Pakistan Federal Budget Preview FY27

Economic Outlook, Fiscal Analysis & Capital Market Implications

Pre-BUDGET PRESENTATION

08 June 2026

CONTENTS

What This Briefing Covers

Source: IMF projections; Ministry of Finance; PSX; pre-budget market expectations. Budget specifics pending the 10 June 2026 Finance Bill.

EXECUTIVE SUMMARY

Budget FY27 at a Glance

Rs 26.4 tn	Rs 21.91 tn	3.4% of GDP	Rs 986 bn
Total Expenditure	Total Revenue	Fiscal Deficit	PSDP

KEY BUDGET THEMES (EXPECTED)

- **Revenue-extractive:** Rs 860 bn fresh measures (Rs 430 bn federal); FBR floor now an IMF performance criterion
- **Enforcement-led:** GST-exemption withdrawals (Rs 215 bn) & production monitoring (cement, fertiliser, sugar, tobacco)
- **Consolidation:** Fourth consecutive primary surplus (of fiscal operations); debt service 45% of outlay dominates expenditure
- **Relief, offset:** Salaried-slab relief likely, matched by equal-yield measures; super-tax cut highly unlikely.
- **Energy pricing:** PDL expected to be lifted to Rs 1.73 tn; carbon levy Rs 2.5→5/L — revenue-positive, demand-negative

KEY MARKET THEMES

Equities

IMF-aligned budget, supports re-rating.

Fixed Income

Geopolitical risks expected to keep yields volatile

Currency

CA discipline & reserve build (target: US$21bn) anchor PKR; oil is the key risk

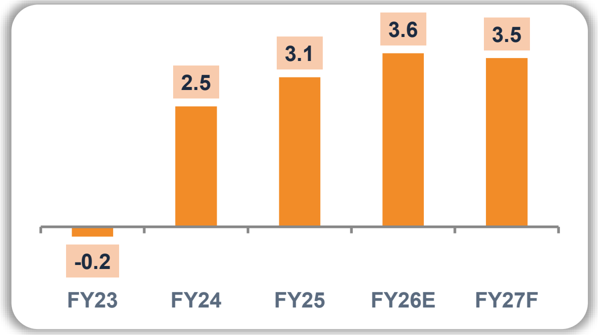
Macro

IMF projects 3.5% GDP growth, with inflation expected to moderate to 8.4% as macro stability improves

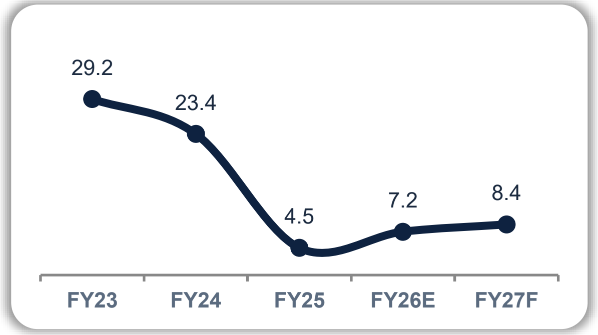
Source: IMF projections; Ministry of Finance; pre-budget market expectations. Specifics pending the 10 June 2026 budget.

Macroeconomic Dashboard — FY23–FY27

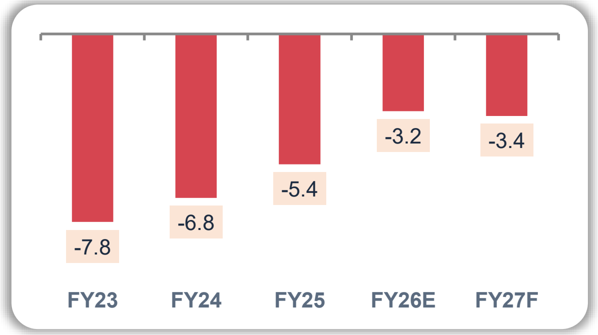
Real GDP Growth (%)



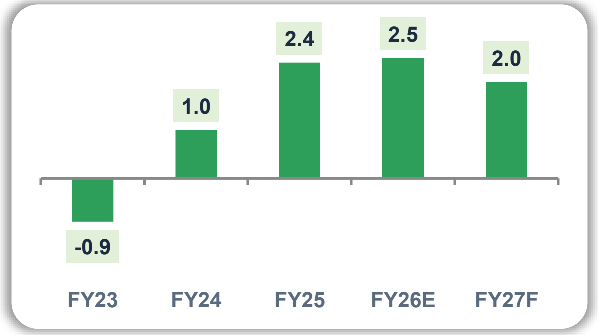
Inflation – avg (%)



