



**PRAC**  
POLICY RESEARCH  
& ADVISORY COUNCIL



# FEDERAL BUDGET COMMENTARY Fiscal Year 2026-27

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## I. BUDGET AT A GLANCE

		FY27 (B)	% CHANGE
<b>TOTAL REVENUE IN PKR BN</b>	 <b>GROSS REVENUE RECEIPTS</b>	20,600.0	14.0
	 <b>TAX REVENUE</b>	15,264.0	17.6
	 <b>NON-TAX REVENUE</b>	5,336.0	4.8
	 <b>(LESS) PROVINCIAL TRANSFERS</b>	8,848.0	16.5
	 <b>NET REVENUE RECEIPTS</b>	11,751.0	12.1

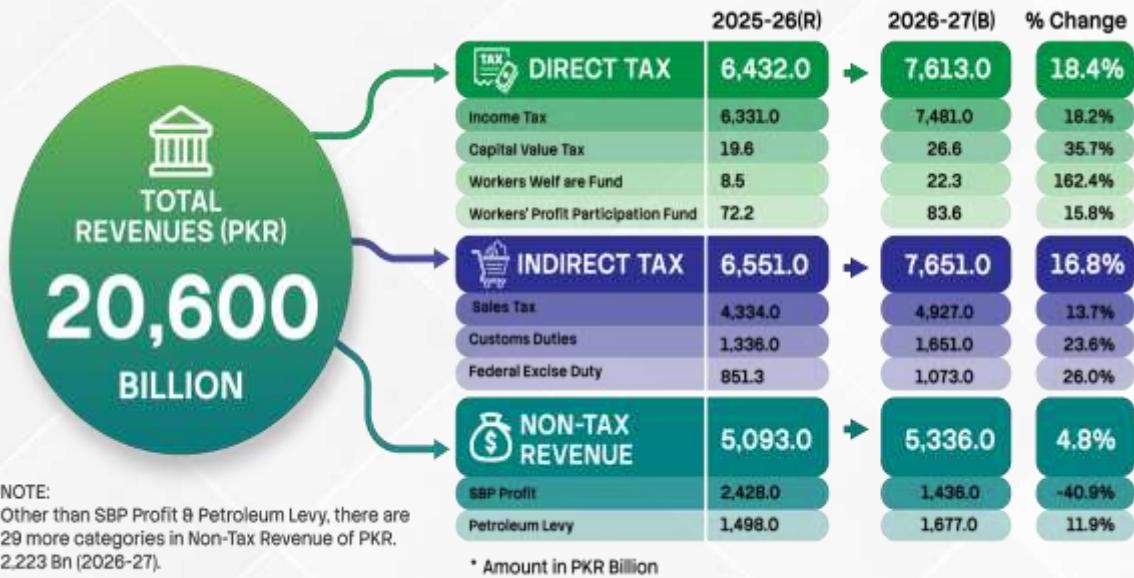
 **Fiscal Deficit FY27(B) PKR 7,020 BN** | % CHANGE **36.1%** | Deficit as % of GDP **4.9%**

