



A SPECIAL REPORT FROM JS INVESTMENTS RESEARCH DEPARTMENT

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# The Familiar Road: Reflections on Budget 2026–27

**A summary on the key measures that may affect investors and economy**

Pakistan's Federal Budget FY2026–27 arrives at a moment of relative stability, but not one of structural resolution. GDP growth came in at 3.7% for FY26, the fiscal deficit has been brought to its lowest level in twenty-two years, credit ratings have been upgraded, and the country has returned to international capital markets.

The FY27 budget attempts to build on that foundation — targeting 4% growth, a consolidated deficit of 3.6% of GDP, and a primary surplus of 2.0% — while simultaneously delivering relief to the salaried class and corporate sector, extending support to exporters and the technology sector, and pressing forward on tax base formalisation. The headline ambition is considerable: FBR revenue is targeted at PKR 15.264 trillion, an 18% increase on a revised base that has itself proved difficult to meet. Debt servicing alone is budgeted at PKR 8.054 trillion, continuing to absorb a major share of fiscal space.

The super tax has been rationalised, property transaction taxes reduced, and IT exporters given the long-term visibility they had sought, but banks, E&P companies, and fertilizer manufacturers remain outside the scope of relief, a telling reminder of where the government's fiscal dependence sits. The direction of travel is broadly right. The execution, as ever, is where Pakistan's budgets are made or broken.



## Where FY26 Left Things

Before turning to the budget itself, it is worth pausing on the economic survey for FY2025–26, which sets the stage for everything that follows. The headline numbers tell a broadly constructive story: GDP expanded 3.7%, a modest but meaningful step up from 3.18% the previous year. The fiscal deficit, measured at 0.7% of GDP through the first nine months, appears impressively contained but that figure owes as much to a primary surplus of 3.2% as it does to any durable improvement in the revenue base. The current account, while technically in surplus, narrowed to a marginal US\$ 72 million, in first nine months of FY26, a far cry from the US\$ 1.7 billion recorded a year earlier. In short, the economy entered the budget cycle in recovery mode, not in robust health.

Seen in continuity with the last few budget cycles, the FY2026–27 budget feels less like a departure and more like another stage in the same policy journey. FY24 was dominated by external financing and exchange-rate vulnerability; FY25 by market fears that ultimately proved overdone; FY26 by the tension between formalisation, stretched targets, and the need to rebuild domestic savings. FY27 now arrives at a relatively more stable point, but the core question remains unchanged: can Pakistan move from stabilisation to durable reform without overburdening the already documented segments of the economy?

The external account also deserves closer attention. The recovery in growth, if accompanied by a faster rise in imports

than exports, could again test the current account. The budget's export and IT measures are directionally positive, but the real macro test will be whether export growth, remittances, and formal inflows can offset the import demand that typically follows a domestic recovery. For investors, this keeps the rupee, oil prices, and import momentum central to the FY27 outlook.

## Stretched Targets, Once Again

The Finance Minister opened his address by referencing the government's recent foreign policy and defense achievements before presenting the fiscal framework for FY26–27.

Turning to the numbers, the FBR tax collection target for FY2026–27 has been set at PKR 15.264 trillion, a figure that warrants careful examination. To put it in context, the revised FY25–26 FBR target had already been scaled back, and even against that lowered bar, meeting the number in full appears uncertain by this fiscal year-end. On the non-tax revenue side, the Petroleum Development Levy (PDL) continues to shoulder a disproportionate burden. The PDL collection target has been raised to PKR 1.677 trillion for FY2026–27, up from PKR 1.468 trillion in FY26, a 14% increase year-on-year.