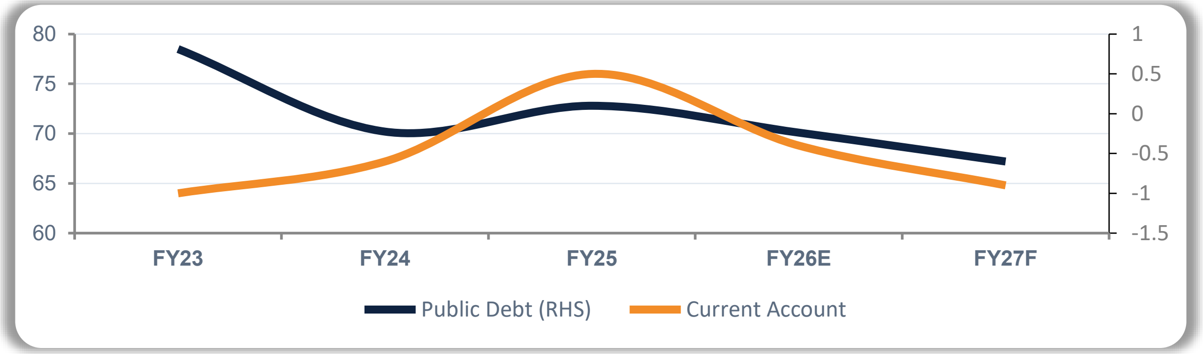
Fiscal Balance (% GDP)



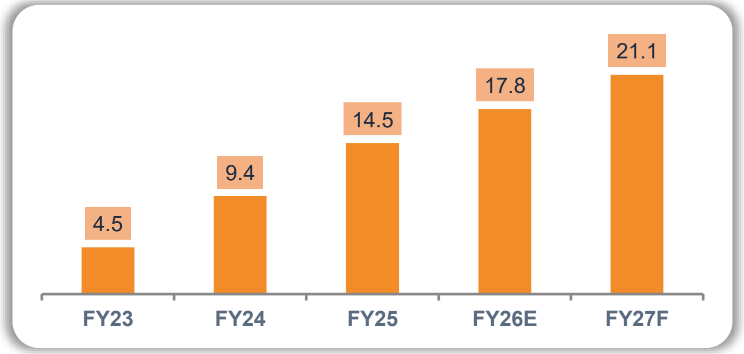
Primary Balance (% GDP)



Current Account & Public Debt (% GDP)



FX Reserves (US$ bn)



Policy Rate

11.5%

As of now ,+100 bps in Apr-26; peak was 22.0% (2024)

Source: IMF projections (macro variables); State Bank of Pakistan (policy rate). FY26E / FY27F are projections.

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Key Indicators — FY23A to FY27B

Indicator	FY23A	FY24A	FY25A	FY26E	FY27B
Real GDP Growth (%)	-0.2	2.5	3.1	3.6	**3.5**
Inflation – CPI avg (%)	29.2	23.4	4.5	7.2	**8.4**
Fiscal Deficit (% GDP)	-7.8	-6.8	-5.4	-3.2	**-3.4**
Primary Balance (% GDP)	-0.9	1.0	2.4	2.5	**2.0**
Current Account (% GDP)	-1.0	-0.6	0.5	-0.4	**-0.9**
FX Reserves (US$ bn)	4.5	9.4	14.5	17.8	**21.1**
Import Cover (3 months)	0.8	1.6	2.2	2.5	**2.8**
Public Debt (% GDP)	78.5	70.2	72.8	70.1	**67.2**
External Debt (% GDP)	35.0	32.3	30.2	28.1	**28.3**

FY27B shown in orange — primary reference year. All figures on IMF projection basis.

Debt trajectory

Public debt expected to ease to ~67% of GDP by FY27 — lowest in the window — on declining fiscal deficit trend.

External buffer

Reserves rebuild to US$21bn / ~2.8 months cover; current account held to a manageable ~1% of GDP.