### EXPENDITURES IN PKR BN

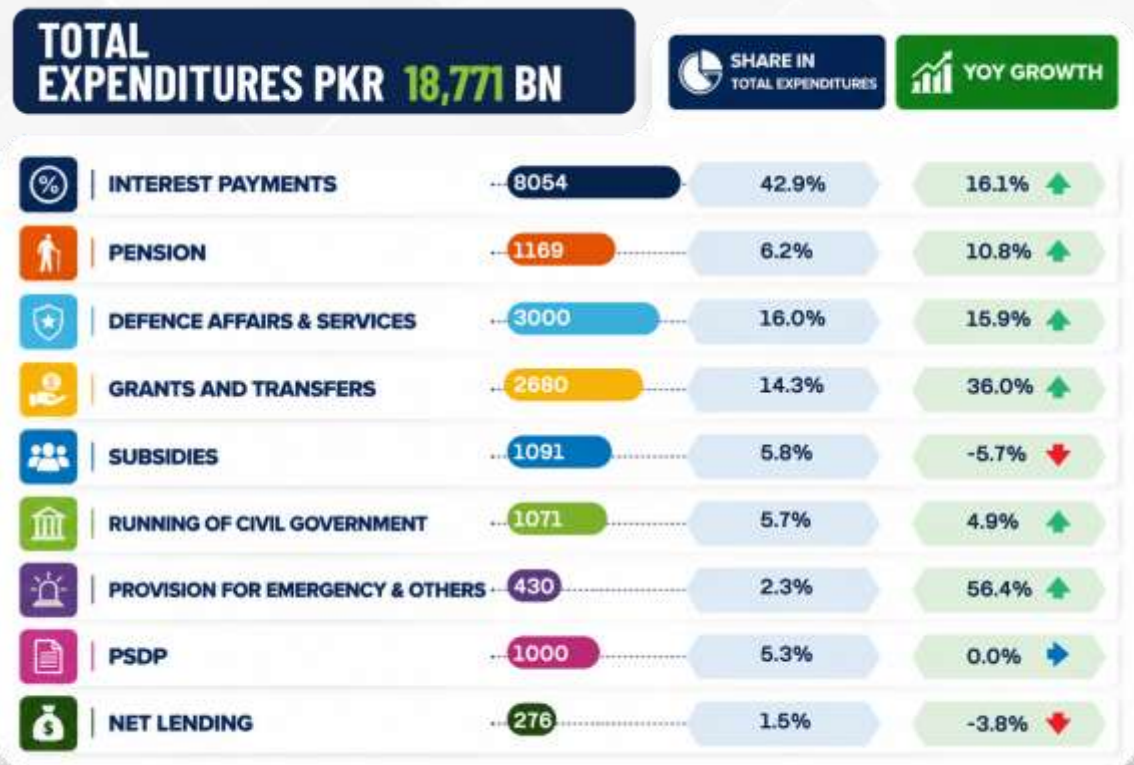


	FY27 (B)	% CHANGE
<b>Total Expenditures</b>	18,771	20.0%
<b>Current Expenditures</b>	17,495	16.6%
<b>Development Expenditures</b>	1,276	-23.0%

## II. REVENUE BREAKDOWN



## III. EXPENDITURE BREAKDOWN



## IV. POSITIVE MEASURES

- **Elimination of Super Tax Relief:** The budget abolishes corporate Super Tax across six slabs for businesses generating between PKR 150 million and PKR 500 million, while capping the maximum Super Tax rate at 8% for incomes exceeding PKR 500 million. This provides substantial liquidity relief to SMEs and local manufacturing units, enhancing business expansion incentives.
- **Relief for Exporters:** The combined advance and minimum income tax on export revenues has been lowered from 2.0% to 1.25% as a minimum tax. Moreover, The concessional rate under the Export Refinance Scheme has been extended for the next year at 4.5% with PKR 88 billion allocated to support exporters. This expansion provides low-cost working capital, improves liquidity, and can help sustain export competitiveness amid high financing costs.
- **Asset Declaration Incentives:** The Capital Value Tax (CVT) on declared offshore assets has been abolished, encouraging citizens to document foreign holdings and integrate them into the formal financial system.
- **Targeted Financing for Farmers, Housing and Green Mobility:** Under this system, five schemes have been launched to promote financial inclusion and support underserved groups: Zar Khezi, providing PKR 300 billion in digital loans to 750,000 small farmers; PM's Apna Ghar Programme, offering 5% mortgage support for low- and middle-income housing; PAVE, providing subsidized financing for e-bikes and rickshaws; PM's Fan Replacement Programme, supporting replacement of inefficient fans; and Social Impact Financing, including the NAVTTC Skills Impact Bond and a PKR 7.1 billion Agri Storage Financing Facility for grain storage and loans against produce.
- **LNG Savings Through Qatar Deal:** The revised long-term LNG arrangement for 35 cargoes in 2026 reportedly saved around US\$1.2 billion and helped avoid gas tariff increases for 11 months. This is positive for consumers and industry, though long-term energy security still needs domestic supply and pricing reforms.
- **Digital Payments Expansion:** Traders connected to digital payments increased from 500,000 to 1.67 million, while digital banking users rose from 95 million to 133 million and annual digital transactions from 6.9 billion to 10.1 billion. 92% of remittances are now directly credited into bank accounts, while 75% of G2P (Government-to-Person) payments are being made through the digital system. This shows strong progress toward documentation and financial inclusion, though sustained adoption will require lower transaction costs and trust in digital systems.
- **Revival of Oil and Gas Exploration:** Awarding 24 offshore licensing blocks for the first time in 20 years, with Turkey's TPAO entering through partnerships, signals renewed investor interest. With expected investment above US\$1 billion, 17 new discoveries, and production additions of 108 mmcf/d gas and 16,000 barrels/day oil, the measure can support domestic energy security.