The Public Sector Development Programme (PSDP) allocation for FY2026–27 has been maintained at PKR 1.0 trillion — identical to the FY26 budget figure and, frankly, a number that has become something of a floor rather than an ambition. In practice, the persistent gap between PSDP allocations and actual utilization, which has historically run at meaningful discounts to target, tempers any enthusiasm. On the growth narrative, the government has set a GDP growth target of 4% for FY27, underpinned by the Uraan Pakistan initiative, which frames export-led and investment-driven growth as its central thesis. Fiscal consolidation remains the IMF-mandated backdrop, and the government appears determined to project both discipline and ambition simultaneously, a combination that is easier to announce than to execute.

Indicator	FY27B
GDP Growth Target (FY 2026-27)	4.0%
Inflation Forecast	8.2%
Total Expenditure	PKR 18,771 bn
FBR Revenue Target	PKR 15,264 bn
Debt Servicing	PKR 8,054 bn
Budget Deficit	3.6% of GDP

### Debt Servicing and Financing Quality

A further point to watch is the evolving quality of deficit financing. The headline deficit may look more contained, but debt servicing continues to absorb a significant share of fiscal space, with FY27 debt servicing budgeted at PKR 8.054 trillion, including PKR 6.983 trillion for domestic debt and PKR 1.071 trillion for foreign debt.

Encouragingly, the decline in interest rates should provide some relief compared with the peak-rate environment, yet the absolute debt stock and refinancing requirements remain large. The Budget Statement itself highlights this sensitivity: refinancing risks could add around 0.8% of GDP to the deficit, while a 200-bps increase in domestic rates and a 100-bps increase in external rates could widen the deficit by around 0.4% of GDP.

The lower reliance on SBP profits is also a welcome adjustment, with the FY27 estimate reduced to PKR 1.436 trillion compared with PKR 2.4 trillion budgeted last year. However, this also means that revenue delivery and expenditure control will matter more visibly this year. For fixed-income investors, the setup remains constructive, but duration positioning will need to be calibrated as the rate cycle matures and the market starts differentiating more carefully between reinvestment risk, credit risk and liquidity needs.

### Tax Expenditures and Reform Quality

A meaningful reform angle also lies in tax expenditures. The reported tax expenditure of over PKR 2.3 trillion illustrates the scale of revenue foregone through exemptions, concessions, and preferential treatments. This reinforces a familiar point: sustainable fiscal consolidation cannot rely only on higher headline tax targets. It must also come through broadening the base, simplifying exemptions, and reducing distortions without undermining productive investment.

### Highlights: What Moved and What Mattered

The budget has brought a meaningful recalibration of the automotive tax landscape. For EVs imported in CBU condition, a tiered duty structure has been introduced based on vehicle value, while the CKD exemption for EV imports has been extended through June 2027. Hybrid vehicles have been brought into the normal GST net, and Federal Excise Duty on conventional high-end SUVs has been raised, signaling a deliberate push to redirect consumption toward cleaner alternatives. The policy direction is clear; the question, as ever, is whether domestic EV infrastructure can keep pace with the fiscal incentives being offered.

The budget has initiated a broad-based rationalisation across customs duty,

additional customs duty, and regulatory duty simultaneously, under the National Tariff Policy 2025–30. Tariffs on intermediate goods have been removed, duty-free machinery access extended to the textiles sector, and regulatory duties capped and reduced across a wide range of tariff lines. This is, in theory, sound industrial policy. The caveat is one of timing with global trade tensions elevated and the risk of redirected excess supply from regional exporters very much alive, the pace and sequencing of this liberalisation will need to be managed with care. This is a continuation of the tariff reform debate flagged last year: the economic logic of rationalisation is sound, but sequencing matters. If domestic industry is exposed too quickly while global excess supply is being redirected across markets, the reform may be right in theory but disruptive in practice.

The Super Tax has been abolished for entities with income up to PKR 500 million, and the rate for those above that threshold has been trimmed from 10% to 8%. For the broader corporate sector, this is a constructive development and likely to be received positively by equity markets. The notable carve-outs, however, are equally telling: banks, exploration and production companies, and fertilizer manufacturers remain outside the scope of these concessions. One reads into that exclusion a fiscal reality, these sectors represent concentrated pools of taxable income that the government is not yet prepared to relinquish.