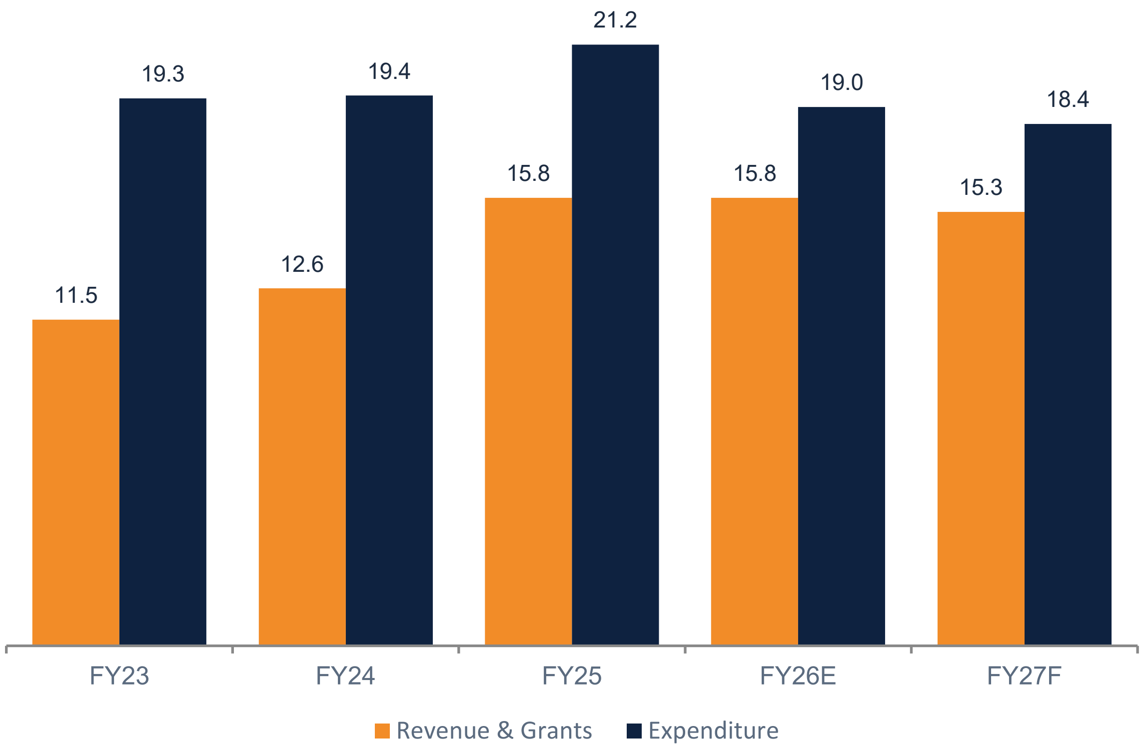
Disinflation reversal

CPI troughed near 4.5% (FY25) and re-accelerates to ~11.66% as energy & base effects bite.

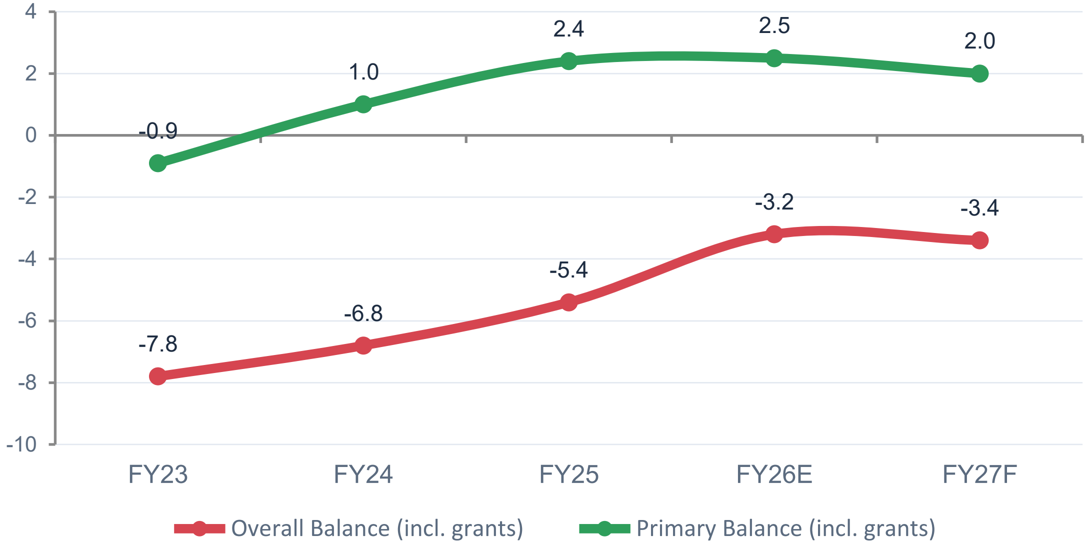
Source: IMF macroeconomic projections. FY26E / FY27B are projections; program / EFF targets excluded by design.