- **Extension of Information Technology Export Incentives:** The 0.25% Final Tax Regime (FTR) for IT services and digital exporters, which was expiring on June 30, 2026, has been legally extended for three years until June 30, 2029. This policy continuity secures external software investments and accelerates youth-led digital service export growth.
- **Sustainable Urban Development – Rs. 56.6 billion:** The urban development package focuses on addressing challenges related to rapid urbanization, including housing, transport, and municipal services. Improved urban infrastructure can enhance productivity and quality of life in major cities.
- **Climate-Resilient Housing Initiative:** The plan to develop 1.5 million climate-resilient housing units is a positive step toward addressing the housing deficit while reducing vulnerability to floods and extreme weather. Its impact will depend on transparent targeting, resilient construction standards, and timely implementation.
- **Modest Support for Industry and Trade:** The PKR 6.6 billion allocation for industry and trade development aims to support modernization, export competitiveness, and business growth. However, the allocation remains modest for advancing a serious export-led growth strategy.
- **Industrial Upgradation and Export Facilitation:** Development of Karachi Industrial Park, along with design and automation centres in Lahore and Sialkot, can improve manufacturing standards and export readiness. SMEDA's second-phase expansion of 1,000 Industrial Stitching Units may support employment and textile exports, provided implementation is industry-linked and market-driven.

## V. NEGATIVE MEASURES

- **Minimal Relief for Salaried Class:** Although tax rates have been reduced for selected higher salaried brackets and the 9% surcharge has been abolished, the minimum taxable threshold remains unchanged at PKR 600,000 since FY2019-20. With double-digit inflation in recent years and rising utility costs, lower-income salaried workers have received limited real relief, keeping the burden concentrated on compliant formal taxpayers.
- **Stagnant Public Sector Development Capping:** The federal PSDP allocation is capped at PKR 1,000 billion, falling sharply behind mounting infrastructure needs and shifting social mandates to the provinces under the 18th Amendment. This restriction on development funding stunts long-term economic productivity and chokes the expansion of critical transport and logistical networks.

However, this stagnation is further aggravated by poor allocation efficiency, where politically motivated projects often crowd out high-yield economic initiatives. By freezing development spending in nominal terms, the government effectively cuts its real investment due to double-digit inflation, ensuring that critical infrastructure deficits will widen, supply-side bottlenecks will persist, and future GDP growth will remain severely bottlenecked.

