Budget Preview 2027

Federal Budget 2027

Federal Budget 2027 Preview: Fiscal Consolidation Likely to Continue

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- The Government is likely to set FBR revenue target of PKR 15.3trn for FY27 up from PKR 13.4trn estimated in FY26. Overall Budget Deficit is likely to stand at PKR 4.9trn or 3.4% of GDP in FY27 up from PKR 5.0trn (4% of GDP) budgeted in FY26 or estimated PKR 4.0trn (3.2% of GDP).
- Salaried individuals are widely expected to receive some fiscal relief in the upcoming budget. The most anticipated measure is an upward revision in the minimum taxable income threshold, which currently exempts individuals earning up to PKR 600,000 annually.

Budget 2026-27 to be announced in first week of Jun-26

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Key Fiscal and Macroeconomic Targets for 2027

Revenue and Fiscal deficit for FY27

The Government is likely to set FBR revenue target of PKR 15.3trn for FY27 up from PKR 13.4trn estimated in FY26. Overall Budget Deficit is likely to stand at PKR 4.9trn or 3.4% of GDP in FY27 up from PKR 5.0trn (4% of GDP) budgeted in FY26 or estimated PKR 4.0trn (3.2% of GDP). Deficit is likely to be widened mainly due to higher expenditure with increased current spending and rise in mark-up payment which are expected to increase to PKR 7.8trn against PKR 7.3trn estimated in FY26. This is likely due to expectation of higher interest rates.

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Primary surplus to stand at 2.0% of GDP

On the fiscal consolidation front, the primary surplus target for FY27 has been set at 2.0% of GDP — stepping back from the revised FY26 target of 2.5% of GDP, which itself had been raised from an original 2.0% goal. Excluding grants, the underlying primary surplus is expected to come in at 1.6% of GDP.

Tax to GDP

Pakistan's tax-to-GDP ratio crossed the 11% mark in FY25 and is expected to hold around that level through FY26 and into FY27. Simultaneously the debt-to-GDP ratio is also expected to come down to 62%, reflecting a broader structural shift toward fiscal sustainability.

Power Sector Subsidy

The power sector's subsidy bill is set for a meaningful reduction, with a hard cap of PKR 830bn (0.6% of GDP) penciled in for FY27. This marks a substantial pullback from the PKR 1.036trn in subsidies estimated for FY26, underscoring the government's intent to gradually wean the sector off budgetary support.

PDL collection target likely to increase

The Petroleum Development Levy (PDL) target has been set at PKR 1.73trn for FY27, up approximately 12% from the current year's expected figure. While higher fuel prices are anticipated to weigh on petroleum product demand — with consumption potentially contracting by 5–6% — the revenue shortfall from lower volumes is expected to be offset by maintaining the PDL rate at PKR 90 per litre.

PSDP to stand lower than last year

On the development spending side, federal and provincial PSDP targets have been set at PKR 986bn and PKR 2.5trn respectively. It is worth noting that the overall PSDP envelope for FY27 is expected to be smaller than what was originally budgeted in FY26, reflecting continued prioritization of ongoing projects over new initiatives. The defence budget is projected to see a modest uptick, rising to PKR 2.6trn in FY27 from PKR 2.5trn in the current fiscal year.

Key Macroeconomic Targets

Inflation, GDP and Current account

GDP growth for FY27 is projected at 3.5%, slightly lower than 3.7% in FY26, while inflation is expected to increase to 8.4% from 7.2%. Meanwhile, the current account deficit is forecast at 0.9% of GDP, compared to 0.4% previously.

Key measures for achieving revenue target in FY27

Key measures to achieve target could include braodening tax base by expanding tax net to retailers and wholesalers, withdrawal of certain tax exemptions. The Government is likely to focus on reforms through enforcement measures taken by FBR to increase revenue. A new taxation framework targeting the retail sector is also on the cards. Under the proposed scheme, a turnover tax of 1% would apply to retailers with annual sales of at least PKR 300mn, with separate brackets designed to accommodate smaller businesses. Given that Pakistan's retail network is estimated at PKR 4.36trn according to the Pakistan Economic Survey, even partial implementation of such a scheme could meaningfully expand the tax base. A version of this framework is expected to be introduced as a first step toward gradually bringing this largely undocumented sector into formal taxation.