The Consolidation Path — FY23–FY27

Revenue vs Expenditure (% of GDP)



Fiscal Deficit & Primary Balance (% of GDP)



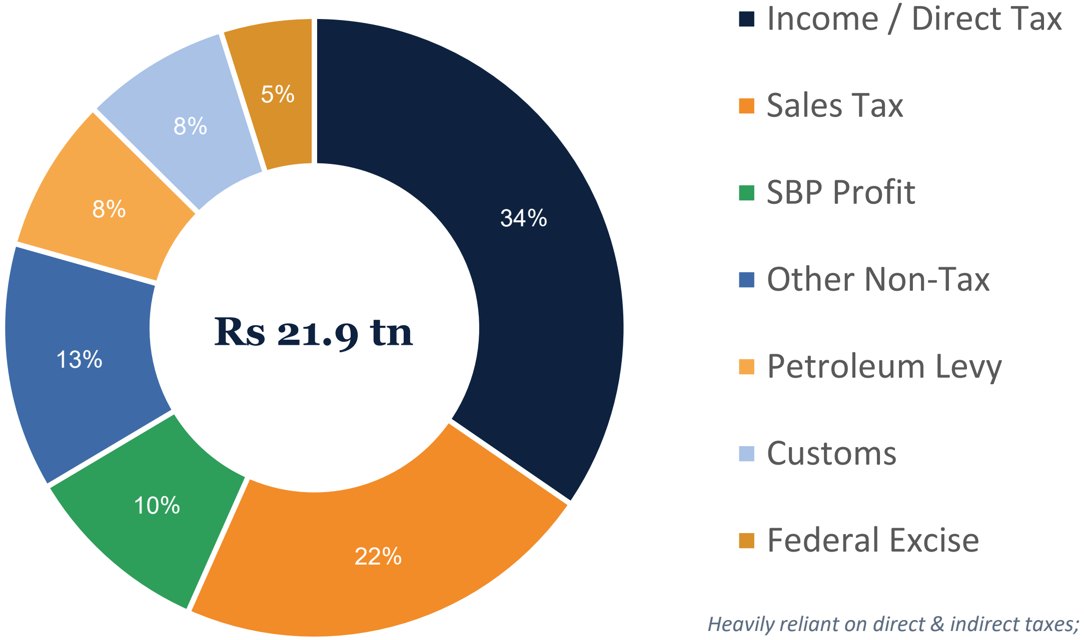
Deficit compression — the overall balance narrows from 7.8% to 3.4% of GDP, helped by a revenue jump and fiscal austerity measures.

Primary surplus entrenched — a fourth straight surplus is the binding fiscal anchor; debt service remains the dominant claim on outlays.

Source: IMF projections (general government, % of GDP). FY26E / FY27F are projections.