- **Civil Service Salary and Pension Increase at 7%:** A 7% salary and pension increase when projected inflation is 8.2% means a real wage cut for government employees. At the same time, pensions at Rs 1,169 billion represent a growing unfunded liability. Without structural pension reform — moving to a funded, contributory scheme — this burden will continue crowding out productive expenditure
- **Petroleum Levy Escalation Risk:** The ambitious PKR 5,336 billion non-tax revenue target relies heavily on central bank profits and higher Petroleum Levy collections, targeted at Rs. 1.44 trillion and Rs. 1.68 trillion. While fiscally supportive, higher fuel taxation may intensify transport, logistics, and production costs, adding pressure on essential prices and weakening the benefits of salary and income tax relief for middle- and lower-income households.
- **Weak Retail Tax Scheme Against Digitalisation:** After the limited success of the Tajir Dost Scheme, the Fixed Tax Asaan Scheme may increase registration among 3–4 million retailers but does little to ensure documentation. A low 1% turnover tax, no disclosure of previous income, and absence of phased POS integration weaken real-time sales tracking and data-based enforcement. Without strong verification, larger retailers may misuse the scheme, risking another compliance failure rather than advancing the digital economy.
- **Fiscal Distortions from Anti-Adulteration Solvents Excise:** Imposing an PKR 80 per liter Federal Excise Duty (FED) on petroleum-based solvents to combat fuel adulteration increases costs for legitimate industrial users. Industries relying on these solvents (paints, chemicals, plastics) will face higher production costs, reducing their market competitiveness.
- **Potential Liquidity Strains from Supplier Withholding Rules:** Extending withholding rules on unregistered suppliers to individuals and AOPs increases administrative reporting requirements. This measure could disrupt supply chains for smaller enterprises and create short-term working capital shortages. The measure assumes that higher withholding tax will compel businesses to register, but many may instead adopt avoidance strategies to remain outside the formal tax net. Without simpler registration procedures and lower compliance burdens, enforcement-led measures alone are unlikely to achieve meaningful documentation.
- **High Defence Spending Crowds Out Development:** Defence spending of PKR 3,000 billion, around 16% of total expenditure, remains high leaving little room for development. Pakistan's defense spending as % of GDP remains elevated compared with peer economies. While security needs are important, such a large allocation limits fiscal space for health, education, climate resilience, and productivity-enhancing development spending.
- **Real Estate Transaction Tax Rationalization:** Advance withholding tax rates on property transactions for active taxpayers have been reduced, aiming to lower transaction frictions in the formal segment of the market. The rate cut is substantial—down from 3.0% to 1.25% for property purchases under PKR 50 million, and from 5.5% to 2.75% for property sales—representing reductions of more than 50% in both

cases. However, given the sector's limited documentation and narrow tax net coverage, the revenue and formalization impact may remain constrained unless accompanied by stronger enforcement and registration mechanisms. The measure is expected to provide some liquidity support to real estate activity and its linked downstream industries (over 40 sectors), though the broader fiscal effectiveness depends on compliance improvements and expansion of the tax base

- **Tax Relief on International Credit/ Debit Cards Will Hurt Foreign Exchange Reserves:** The sharp reduction in withholding tax on international debit and credit card transactions from 5.0% to 0.5% is a questionable policy choice at a time when Pakistan must protect scarce foreign exchange. While it may bring some payments back into formal banking channels, it effectively lowers the cost of foreign spending and encourages dollar outflows for non-essential consumption. This weakens the external account discipline achieved through difficult stabilization measures and sends the wrong signal on import and foreign currency management.
- **Absence of Structural Reform Agenda:** The budget lacks meaningful structural reform measures, particularly on pensions and loss-making SOEs. This weakens fiscal credibility, as recurrent liabilities continue to crowd out development and social spending. However, without deep expenditure reforms, revenue measures alone cannot ensure long-term fiscal sustainability.
- **Fiscal Compression from High Debt Servicing Outlays:** Debt servicing consumes a massive PKR 8,054 billion, representing 68.5% of the net federal revenue pool (PKR 11,751 billion). This massive fixed cost locks the state into a fiscal debt trap, severely restricting available public resources for physical infrastructure and social development.