



# Budget Review

**FY27**

FY27 Budget Review: Fiscal, Economic & Sectoral Analysis



# Table of Contents

01

## Executive Summary

- Budget at a Glance
- Salient Features & Key Highlights



02

## Budget Outlay

- Revenue & Expenditure
- Fiscal Position & Trends



03

## Economic Indicators

- GDP · Inflation · Interest Rates
- Pakistan Economic Snapshot



04

## Sectoral Impact & Themes

- Market Impact · Tax & Relief Measures



05

## Conclusion




- Key Investment Themes & Conclusion



SECTION 01



# Executive Summary

-  Budget snapshot & headline KPIs
-  Salient features and key takeaways
-  What changed, and what it means for portfolios

# 1



# Executive Summary Dashboard



TOTAL OUTLAY

**PKR 18.8 Tn**

+20% YoY



FBR TAX REVENUE

**PKR 15.3 Tn**

+18% YoY target



GDP GROWTH TARGET

**4.0%**

vs 3.7% prior



AVG. INFLATION TARGET

**8.4%**

Vs 6.7% 10MFY26



FISCAL DEFICIT

**3.6% / GDP**

Vs 3.0% FY26



TAX-TO-GDP

**10.6%**

Vs 10.2% FY26



DEVELOPMENT (PSDP)

**PKR 1.0 Tn**

+0% YoY



POLICY RATE

**11.5%**

S8P – latest



A stability-consolidation budget — ambitious revenue targets and IMF-aligned discipline. We see modest upside risk to inflation (8.4%) and the deficit (3.6%) vs. official targets, keeping execution the key swing factor.

# Budget at a Glance

FY27BE



TOTAL OUTLAY  
**PKR 18.8 Tn**  
 +20% YoY



FBR TAX TARGET  
**PKR 15.3 Tn**  
 +18% YoY



FISCAL DEFICIT  
**3.6% of GDP**  
 3.0% for FY26

## Budget Snapshots — FY26R vs FY27BE

Metric	FY26R	FY27BE	Δ
<b>FISCAL FLOWS — PKR Tn</b>			
Total Revenue	18.1	20.6	▲ 14%
Net Revenue	10.5	11.8	▲ 12%
Total Expenditure	15.6	18.8	▲ 20%
Current Expenditure	15.0	17.5	▲ 17%
<b>MACRO TARGETS &amp; RATIOS</b>			
Tax-to-GDP Ratio	10.2%	10.6%	▲ +0.4%
GDP Growth Target	3.7%	4.0%	▲ +0.3%
Avg. Inflation Target	8.2%	8.2%	▲ +0.2%

Δ for fiscal flows = YoY % change.

# Salient Features & Key Highlights

PKR **18.8** Tn

## Outlay & Scale



Total outlay of **PKR 18.8 Tn** (+20% YoY vs FY26R PKR 15.6 Tn) frames FY27 as an IMF-anchored, consolidation budget.

PKR **15.3** Tn

## Revenue Ambition



FBR tax target of **PKR 15.3 Tn** (+18% YoY) is expected to outpace projected nominal GDP growth of 13%, supporting an increase in the tax-to-GDP ratio to **10.6%**.

PKR **5.3** Tn

## Non-Tax Lever



Non-tax revenue (**PKR 5.3 Tn**, +5%) is expected to be supported by higher Petroleum Levy collections, helping offset the anticipated decline in SBP profit transfers.

PKR **3.7** Tn

## Constrained Development



Federal PSDP held flat at **PKR 1.0 Tn**; national (federal + provincial) PSDP of **PKR 3.7 Tn** (2.6% of GDP) reflecting fiscal discipline in development spending.

**+4.0%**

## Fiscal Targets for FY27



GDP **+4.0%**, avg inflation **8.2%**, fiscal deficit **3.6%** of GDP and a 4th consecutive primary surplus of **2.0%** — an IMF-aligned consolidation path.

**18%**

## Execution Risk



The 18% FBR target leans heavily on enforcement, with relief outweighing new revenue measures. FBR collection and the primary surplus are now **IMF performance/indicative criteria**, so any slippage risks a rollback of relief or PSDP cuts.

SECTION 02



# Budget Outlay

- Consolidated revenue & expenditure
- Revenue mix and spending composition
- Fiscal-deficit bridge and long-run trends

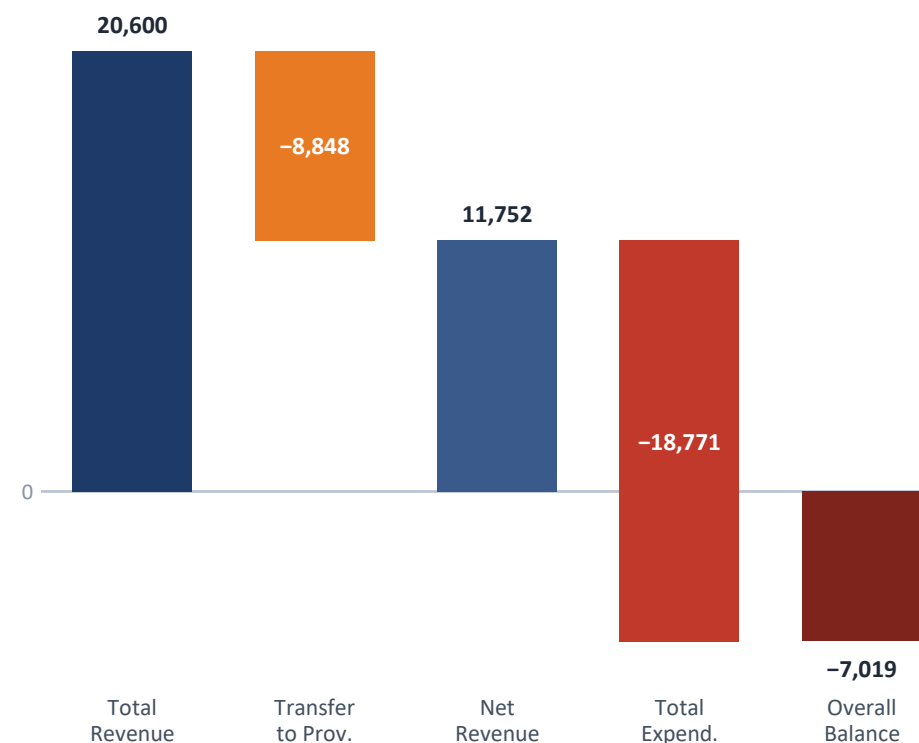
# 2



# Budget Outlay

PKR bn	FY26R	FY27BE	YoY
Direct Taxes	6,432	7,613	18%
Indirect Taxes	6,551	7,651	17%
<b>Tax Revenue</b>	<b>12,983</b>	<b>15,264</b>	<b>18%</b>
Non-Tax Revenue	5,093	5,336	5%
<b>Total Revenue</b>	<b>18,076</b>	<b>20,600</b>	<b>14%</b>
Less: Transfer to Provinces	7,592	8,848	17%
<b>Net Revenue</b>	<b>10,484</b>	<b>11,752</b>	<b>12%</b>
<b>Current Expenditure</b>	<b>15,006</b>	<b>17,495</b>	<b>17%</b>
Mark-up Payments	6,937	8,054	16%
Defence	2,588	3,000	16%
Grants	1,971	2,680	36%
Subsidies	1,157	1,091	-6%
Pension	1,055	1,169	11%
<b>Total Expenditure</b>	<b>15,642</b>	<b>18,771</b>	<b>20%</b>
Nominal GDP	126,870	143,604	13%
<b>Overall Budget Balance</b>	<b>-5,158</b>	<b>-7,019</b>	<b>36%</b>
<b>Primary Balance</b>	<b>3,159</b>	<b>2,828</b>	<b>-10%</b>