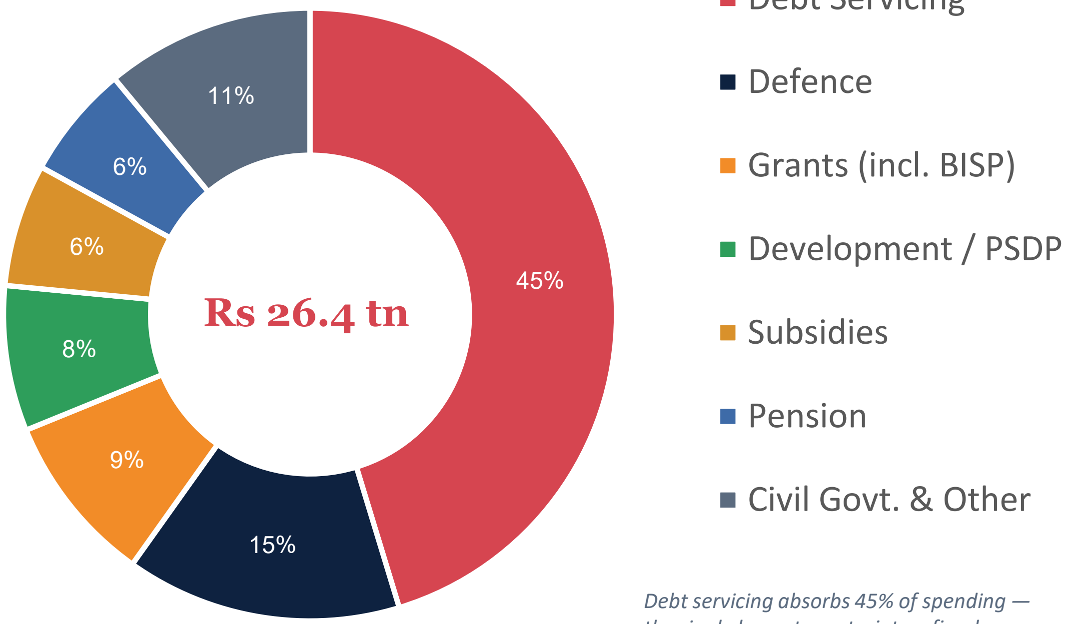
FY27 Revenue & Expenditure Composition

GROSS REVENUE MIX (FY27, Rs bn)



Heavily reliant on direct & indirect taxes; non-tax leans on SBP profit and the petroleum levy.

EXPENDITURE MIX (FY27, Rs bn)



Debt servicing absorbs 45% of spending — the single largest constraint on fiscal space.

Source: IMF projections; Ministry of Finance; pre-budget estimates (Rs bn). FY27 composition is indicative pending the budget.

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Fiscal Account Summary — FY23 to FY27

Rs bn	FY23	FY24	FY25	FY26E	FY27B
FBR Revenue	7,169	9,311	11,744	12,656	**15,264**
Non-Tax Revenue	1,186	2,110	3,982	3,702	**2,768**
Gross Revenue	**9,614**	**13,269**	**17,997**	**20,076**	**21,859**
Provincial Transfers	(3,369)	(4,601)	(5,833)	(6,582)	**(7,308)**
Net Federal Revenue	**4,656**	**7,097**	**9,947**	**10,385**	**12,060**
Current Expenditure	14,474	18,653	21,529	21,339	**23,229**
Development Expenditure	652	635	786	873	**986**
Total Expenditure	**16,137**	**20,476**	**24,166**	**24,206**	**26,423**
Fiscal Deficit (overall)	**(6,522)**	**(7,207)**	**(6,168)**	**(4,129)**	**(4,994)**
Primary Balance	**(766)**	**1005**	**2,768**	**3,213**	**2,881**
Fiscal Deficit (% GDP)	***-7.8***	***-6.8***	***-5.4***	***-3.2***	***-3.4***
Primary Balance (% GDP)	***-1.0***	***0.9***	***2.4***	***2.5***	***2.0***

Source: consolidated fiscal accounts; Ministry of Finance. FY26E estimates, FY27B budgeted/projected; figures may not sum due to rounding.

REFERENCE SCENARIO

IMF Macroeconomic Projections

Indicator	FY25	FY26	FY27	FY28
Real GDP Growth (%)	3.1	3.6	**3.5**	4.3
Inflation – avg (%)	4.5	7.2	**8.4**	6.6
Fiscal Balance (% GDP)	-5.4	-3.2	**-3.4**	-3.2
Primary Balance (% GDP)	2.4	2.5	**2.0**	2.0
Current Account (% GDP)	0.5	-0.4	**-0.9**	-0.8
Public Debt (% GDP)	72.8	70.1	**67.2**	64.5

FY27 column highlighted — primary reference year for this briefing.

Projection Highlights

- Growth expected to improve, with real GDP projected at 3.5% in FY27 and 4.3% in FY28.
- Inflation expected to remain elevated in FY27 before moderating to 6.6% in FY28.
- Fiscal consolidation will continue, with the fiscal deficit projected at 3.4% of GDP in FY27.
- Public debt is expected to decline gradually, reaching 67.2% of GDP in FY27 and 64.5% in FY28.

Source: IMF macroeconomic projections (projection basis only). Program / EFF / staff-level targets excluded by design.