Finally, provincial-level reforms are expected to begin delivering tangible results in FY27. Updated agricultural income tax legislation, combined with improved GST collection on services, is projected to generate additional revenues of approximately 0.3% of GDP — equivalent to around PKR 400bn — providing a meaningful boost to the overall fiscal consolidation effort.

Production monitoring systems, already deployed across the sugar, cement, tobacco, and fertilizer sectors, are now being extended to the textile industry as well. Collectively, these sectors are estimated to harbor a tax gap of around PKR 160bn (0.1% of GDP). The rollout of production tracking is expected to translate into PKR 48bn in additional sales tax revenues in FY27, as underreporting and evasion become increasingly difficult to sustain under real-time oversight.

Relief Measures for Salaried Class

Reduction in income tax for Salaried Class

Salaried individuals are widely expected to receive some relief in the upcoming budget. The most anticipated measure is an upward revision in the minimum taxable income threshold, which currently exempts individuals earning up to PKR 600,000 annually. This limit is expected to be raised to somewhere between PKR 1.0mn and PKR 1.2mn per annum, effectively removing a larger segment of lower-income earners from the tax net. To put the salaried class's contribution in perspective, they paid approximately PKR 425bn in taxes during the first nine months of FY26 alone, representing around 9% of total direct federal tax collection. Additionally, the 9% surcharge currently levied on individuals with annual incomes exceeding PKR 10mn is expected to be phased down gradually over time.

Super tax to be phased out gradually over the next few years

On the corporate side, non-banking companies with earnings of PKR 500mn and above currently face a combined tax burden of 39% — comprising a 29% corporate tax rate and a 10% super tax. While both the government and various trade bodies have called for these rates to be reduced or abolished altogether, any meaningful change is unlikely to materialize immediately. A broader framework for gradually aligning corporate and super tax rates with regional norms of 25–30% is expected to be outlined in the FY27 budget, though actual rate reductions in this cycle are anticipated to be minimal at best.

The proposal to reinstate goods exporters under the Final Tax Regime — which would effectively lower the income tax burden on the export sector — has been widely circulated by trade associations. However, given the government's pressing revenue needs, this proposal is expected to be turned down in the upcoming budget.

Exhibit: Fiscal Account Summary

PKR bn	FY23	FY24	FY25	FY26E	FY27B
Revenue & Grants	**9,648**	**13,321**	**18,046**	**20,130**	**21,910**
Tax Revenue	8,428	11,159	14,015	16,374	19,091
- Federal	7,787	10,385	13,037	15,110	17,144
- Provincial	640	774	979	1,264	1,947
Non-Tax Revenue	**1,186**	**2,110**	**3,982**	**3,702**	**2,768**
- Federal	1,022	1,887	3,668	3,315	2,328
- Provincial	164	223	314	387	440
Grants	35	52	49	53	51
Total Expenditure	**16,137**	**20,476**	**24,166**	**24,206**	**26,423**
Current Expenditure	**14,474**	**18,653**	**21,529**	**21,339**	**23,229**
Federal	10,676	14,052	15,696	14,757	15,921
- Interest	5,722	8,160	8,887	7,289	7,824
- Non-Interest	4,954	5,892	6,808	7,468	8,097
Provincial	3,798	4,601	5,833	6,582	7,308
Development Expenditure	**1,953**	**1,996**	**2,966**	**2,867**	**3,624**
- Federal	652	635	786	873	986
- Provincial	1,241	1,392	2,198	2,099	2,524
- Net Lending	60	-30	-18	-105	114
Statistical Discrepancy	**-290**	**-173**	**-329**	**0**	**0**
Overall Fiscal Balance	**-6,488**	**-7,155**	**-6,119**	**-4,076**	**-4,943**

Source: IMF Report May-2026, IGI Research

Sector Dynamics in Federal Budget FY27: Anticipated changes and Potential Impacts