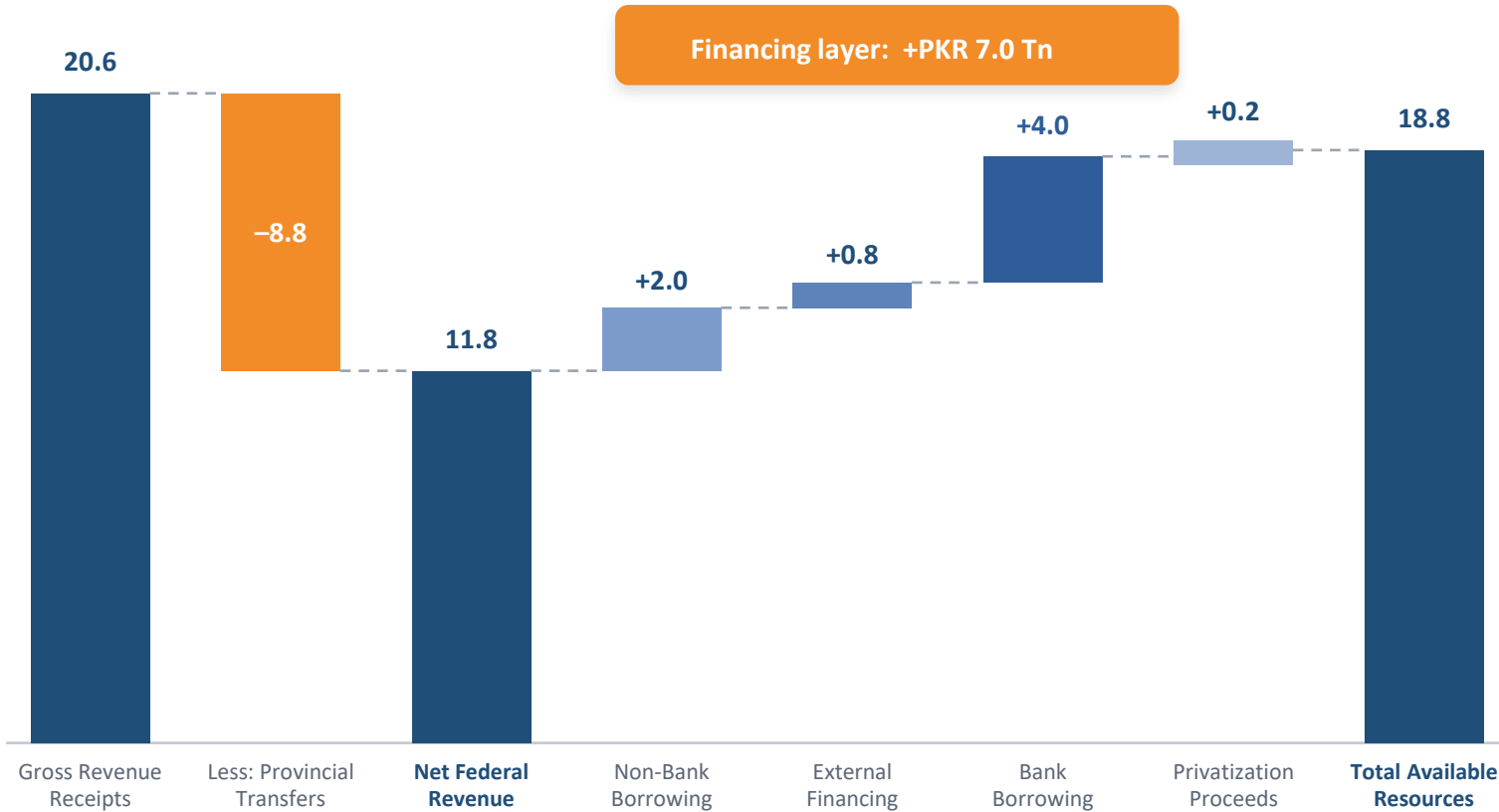
Fiscal Bridge — FY27BE (PKR bn)



Source: Federal Budget in Brief. Figures in PKR bn unless noted. FY27BE = Budget Estimate.

# FY27 Financing Bridge

From Net Federal Revenue to Total Budget Resources



## FY27 FINANCING GAP

**PKR 7.0 Tn**

Expenditures exceed net federal revenue — bridged via financing

## KEY MESSAGE

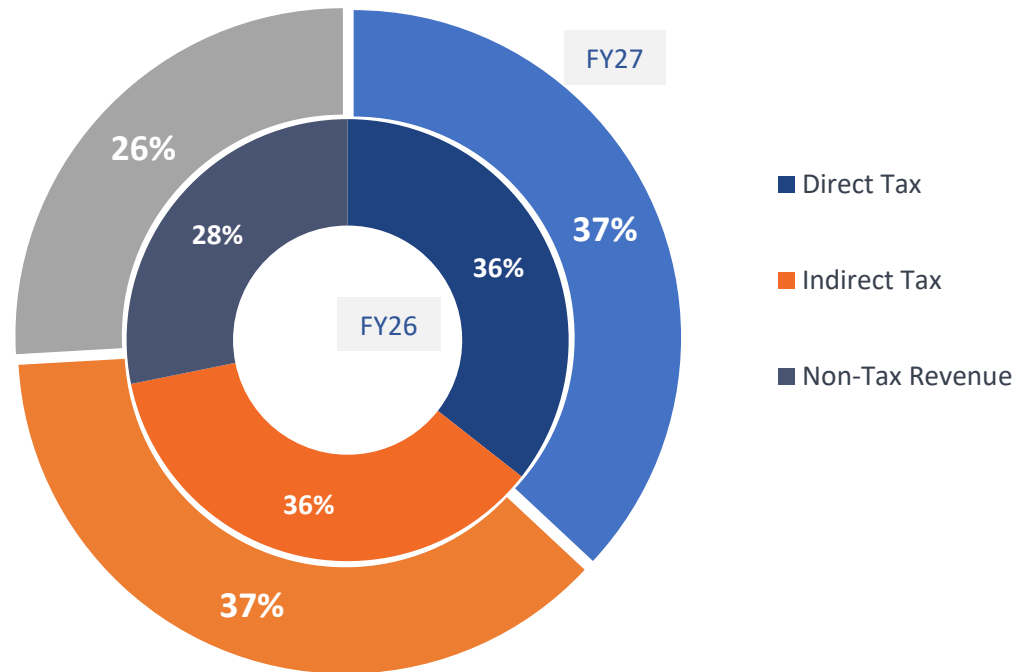
- Net federal revenue falls to PKR 11.8 Tn after provincial transfers.
- The shortfall is bridged primarily through domestic borrowing.
- Supplemented by external, non-bank borrowing & privatization.