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KSE-100 Reaction Around Federal Budgets

RETURNS AROUND BUDGET DATE (%)

Budget	−6 Wk	−4 Wk	−2 Wk	+2 Wk	+4 Wk	+6 Wk
FY18	+11%	+7%	+2%	-6%	-12%	-14%
FY19	+5%	0%	-1%	-4%	-8%	-4%
FY20	-6%	+2%	-1%	-1%	-2%	-6%
FY21	+2%	+2%	+2%	-2%	+5%	+9%
FY22	+9%	+5%	+3%	-1%	-2%	-1%
FY23	-7%	-3%	-2%	-2%	-2%	-5%
FY24	+1%	+1%	+2%	-4%	+5%	+10%
FY25	+1%	-3%	-4%	+8%	+10%	+7%
FY26	+6%	+14%	+2%	-2%	+8%	+14%
Avg	*+2.4%*	*+2.8%*	*+0.3%*	*-1.6%*	*+0.2%*	*+1.1%*

HISTORICAL TENDENCIES

No clear pre-budget trend

Market performance ahead of budgets has been mixed across years.

Initial reaction often subdued

Early post-budget returns tend to be modest and inconsistent.

Macro factors drive later performance

Earnings, liquidity, and policy trends typically outweigh budget effects.

Best when IMF-aligned

FY25–FY26 delivered the strongest post-budget gains amid macro stabilization.

Source: PSX (index returns around budget dates); ABL Funds analysis.

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Banks

PRE-BUDGET EXPECTATIONS — outcome hinges on super-tax and the balance-sheet/ADR settlement tax in the Finance Bill.

Expected Measure	Comment & Likely Implication
Super-tax continuation	Corporate tax rate scheduled to decline to 52% in CY26 and 51% from CY27 onward, with potential for further rationalization in FY27 Budget..
Tax on Cash Withdrawls	Advance tax threshold on cash withdrawals may increase to Rs75,000 (from Rs50,000), while the tax rate may rise to 1.5% (from 0.8%).
20% WHT on bank profits expected to be retained	A cut to 10% has been proposed; the levy is likely retained to protect revenue .
Digital-payments push	Possible limits on cash use at retail / fuel outlets to formalise payments — supportive of fee income, deposits and CASA.
Auto-financing relaxation	Longer tenors (up to 7 yrs) and a higher cap (Rs10mn) would support consumer-loan growth — second-order positive.

Source: pre-budget market expectations; IMF projections. Directional and subject to the 10 June 2026 Finance Bill.

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Energy — E&P, OMCs, Refineries & Power

PRE-BUDGET EXPECTATIONS — centred on the circular-debt strategy, the petroleum levy and any subsidy provisioning.

Expected Measure	Comment & Likely Implication
E&P / Power — circular-debt plan	Power subsidies capped at ~0.6% of GDP (~Rs830bn) plus tariff/gas adjustments aim to curb circular-debt build-up — positive for E&P cash flows and payables recovery.
E&P — OGDC / PPL dividends	Government (≈85% OGDC, 75% PPL) to receive sizeable dividend contributions in FY27 — neutral for minority holders.
OMCs — petroleum levy → ~Rs1.73 tn	An ~18% higher PDL target lifts pump prices; pressures fuel volumes and demand.
OMCs — carbon levy Rs2.5 → 5/L	Doubling the carbon levy adds to pump prices — inflationary and a further drag on fuel sales.
Refineries — upgrade policy / GST fix	Sales-tax exemption on brownfield-upgrade machinery and a GST-treatment fix would unlock the ~US$6bn upgrade programme..
Refineries / OMCs — windfall levy (risk)	A proposed 20% levy on inventory gains after the oil-price spike..

Source: pre-budget market expectations; IMF projections. Directional and subject to the 10 June 2026 Finance Bill.

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Fertilizer

PRE-BUDGET EXPECTATIONS — gas/feedstock pricing, GST treatment and farm-support measures are the swing factors.