General

Proposed Measures	Remarks	Impact
Export related incentives for Company	An international trade incentive providing a preferential corporate tax rate of 5–10% on eligible export-related income.	Positive
Tax concessions for salaried class.	Authorities are considering raising the minimum taxable income from PKR 600,000 to PKR 1.2 million and reviewing current tax slabs to provide financial relief to the workforce.	Positive
Gradual elimination and lowering of the super tax.	The anticipated elimination of the super tax is expected to provide a major boost to corporate earnings.	Positive
Baseline tax thresholds for importing entities.	The plan involves raising minimum tax rates for importers—commercial rates would rise from 5.5% to 7%, and others from 3.5% to 5%—while allowing for a five-year carry-forward period for any excess tax paid.	Neutral to Negative
Phasing down Corporate tax rates	Lowering the corporate tax rate to 28% for FY27, followed by a step-by-step decline to 25% over the next three years.	Positive

Stock Market

Proposed Measures	Remarks	Impact
Granting tax immunity to inter-company dividend distributions.	Reinstating the tax exemption for inter-company dividends would eliminate the issue of double taxation.	Positive
The rollout of a fiscal tax on financial transfers.	This tax targets the trading of digital assets, derivatives, and equities, set at a proposed 0.05% to 0.1% of the total value traded.	Negative

Commercial Banks

Proposed Measures	Remarks	Impact
Updates to the withholding tax for cash-based transactions.	To better reflect current cash-flow needs, the threshold could rise to PKR 75,000 from PKR 50,000, with the tax rate adjusted to 1.5% from 0.5%.	Neutral
Aligning the effective tax percentage for the banking sector with broader fiscal goals.	Potential adjustments to the 52% tax rate currently applied to the banking sector to make it more equitable.	Positive

Cements		
Proposed Measures	**Remarks**	**Impact**
The government has initiated a PKR 3.2 trillion nationwide housing project aimed at constructing 500,000 residences.	This housing initiative is projected to drive substantial construction growth, fueling sustained demand for cement and bolstering the entire building materials industry	Positive
Distribution of PSDP	The Ministry of Finance's proposed limit for FY27 development spending stands at PKR 1,126 billion, while the latest IMF report projects a federal expenditure of PKR 986 billion.	Neutral

Autos		
Proposed Measures	**Remarks**	**Impact**
Significant duty cuts for CKD kits are proposed, with non-localized parts falling by half to 5% and localized components dropping to 10% from 25%.	Lowering CKD kit duties is projected to decrease input expenses for local manufacturers, improving their profit margins and making vehicles more affordable for consumers.	Positive
Government concessions and support for the NEV and hybrid sectors.	To drive the shift toward electric vehicles, the proposed policy offers NEVs a low 1% sales tax and removes multiple duties, while keeping hybrid taxes at 9% versus 18% for conventional vehicles. This framework is set to benefit assemblers with strong hybrid and electric line-ups.	Positive
A downward trend in vehicle import tariffs is anticipated, falling from a 10.6% average to 7.4% by 2030.	The gradual reduction in tariffs is set to heighten market rivalry, forcing local assemblers to more aggressively manage their pricing and margins to maintain their position.	Negative
Easing the restrictions on auto financing.	By increasing the financing limit to PKR 10 million and cutting down payment costs, these measures aim to drive a recovery in the local auto market by improving consumer purchasing power.	Positive
A 40% tariff on used car imports is set to continue until mid-2026, after which it will be decreased by 10% each year, reaching zero by the 2029–30 fiscal year.	As import duties on used vehicles are gradually removed, local manufacturers will face increased competitive pressure, which could squeeze their market share and pricing power.	Negative

Technology		
Proposed Measures	**Remarks**	**Impact**
An exemption from capital gains tax for divesting from startups and IT export companies.	These measures are set to make IT companies more attractive to investors, stimulating equity funding and accelerating both capital formation and overall growth.	Positive
Tax relief for internet service providers and data consumers.	With provincial taxes at ~19.5% and federal withholding at 12.5%, high costs are a major barrier for users. Reducing these taxes is expected to lower prices and drive growth in broadband demand.	Positive
Maintain the 0.25% FTR for an extended period of 5 to 10 years after June 2026 to provide a predictable tax environment for the sector.	By restoring this framework, IT companies can better compete globally, reinvest in their growth, and significantly increase the country's export earnings.	Positive
Lowering the import tariffs on fiber optic cabling.	By reducing tariffs on fiber optic cables from roughly 60% down to 5%, the government is lowering the barrier for network expansion and enabling faster FTTH growth for operators.	Positive
Standardizing provincial sales taxes on local IT services to establish a consistent tax framework nationwide.	By unifying provincial tax systems, technology companies would benefit from reduced overhead and less complex compliance, leading to smoother operations and an improved business environment.	Positive