## LARGEST FINANCING SOURCE

**Bank borrowing** (T-Bills, PIBs, Sukuk) supplies **PKR 4.0 Tn** — **57%** of the financing requirement.

# Revenue Analysis

Revenue composition — FY27BE(Outside) vs FY26(Inside)



## Ambitious Revenue Targets & Growth

Gross revenue is targeted at PKR 20,600 billion, anchored by an ambitious PKR 15,264 billion FBR tax goal which represents an 18% year-on-year increase intended to elevate the tax-to-GDP ratio to 10.6%.

## Strategic Pivot Toward Direct Taxation

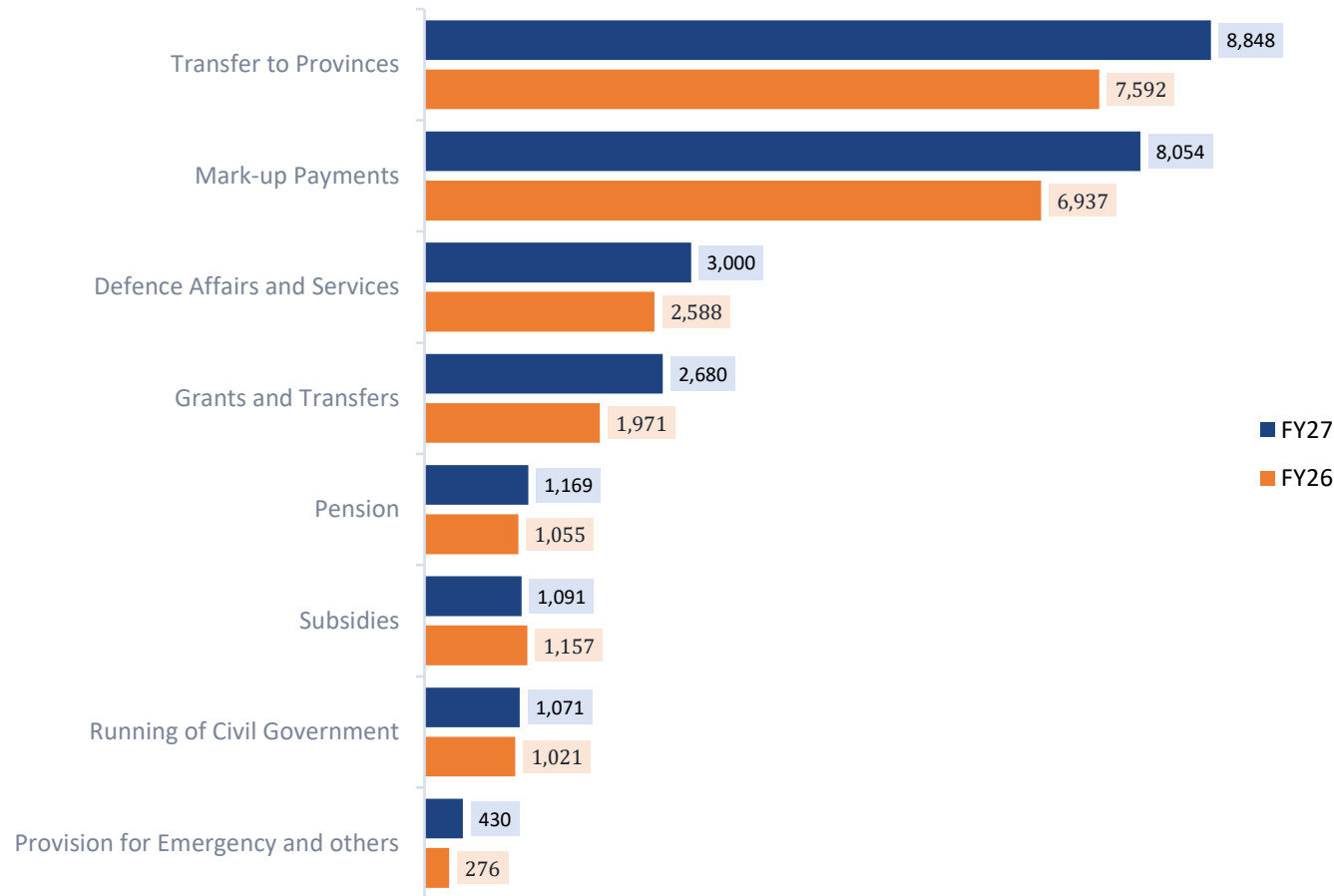
Direct taxes are projected to provide 50% of total tax revenue, with income tax alone targeted at approximately PKR 7.5 trillion. The strategy emphasizes compliance and documentation gains, particularly within the retail sector.

## Net Revenue & Financing Gaps

Provincial transfers of PKR 8,848 billion reduce federal net revenue to PKR 11,751 billion, with the remaining expenditure requirements financed through a mix of domestic and external sources.