Expected Measure	Comment & Likely Implication
+5% FED on fertiliser / pesticides	A contingency measure under the IMF framework; if passed through, ~Rs200/bag higher urea prices. Likelihood low given farm-sector stress.
Feedstock / fixed gas pricing	Any upward revision to concessionary feed/fuel gas tariffs directly compresses producer margins.
Wheat Pricing & Strategic Reserve Policy	Wheat support price effectively maintained at PKR 3,500/40kg, with strategic reserves procurement and National Wheat Policy 2026–30 under consideration.
Provincial agricultural income tax	Enforcement broadens the base but weighs on farm economics near term.
Farm-credit & input support	Continuation of credit support, the Rs1,500/acre scheme and higher agri PSDP (Green Pakistan) underpins farmer liquidity and fertiliser off-take.

Source: pre-budget market expectations; IMF projections. Directional and subject to the 10 June 2026 Finance Bill.

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Cement & Construction

PRE-BUDGET EXPECTATIONS — development spending and real-estate transaction taxes drive the demand outlook.

Expected Measure	Comment & Likely Implication
Federal PSDP Rs1.13 tn (up to Rs1.51 tn under review)	Development spending is the key volume driver; actual disbursement has historically run below budget (FY26 utilisation ~56%) - hence, execution is the swing factor.
FED on cement (Rs4/kg) retained	A further increase looks unlikely given construction-cost sensitivity.
Section 7E omission	The deemed-property tax was struck down and is expected to be removed from the Finance Bill which is expected to supports real-estate activity and cement off-take.
WHT / advance-tax relief on property	Lower transaction taxes and removal of advance tax on first purchase would lift transactions and construction.
Enhancement of Apna Ghar housing programme	500,000 subsidised units could add 1.5–2.0mn tons to cement demand over the build-out.

Source: pre-budget market expectations; IMF projections. Directional and subject to the 10 June 2026 Finance Bill.

Autos

PRE-BUDGET EXPECTATIONS — the budget dovetails with the Auto Policy 2026–31 (NEV-centric) and tariff liberalisation.

Expected Measure	Comment & Likely Implication
CKD tariff simplification	5% duty on non-localised and 10% on localised parts; ACD abolished and RD cut — lowers landed cost and ex-factory prices. Weighted tariff proposed to be reduced to 10.6% → 9.5% (→6% by 2030).
PHEV / REEV sales tax 8.5% → 1%	Plus FED, CVT and WHT exemptions — highly positive for PHEV/EV assemblers.
HEVs excluded from NEV definition	Hybrids stay at 8.5% sales tax with parts at 10% duty — mild negative for HEV-heavy portfolios; shifts demand toward PHEVs.
NEV-parts 1% duty; EV-charging 0% duty	Concessions for three years incentivise local EV assembly and charging-infrastructure roll-out.
Auto-financing relaxation	Longer tenors and higher caps would support volumes, though may be deferred to protect the import bill amid high oil prices.

Source: pre-budget market expectations; IMF projections. Directional and subject to the 10 June 2026 Finance Bill.

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Textiles

PRE-BUDGET EXPECTATIONS — relief asks are broad, but IMF-linked constraints cap what is deliverable.

Expected Measure	Comment & Likely Implication
Final-tax regime / 1% FTR restoration	Effective tax incidence is viewed as very high; restoration is sought but unlikely under the IMF programme — continuation of the current structure expected.
Removal of 1% WHT / advance tax on exports	Would ease working capital and cash flows; positive if granted, but low likelihood.
Anti-dumping duty cut on polyester fibre	Lowers input cost for man-made-fibre value chain — positive for spinners/weavers, negative for local PSF producers.
Export Facilitation Scheme (EFS)	Likely retained in modified form; broader incentive restoration (DLTL/TUF) constrained by fiscal limits.
Provincial cess & energy tariffs	A 0.9% Punjab cess on trade flows pressures Punjab-based mills; regionally competitive energy pricing is unlikely near term.

Source: pre-budget market expectations; IMF projections. Directional and subject to the 10 June 2026 Finance Bill.

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Pharmaceuticals

PRE-BUDGET EXPECTATIONS — measures lean supportive, centred on import duties and export incentives.

Expected Measure	Comment & Likely Implication
Abolition of 3% VAT on imported finished / life-saving drugs	Reduces the effective burden from 4% toward the intended 1% final tax — eases supply-chain cost and supports availability.
Zero-rating sales tax on APIs / DRAP products	Eases working-capital pressure if restored; a broad GST cut is less likely given fiscal constraints.
Tax credits for export-oriented pharma	Would encourage export growth and lower effective tax liability for consistent exporters.
Duty/tax cut on micronutrient (MMS) imports	Supports maternal-health nutrition lines — positive for nutrient producers.
Non-essential drug pricing controls (risk)	Any regulatory price control would be negative, with sharper impact on firms skewed to non-essential medicines.

