stage.
- Broadening sales tax withholding rules for AOPs and individuals when buying from unregistered businesses.

Relief Measures

- Extension of the exemption on the import of CKD for electric vehicles up to 30-Jun-27.
- Expansion of the exemption scope for the import and lease of aircraft parts by PIACL.
- Grant of sales tax exemption to promote strategic investment in the shipping sector.
- Grant of exemption on strategic imports for the SCO Summit and counter-terrorism purposes.
- Sales tax exemption on the import of capital goods for the upgradation and overhaul of existing refineries.

Streamlining Measures:

- Requiring businesses to issue formal tax invoices for exempt supplies as well (Section 23).
- Enabling the seizure and confiscation of goods lacking official tax stamps or stickers.
- Introducing new protocols for auctioning confiscated goods.
- Launching an automated Algorithmic Settlement.
- Forming an Independent Case Scrutiny Committee.
- Updating the "Tier-1 Retailer" definition to include any retailer with an annual turnover of 200 million or more.
- Adding a legal explanation to clarify exactly when goods are considered "delivered" to a recipient.
- Enabling electronic debit and credit notes for tax adjustments under Section 9.
- Sub Sec 2 of Section 21 revised to crack down on fake or flying invoices and fraudulent tax activities.

Custom Duty measures

Relief Measures

- Customs Duty exemption granted on critical cancer-treatment Active Pharmaceutical Ingredients (APIs) to support the healthcare sector.
- Reduction of Customs Duty from 20% to 10% on specialized construction related vehicles for construction sector.
- Exemption of CD on import on Defence Imports.
- Customs Duty (CD), Additional Customs Duty (ACD), and Regulatory Duty (RD) exemptions have been granted on the import of agricultural machinery to support the agriculture sector.
- The maximum penalty on terminal operators for failure to honor Delay Detention Certificates issued by Customs has been increased from PKR 0.5mn to PKR 10mn.
- Deletion of entries from the Fifth Schedule where concessionary CD equals or exceeds the First Schedule general tariff.
- Reduction of Additional Custom Duty (ACD) across different tariff lines while Regulatory Duty (RD) capped at 20% on 359 tariff lines where it was greater than 20%. RD also reduced across multiple tariff lines.
- CD has been Rationalized under National Tariff Policy (NTP) 2025-30 with duties reduced from 20% to 15% and 10%, 15% and 10% reduced to 10% and 5% and existing 5% to 0% for input goods of different industrial sectors on 92 tariff lines.

FED Measures

Revenue Measures

- FED on e-cigarette liquid increased 65% to PKR 16,500/kg.
- FED of PKR 80/ltr imposed on petroleum derivatives including naphtha, solvent oil, turpentine, base oil and base lubricating oil.
- FED on vehicles above 2,000CC and Electric Vehicles prices above PKR 20mn increased while duty on vehicles above 3,000CC also proposed to be increased.

Key Relief Measures:

- FED on foreign business class air travel has been abolished.
- EV support continued through one-year extension of FED exemption on imported EV CKD kits (till Jun-27).
- FED on acetate tow cut by 77% (PKR 44,000/kg to PKR 10,000/kg).

Other Measures

- 7% increase in pension for federal retired employees.

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