# Expenditure Analysis

## Expenditure composition — FY27BE (PKR bn)



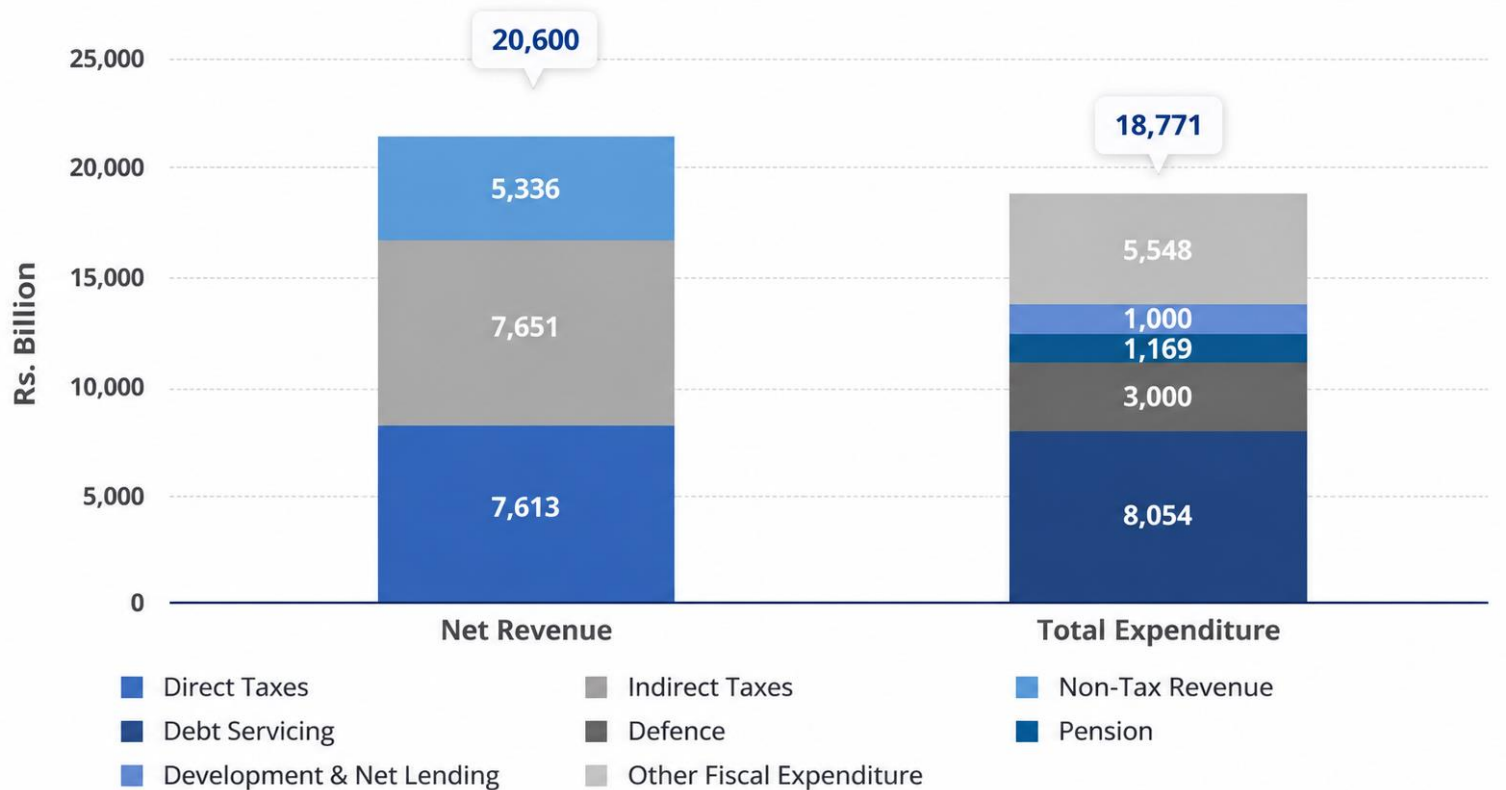
## Where the rupee goes

- Dominance of Current Spending:** Current expenditure is budgeted at PKR 17,495 billion, accounting for approximately 93% of the total budget outlay. This massive allocation leaves only 6.8% (PKR 1,276 billion) for total development and net lending, indicating a severe compression of public investment.
- Primary Cost Drivers:** The budget is heavily weighted toward fixed obligations, with debt servicing (PKR 8,054 billion) and defence (PKR 3,000 billion) together consuming nearly 59% of total expenditures. Interest payments alone represent approximately 43-46% of the total spend.
- Stagnant Development Allocation:** The Federal Public Sector Development Programme (PSDP) is set at PKR 1,000 billion, which is flat in nominal terms compared to the previous year's target. This lack of growth in development funding reflects limited fiscal space for major economic stimulus.
- Reduction in Subsidies:** Total subsidies are projected to decline by 6% to PKR 1,091 billion, largely driven by a 7% cut in power sector subsidies. This rationalization aligns with IMF requirements for fiscal consolidation and a shift toward more targeted direct support.

# Fiscal Position

Fiscal-deficit bridge — FY27BE (PKR bn)

### Net Revenue and Total Expenditure (Rs. Billion)



Fiscal Deficit

**PKR 5.2 Tn**

≈ 3.6% of GDP

Primary Surplus

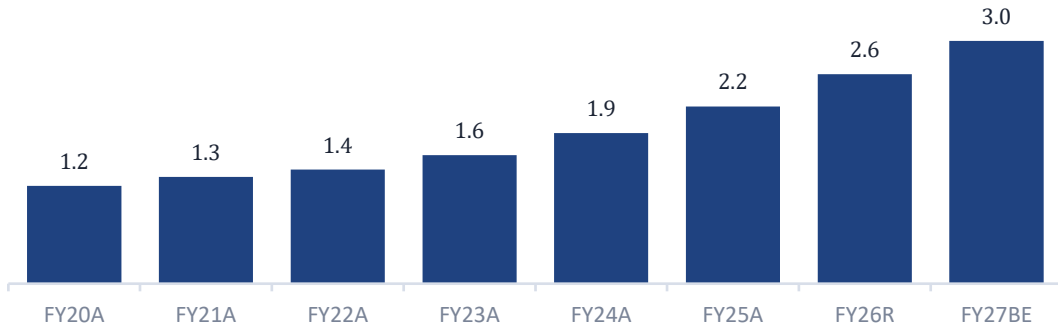
**+2.0% / GDP**

A targeted primary surplus is the core of the IMF-aligned consolidation path.

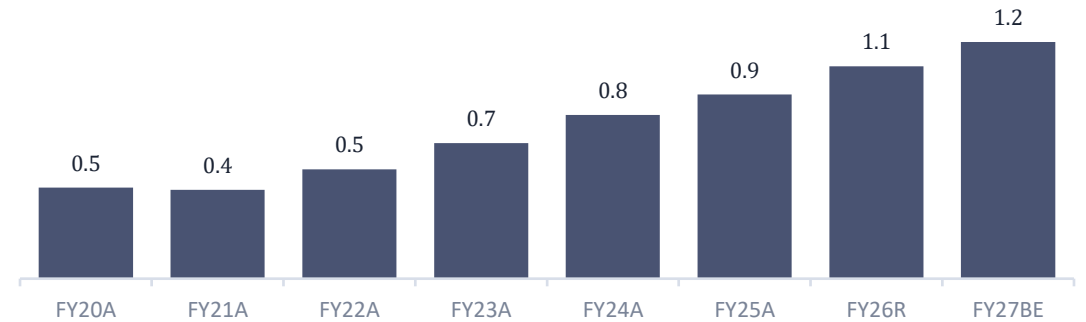
Source: Federal Budget documents, Figures in PKR bn unless noted. FY27BE = Budget Estimate.

# Budget Outlay — Historical Trends

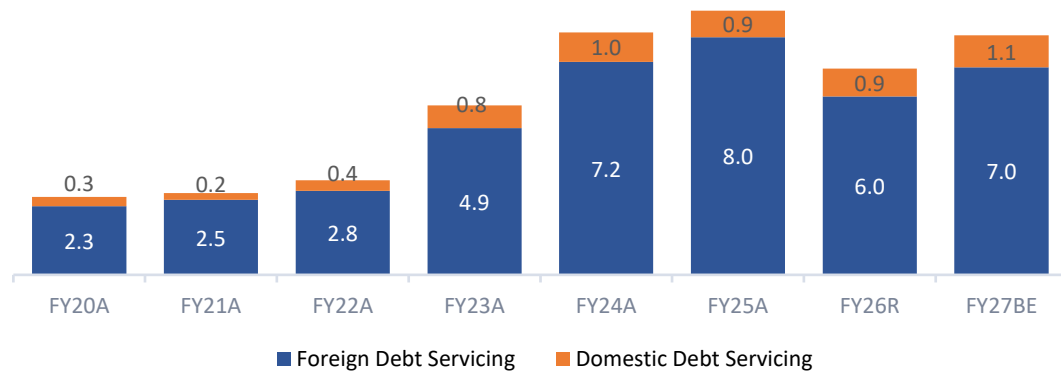
Defence — PKR Tn



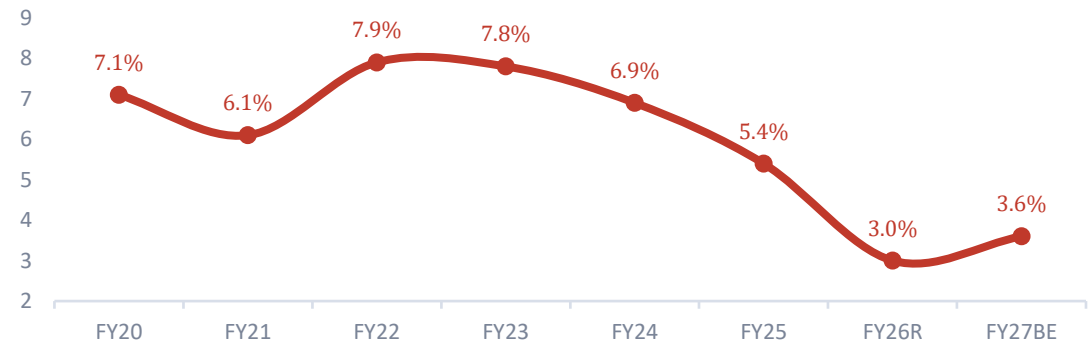
Pension — PKR Tn



Debt Servicing — PKR Tn



Budget Deficit — % GDP



Source: Ministry of Finance, SBP, FY26= budget estimate (Revised), FY27 = budget estimate (Projected).