Source: pre-budget market expectations; IMF projections. Directional and subject to the 10 June 2026 Finance Bill.

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Technology & Communication

PRE-BUDGET EXPECTATIONS — the IT export tax regime is the single most important variable for the sector.

Expected Measure	Comment & Likely Implication
0.25% final-tax regime on IT/ITeS exports	Set to expire in 2026–27; a multi-year extension is sought. Status-quo / extension is expected — supportive and the key swing factor.
Telecom relief & 5G incentives	Possible WHT cut and a sharp reduction in fibre-optic import duty (60% → 5%) — positive for digital infrastructure and downstream IT costs.
Uniform provincial sales tax on IT services	Harmonisation across provinces is sought to cut compliance cost; unlikely to be implemented near term.
PTA/DIRBS tax on imported handsets	A proposed cut (25% → 18%) is viewed as unlikely; if enacted, negative for local assemblers.
IT workforce tax harmonisation	Narrowing the salaried-vs-freelancer gap is proposed but unlikely this budget.

Source: pre-budget market expectations; IMF projections. Directional and subject to the 10 June 2026 Finance Bill.

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Consumer & FMCG

PRE-BUDGET EXPECTATIONS — a revenue-extractive budget skews risks toward consumption and staples demand.

Expected Measure	Comment & Likely Implication
GST +1ppt to 19% (IMF proposal)	A broad indirect-tax increase (Rs250–300bn incremental revenue expected) would lift retail prices and could weigh on FMCG demand and margins.
GST on packaged milk (18% → 10% sought)	Relief is requested to level the field with loose milk; continuation of 18% is likely given fiscal space..
FED on sugar-sweetened beverages	A proposed 10% FED would raise prices and pressure beverage volumes.
FED cut on no-added-sugar juices (sought)	A reduction (20% → 10%) would support volumes after sharp post-tax declines.
Salaried relief & social transfers	Slab relief plus inflation adjustment to minimum wage and BISP mildly support disposable income and staples demand.

Source: pre-budget market expectations; IMF projections. Directional and subject to the 10 June 2026 Finance Bill.

CONCLUSION

Budget FY27 — Key Takeaways

Fiscal Measures

- Rs 15.27tn FBR target (~+14%); floor now an IMF QPC
- Rs 860bn fresh measures; ~Rs215bn from exemption cuts
- Salaried relief offset by equal-yield measures
- Fourth consecutive primary surplus (2.0% of GDP)

Macro Themes

- Growth 3.5%; inflation re-accelerating to 11.66%
- Debt eased toward 67% of GDP
- Reserves build to US$21bn; CA held near −1%
- External discipline remains the anchor

Market Highlights

- Likely neutral on the day; re-rating on IMF-aligned approval
- Super-tax framework the key equity lever (largely aspirational)
- PDL → ~Rs1.73tn & carbon levy central to revenue mix
- Hawkish rates (11.5%) frame yield curve direction.

SECTOR SUMMARY

Sector	Key Expected Measure	Potential Implication	Lean
Banks	Super-tax continuation; ADR tax steps down	Earnings broadly stable; relief upside capped	**Neutral**
Energy	Circular-debt plan; PDL +18%; carbon levy	Cash-flow relief upstream; OMC volume drag	**Neutral / +**
Fertilizer	Feedstock gas & GST risk; farm support	Margin-sensitive; demand resilient	**Neutral**
Cement & Construction	PSDP outlay; Section 7E removal; housing	Demand support if disbursed; sentiment +	**Neutral**
Autos	CKD/tariff cuts; PHEV tax 8.5%→1%	Lower prices; electrified-vehicle tailwind	**Positive**
Textiles	FTR/WHT relief sought; EFS modified	Mostly status-quo; competitiveness drag	**Neutral**
Pharma	3% import VAT removed; export credits	Working-capital & cost relief	**Neutral / +**
Technology	IT export FTR extension; telecom relief	Status-quo supportive; FX-earner intact	**Neutral**

Source: IMF projections; Ministry of Finance; pre-budget market expectations. A factual recap — directional and pending the 10 June 2026 budget.

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