OMCs		
Proposed Measures	**Remarks**	**Impact**
Property tax concessions aimed at supporting EV charging station infrastructure.	By offering property tax concessions, this measure aims to foster EV charging infrastructure development, cutting capital expenses and facilitating a faster network expansion to meet rising electricity demand.	Neutral
Apply a "Green Transport Levy" to fuel prices to fund eco-friendly initiatives.	To drive transport de-carbonization, the government is weighing a Green Transport Levy on liquid fuels alongside existing petroleum taxes. If enacted, this surcharge—intended to promote cleaner mobility—will likely be passed on to consumers.	Neutral

Real Estate		
Proposed Measures	**Remarks**	**Impact**
Implementing a 1.5% tax concession for certified Green building projects.	To reward eco-friendly construction, a 1.5% tax concession is proposed for the rental income and borrowing costs of buildings that achieve recognized sustainability certifications.	Positive

Potential tax reductions for plots: Sales duty may fall to 1.5% while purchase tax could decrease to 0.25%.	A cut in property-related taxation is expected to rejuvenate market activity and enhance the overall attractiveness of investing in the sector.	Positive
Phasing out local DC valuation rates to adopt FBR-established standards for property assessment.	By bringing valuations in line with market realities, the shift from DC rates to FBR benchmarks can foster a more consistent, documented, and transparent real estate market.	Neutral
Applying a 2% tax rate to residential real estate beyond a primary residence.	By targeting non-primary homes and investment assets valued at PKR 20 million or more, the government aims to curb market speculation and improve sector documentation.	Negative

Textile		
Proposed Measures	**Remarks**	**Impact**
Decreasing the tariff burden on PTA while removing anti-dumping protections currently applied to PSF.	Cutting duties on PTA and PSF will decrease manufacturing costs, helping Pakistan's synthetic textile exports compete more effectively in the region.	Positive
Establish a multi-level tax structure, applying a 5% rate to production inputs and a 10% rate to final goods.	Lower GST on inputs will improve cash flow and cut production costs; meanwhile, the 10% tax on final products is expected to boost market activity.	Positive
A proposal to reduce the MTT from 1.25% to a more concessionary 0.5%.	The current 1.25% turnover tax is disproportionately heavy for industries operating on narrow 1–2% margins. Lowering this rate would help protect earnings and improve cash flow.	Positive

FMCGs		
Proposed Measures	**Remarks**	**Impact**
Lowering the sales tax on packaged milk and dairy products.	To boost formal market share and improve affordability, the proposal suggests cutting the sales tax on packaged dairy products from 18% down to 10%.	Neutral
Hiking the FED rate for the sweetened beverage industry to boost revenue or public health.	Following the 2023 FED hikes on sodas (20%) and juices (10%), a new 10% increase for sugary beverages is expected to generate an additional PKR 15–20bn in revenue.	Positive

Pharmaceuticals		
Proposed Measures	**Remarks**	**Impact**
Return to a zero-rated regime for medicinal goods to lower production costs and improve drug affordability.	Returning to a zero-rated status would enable pharmaceutical firms to recover input taxes, providing a vital boost to profitability compared to the existing 1% GST structure.	Positive

Power		
Proposed Measures	**Remarks**	**Impact**
Budgetary cap: A PKR 830bn (0.6% of GDP) cap is proposed for targeted electricity subsidies in the upcoming FY27 budget.	These funds target DISCO/KE tariff differentials and circular debt stock. The goal is to curb debt growth and ensure better cash flow for IPPs.	Positive
Tobacco		
Proposed Measures	**Remarks**	**Impact**
Implementing a 15% excise tax specifically targeting electronic cigarettes and vaping fluids.	The new 15% excise duty on vaping products helps standardize Pakistan's tax framework with regional peers who have implemented similar measures.	Negative
Implementing higher price floors for tobacco products to discourage consumption.	The plan raises the PKR 180 price floor by PKR 35 for budget packs and PKR 21 for premium brands, while unifying taxes to eliminate price gaps.	Negative

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