# Key Tax Measures



## Higher Petroleum Development Levy

The budget targets a 12% increase in PDL collection, aiming for Rs. 1.677 trillion, which implies a likely increase in actual rates per litre.



## New 3% VAT on Imported Raw Materials

Manufacturers selling imported raw materials without further processing will be subject to a 3% value addition tax.



## Minimum Turnover Tax doubled for Key Sectors

The minimum turnover tax for distributors, dealers, and wholesalers of packaged food, fertilizer, sugar, electronics, and mobile phones is increased from 0.25% to 0.5%.



## Expansion of Retail Price Taxation

Numerous items previously taxed on transaction value will now be taxed based on retail price. This includes edible oils, sugar confectionary, pasta, toiletries, footwear, bathroom accessories, and auto parts.



## New Withholding Tax on Social Media

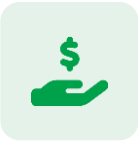
A 5% withholding tax is introduced on revenues received from social media platforms, specifically targeting digital content creators and influencers.



## New Special Excise Duty (SED) on Luxury Vehicles

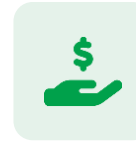
A new duty of 40% is imposed on imported vehicles between 2000cc and 3000cc, and 41% for those exceeding 3000cc.

# Key Relief Measures



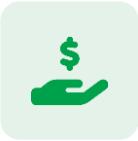
## Salaried Individuals Relief

Tax slabs for salaried individuals have been restructured to provide significant relief. Notably, the threshold for the maximum 35% tax rate was increased from Rs. 4.1mn to Rs. 7mn. The 9% surcharge previously applicable to salaried individuals earning more than Rs. 10mn per year has been abolished.



## Super Tax Rationalization

The government has abolished the super tax for companies and individuals with income up to Rs. 500 million (excluding banking, fertilizer, and E&P sectors). For those above this threshold, the rate was reduced from 10% to 8%.



## Real Estate Tax Reductions

To stimulate the construction sector, the budget abolishes Section 7E (a 1% tax on deemed income from immovable property). Additionally, advance tax on property transactions will be reduced to flat rates of 2.75% for sellers and 1.25% for buyers.



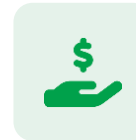
## Export Sector Incentives

The combined tax burden on export proceeds was reduced from 2.0% to 1.25%. Furthermore, the 0.25% concessionary tax rate for IT and IT-enabled services exports was extended until 2029.



## Digital Payment Relief

To encourage formal banking channels, the advance tax on foreign payments made through debit, credit, and prepaid cards was slashed from 5% to 0.5%.



## Healthcare and Personal Care Relief

The budget includes significant healthcare measures, such as the abolition of customs duties on Active Pharmaceutical Ingredients (APIs) for cancer treatment. Additionally, sales tax has been removed from contraceptives and female sanitary products (tampons) to promote public health.

SECTION 03



# Economic Indicators

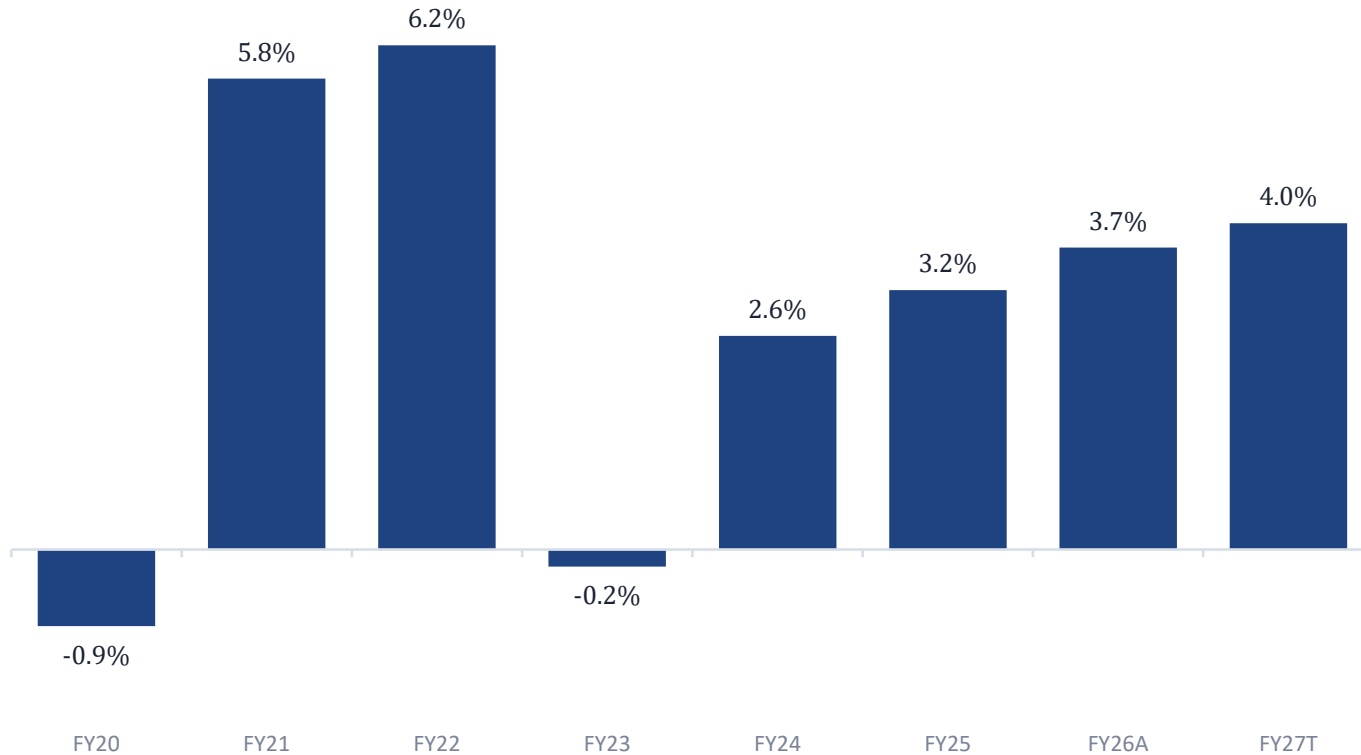
- GDP outlook & sectoral growth
- Inflation and the monetary-policy path
- Pakistan economic snapshot (multi-year)



# GDP Outlook

FY27 Target

## Real GDP growth (%)



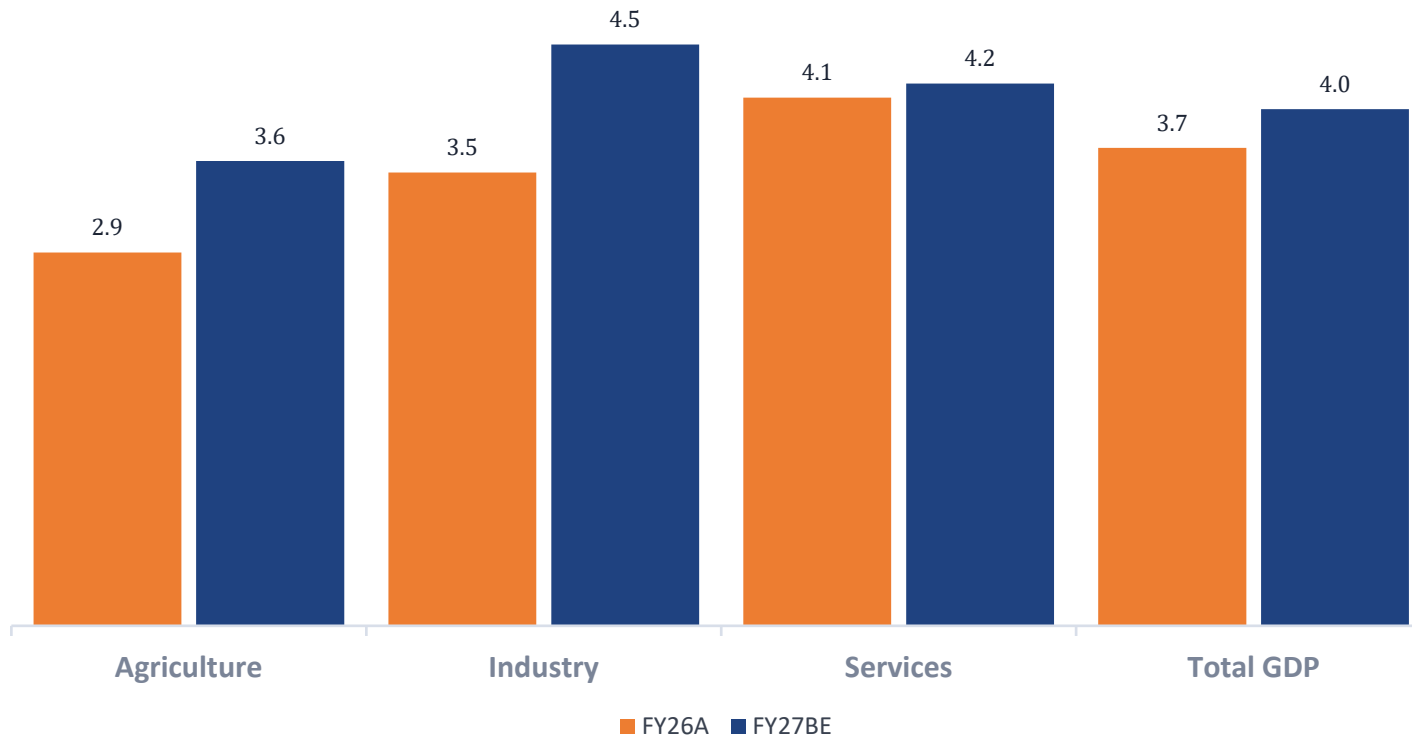
### FY27 GROWTH TARGET

**4.0%**

- The government has set an optimistic real GDP growth target of 4.0% for the 2026-27 fiscal year.
- This target builds upon a provisional growth rate of 3.7% recorded in FY26, which saw recoveries in the agriculture and industrial sectors.
- The growth is expected to be driven by steady expansion across key sectors: Agriculture (3.6%), Industries (4.5%), and Services (4.2%).
- The nominal GDP is projected to reach PKR 143.6 trillion in FY27, a 13% increase from the PKR 126.9 trillion estimated for the previous year.

# Real GDP Growth — Sectoral

Sectoral real growth (%) — FY26A / FY27BE



## ● Agriculture

Agricultural growth is targeted at 3.6% in FY27.

## ● Industry

Industrial growth is projected at 4.5% in FY27.

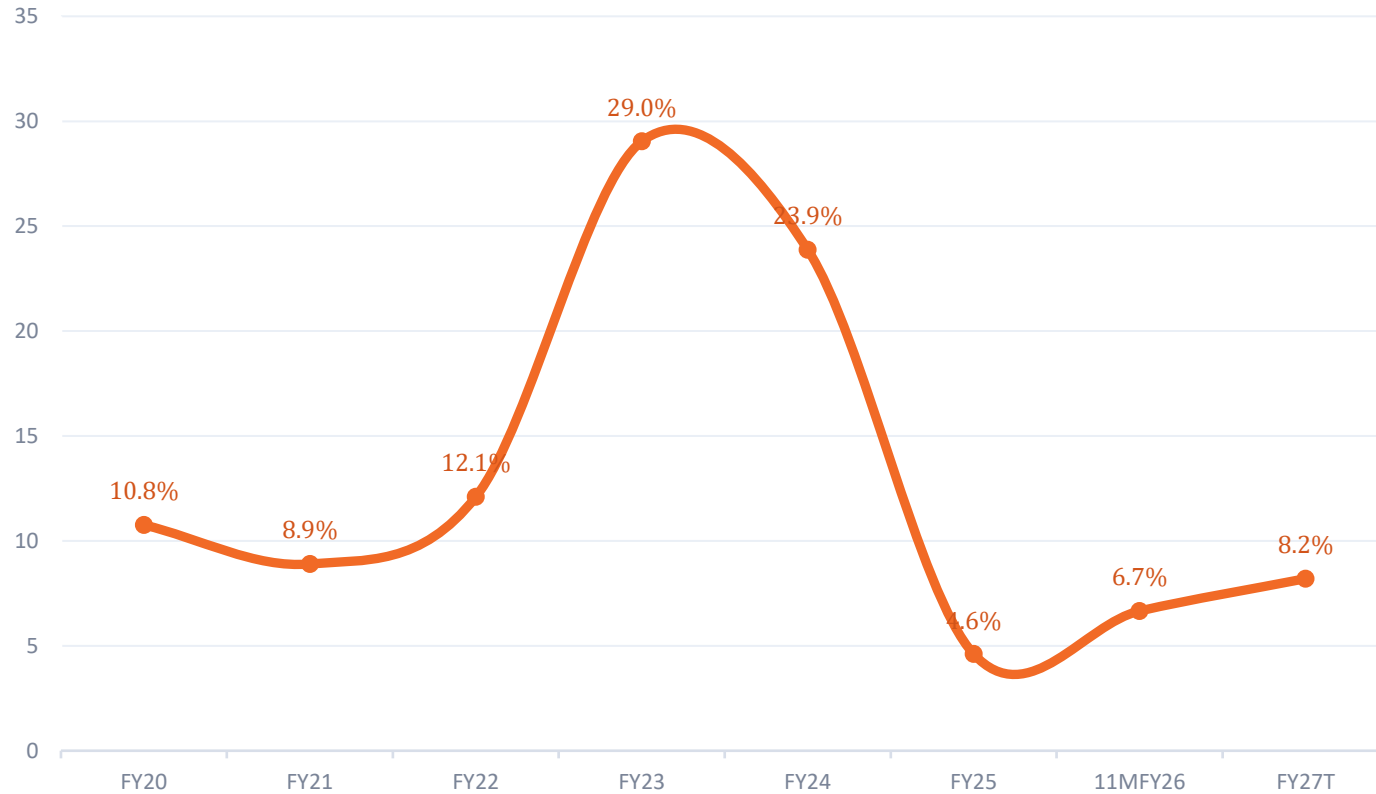
## ● Services

Services sector growth is expected at 4.2% in FY27.

# Inflation Outlook

FY27 Target

## CPI inflation — period average (%)



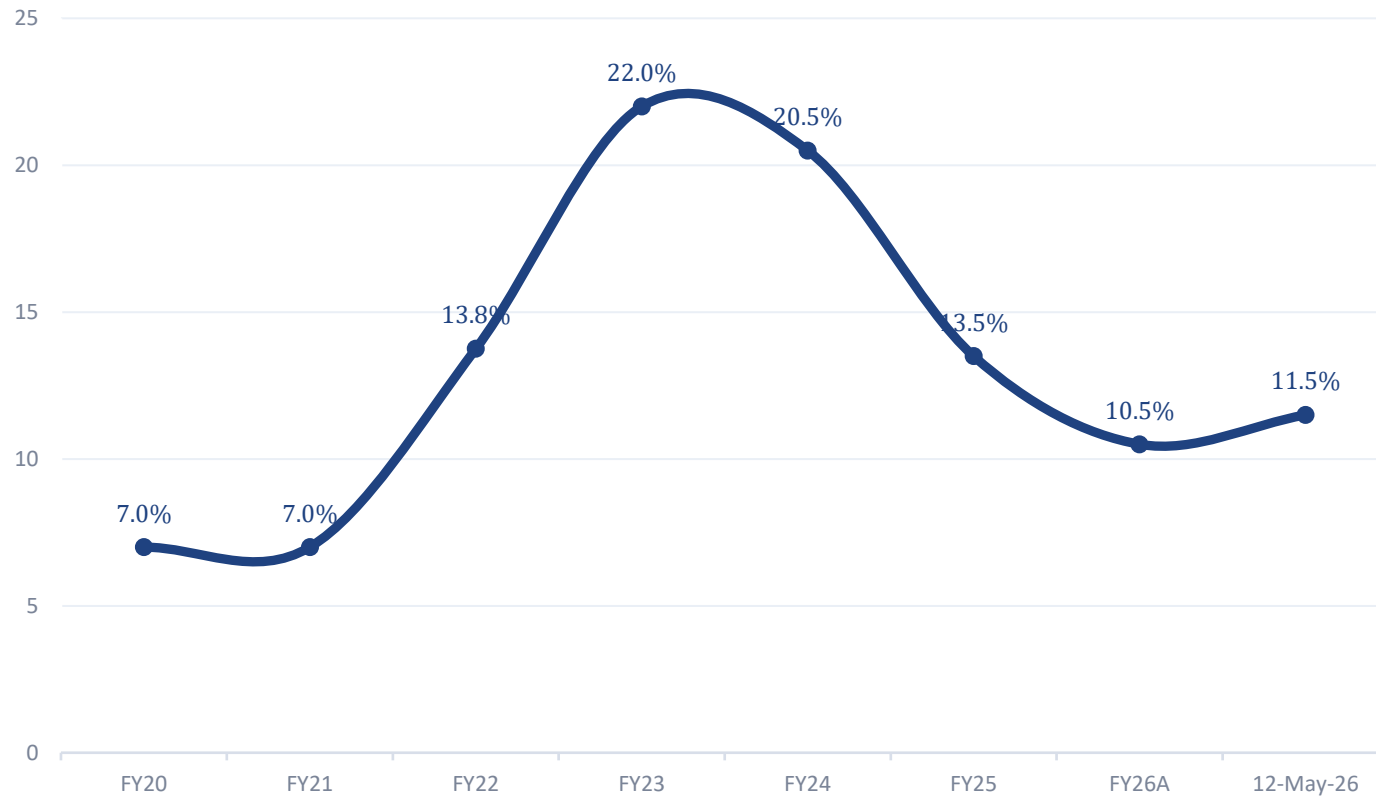
FY27 AVG. TARGET

**8.2%**

- The government has projected average inflation of 8.2% for the upcoming fiscal year.
- This target follows an average inflation rate of 6.7% recorded during 11MFY26, which was characterized by subdued inflation in the first half of the year and a gradual pickup in the second half amid global oil price fluctuations and regional geopolitical developments.
- Future price stability faces risks from the elevated energy costs, and the pass-through impact of new taxation measures.

# Interest Rate

## SBP policy rate (%)



CURRENT POLICY RATE

**11.5%**

- The policy rate remained on a declining trend through most of FY25-FY26 before a 100bps hike to 11.5%, reflecting inflation risks arising from regional geopolitical developments.
- The rate trajectory for FY27 remains highly contingent on regional geopolitical developments, particularly in the Middle East, and their potential inflationary pass-through via global oil prices and supply chain disruptions.
- Total debt-servicing expenditure is budgeted to increase from PKR 6.9 Tn in FY26R to PKR 8.1 Tn in FY27BE.

# Pakistan Economic Snapshot

FY23A–FY27E




	FY23A	FY24A	FY25A	11MFY26
<b>Real Sector</b>				
GDP Growth	-0.21%	2.62%	3.18%	3.70%
CPI Inflation (Avg.)	29.04%	23.88%	4.61%	6.66%
<b>External Sector*</b>				
Total Exports (US\$bn)	35.5	38.7	40.8	34.1
Total Imports (US\$bn)	61.3	64.0	70.4	63.1
Trade Deficit (US\$bn)	25.9	25.3	29.6	29.0
Remittances (US\$bn)	27.3	30.3	38.3	33.9
Current Account (US\$bn)	-3.3	-2.1	1.8	-0.3
FX Reserves – SBP (US\$bn)	4.4	9.4	14.5	17.2
<b>Fiscal &amp; Monetary</b>				
Policy Rate	22.00%	20.50%	11.00%	11.50%
PKR/USD – Avg.	248	283	279	281
Budget Deficit (% GDP)	-7.80%	-6.90%	-5.40%	3.00%
Primary Balance (% GDP)	-1.00%	0.90%	2.40%	1.50%

Source: Ministry of Finance, State Bank of Pakistan.

\*External sector indicators for FY26 are based on 10MFY26 data except FX reserves



# Sectoral Impact & Themes

-  Sector impact scorecard
-  Sector-by-sector deep dives
-  Key investment themes & conclusion

# 4



# Sectoral Impact Scorecard



## Fertilizer

Neutral

Super tax held at 10%; dealer/distributor minimum tax raised to 0.5%; urea-supply subsidies broadly status quo.



## Banking

Neutral

Super tax intact at 10% (status quo); IPS debt-CGT raised to 20%; card-WHT cut to 0.5% aids transaction volumes.



## Automobiles

Neutral

Luxury-CBU/EV FED imposed and hybrid GST normalised, offsetting extended CKD-EV relief; super-tax cut to 8%.



## Construction

Positive

Section 7E abolished, property transaction taxes cut, Rs71bn housing subsidy and super-tax relief lift cement & steel demand.



## Textile

Positive

Super-tax relief, lower export WHT (2% to 1.25%) and Rs88bn EFS allocation aid earnings and cashflow.



## IT & Telecom

Positive

0.25% IT-export final tax regime extended to TY2029; broadly supportive for listed software exporters.



## Power

Neutral to Positive

Rs830bn power subsidy incl. Rs252bn for circular-debt containment; DISCO privatisation advancing; super-tax relief.



## Energy

Neutral

Refinery-upgrade GST removed and super-tax cut, offset by elevated PDL and lube FED; E&P super tax held at 10%.



## Pharmaceuticals

Positive

Cancer-API customs-duty exemption continued, sanitary/contraceptive tax abolished and 200bps super-tax relief aid margins.



## Fertilizer

### ABL IMPACT RATING

Neutral

### KEY DRIVERS

Super tax • Dealer min-tax • Urea subsidy

### BUDGET PROPOSALS & IMPLICATIONS

- 1** Super tax on the fertilizer sector is maintained at 10% (vs the 8% cap for most sectors), keeping the effective tax burden unchanged.
- 2** Minimum tax on dealers/distributors raised from 0.25% to 0.5%, modestly increasing upfront cash-tax across the distribution chain.
- 3** Rs5.8bn urea-production and Rs15bn urea-import subsidies sustain supply; earnings impact limited as demand-supply stays balanced.



## Banking

### ABL IMPACT RATING

Neutral

### KEY DRIVERS

Super tax • OMO Reliance • Card WHT

### BUDGET PROPOSALS & IMPLICATIONS

**1** Super tax on banks held at 10% - status quo, in line with expectations and broadly neutral for earnings.

**2** Card-based remittance WHT reduced from 5% to 0.5%, supporting formal remittance channels and transaction volumes.

**3** Government borrowing of over PKR 4 Tn, coupled with continued reliance on OMO funding, is expected to support banks' investment books and liquidity position.



## Automobiles

### ABL IMPACT RATING

Neutral

### KEY DRIVERS

EV/CBU FED • Hybrid GST • Super tax

### BUDGET PROPOSALS & IMPLICATIONS

- 1** FED imposed on luxury ICE CBUs (40% at 2,001-3,000cc; 41% above 3,000cc) and personal EV CBUs above Rs20mn (30%/40%) - favours local assembly.
- 2** Hybrid GST normalised to 18%/25% (from 8.5%/12.75%) raises retail prices - a near-term negative for SAZEW, HCAR and INDU.
- 3** Reduced 1% GST on EV CKD extended one year, supporting local EV assemblers (BYD, NCL); super-tax cut to 8% aids profitability.



## Cement

### ABL IMPACT RATING

↑ Positive

### KEY DRIVERS

Property relief • Housing • Super tax

### BUDGET PROPOSALS & IMPLICATIONS

- 1** Section 7E (1% deemed-income tax on property) abolished and transaction taxes cut (purchase 1.25%, sale 2.75%) - reviving real-estate activity.
- 2** Rs71bn 'Apna Ghar' housing subsidy at 5% plus Rs5bn 'Mera Pakistan Mera Ghar' would catalyse construction and cement offtakes.
- 3** National PSDP held at Rs3.6tn (2.6% of GDP) and a 200bps super-tax cut would reinforce demand and profitability.



## Textile

### ABL IMPACT RATING

↑ Positive

### KEY DRIVERS

Super tax • Export WHT • EFS

### BUDGET PROPOSALS & IMPLICATIONS

- 1** Super-tax cut to 8% (abolished below Rs500mn) would support earnings; export-led players, like ILP, NML, GATM are key beneficiaries.
- 2** Export-proceeds tax rationalised - 1% adjustable advance withdrawn, total upfront WHT down from 2% to 1.25% which would support better cashflow management.
- 3** EFS mark-up subsidy raised to PKR 88 Bn (from PKR 30 Bn), which supports sector liquidity.



## IT & Telecom

### ABL IMPACT RATING

↑ Positive

### KEY DRIVERS

Export FTR • E-commerce • Mobile Devices

### BUDGET PROPOSALS & IMPLICATIONS

- 1** 0.25% final-tax regime on IT/IT-enabled export proceeds extended to TY2029 (from 2026) - clearly positive for SYS and listed exporters.
- 2** E-commerce tax made adjustable for sellers above Rs200mn revenue; new 5% WHT on social-media/influencer income via banking channels.
- 3** Mobile-phone distributors advance tax raised to 0.5% (adjustable).



## Power

### ABL IMPACT RATING

↑ Neutral to Positive

### KEY DRIVERS

Subsidy • Circular debt • Privatisation

### BUDGET PROPOSALS & IMPLICATIONS

- 1** Power subsidy of Rs830bn (-7% YoY) including Rs252bn earmarked for circular-debt containment supports sector liquidity.
- 2** DISCOs privatisation (IESCO, FESCO, LESCO) at advanced stages with EOIs issued and completion targeted by end-2026.
- 3** The continuation of 10% GST on solar panels supports solar adoption, though it may gradually impact grid electricity demand.



## Energy

### ABL IMPACT RATING

Neutral

### KEY DRIVERS

Refinery GST • PDL • Super tax / PCA

### BUDGET PROPOSALS & IMPLICATIONS

- 1 E&P super tax held at 10%; Rs830bn power subsidy incl. Rs252bn circular-debt allocation and Dividend income from government shareholdings in listed E&P companies is budgeted at PKR 81 Bn for FY27.
- 2 GST exemption on machinery and equipment for refinery upgrades aids brownfield BMR investments. Imposition of Rs80/litre FED on solvents aims to curb fuel blending practices - positive for OMCs/refiners; super tax cut to 8% for the downstream chain.
- 3 Elevated PDL target (Rs1,677bn; ~Rs85/litre implied) plus a new 5% FED on lubricants/base oils weigh on fuel demand and OMC margins.

# Pharmaceutical Sector



## Pharmaceutical

### ABL IMPACT RATING

↑ Positive

### KEY DRIVERS

API duty exemption • Super tax • Family planning

### BUDGET PROPOSALS & IMPLICATIONS

**1** Under the Fifth-Schedule customs-duty exemption on 100+ raw materials for cancer/critical-disease medicines continued – which would benefit margins of oncology-focused drugs manufacturers.

**2** Sales tax on sanitary pads abolished and contraceptives exempted to promote family planning - modestly supportive for relevant lines.

**3** Reduction in super tax is expected to improve profitability and support net margin expansion across the sector.

# Conclusion

- Key Investment Themes & Conclusion

5

# Conclusion & Outlook



**Fiscal discipline and macro stability remain on track, with implementation risks warranting close monitoring.**

**1** Assessment & Fiscal: A relief-oriented, IMF-anchored consolidation budget - PKR 18.8tn outlay, 3.6% deficit and a 4th straight primary surplus (2.0%). FBR collection and primary surplus are now IMF criteria, anchoring discipline.

**2** Inflation & Rates: Inflation budgeted at 8.2% with pass-through from PDL, FED and GST measures; The inflation and policy-rate outlook remains contingent on global commodity prices and regional geopolitical developments

**3** Equities: Net positive - supported by super-tax relief, exporter incentives, and ongoing energy-sector reforms, which could support multiple re-rating across key sectors.

**4** Risks & Opportunities: The FY27 budget hinges on successful execution of the 18% FBR revenue target through compliance, documentation, and enforcement measures. Key risks include geopolitical developments, commodity-price volatility, and implementation challenges.

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