As part of the digitalisation initiative, the advance tax on foreign card payments has been cut sharply from 5% to 0.5%, with the same reduction applying to remittances routed through card channels, a move aimed at deepening formal inflows and improving documentation within the tax framework. With workers' remittances already running at US\$ 34 billion for FY26, this signals a genuine attempt to deepen formal inflows and improve traceability within the FBR framework. Whether this translates into a material uplift in documented remittances will be worth watching.

## **Formalisation: From Announcement to Enforcement**

The formalisation agenda now appears to be moving from announcement to enforcement. Last year's budget signaled a firmer stance toward non-filers, unregistered vendors, digital transactions, online platforms and undocumented cash flows. This year's proposals continue that direction, but the test is no longer policy intent; it is administrative execution. If enforcement is selective, inconsistent, or overly burdensome for compliant businesses, the reform effort may lose credibility. If implemented fairly, however, the same measures can gradually shift the economy toward documentation and improve the quality of future revenue collection.

On the export side, the budget has delivered several meaningful concessions. The double surcharge on exports, previously levied at 0.25%, has been abolished entirely. For the textiles sector in particular, duty-free machinery import has been granted, and the combined burden of two overlapping taxes, which cumulatively amounted to 2%, has been rationalised into a single levy of 1.25%, modestly reducing the effective cost of exporting.

Pakistan's IT export trajectory has been one of the most encouraging structural stories in recent years, and the budget has sought to sustain that momentum by extending the concessionary tax rate for IT and IT-enabled services exporters through Tax Year 2029, providing the long-term visibility the sector has repeatedly asked for. On a more nuanced note, digital content creators and social media influencers have been brought into the withholding tax net, though questions around the treatment of non-residents remain unresolved and will likely need further clarification.

The restructuring of income tax slabs offers tangible relief to the salaried segment: the maximum rate threshold has been raised from PKR 4.1 million to PKR 7 million, rates across several middle-income brackets have been reduced, and the surcharge under Section 4AB

on salaried income has been removed. These are welcome concessions. Yet, as discussed in last year's commentary, the salaried class continues to bear a structurally disproportionate share of the direct tax burden, a dynamic that salary withholding tax data has consistently underscored. Incremental relief is appreciated, but it does not fundamentally alter the equation.

Advance tax rates on immovable property transactions have been simplified and reduced: the rate on sales has been cut to a flat 2.75%, down from a range of 4.5–5.5%, while the purchase rate has been rationalised to a flat 1.25%. The withdrawal of Section 7E, which had imposed a tax on deemed income from certain residential properties, removes a measure that had introduced complexity without broad compliance. The PM's Apna Ghar programme, backed by PKR 71 billion in allocations, reinforces the government's intent to stimulate the housing market. Whether these measures revive meaningful real estate activity or simply rechanneling speculative interest remains an open question.

### **Savings and Capital Markets: Still Not Central Enough**

From the perspective of savers and capital market investors, the budget is broadly neutral but not yet sufficiently enabling. The absence of any major adverse change to mutual fund taxation is positive, particularly after the uncertainty seen in previous years. However, the broader policy framework still stops short of placing documented savings, mutual funds, VPS, REITs, private equity, and other formal investment channels at the centre of domestic capital formation.

For capital markets, the budget appears broadly neutral to constructive. The clarification and expansion of NCCPL's role in the computation and determination of capital gains on listed securities should improve administrative clarity, although its practical impact will depend on implementation.

The proposed change will require taxpayers to rely solely on NCCPL for CGT computation, which may have implications for non-resident individuals and foreign institutional investors seeking relief under applicable tax treaties. Importantly, no major adverse measure appears to have been introduced on mutual fund taxation, dividend taxation, or capital gains taxation in a manner that would materially disrupt market sentiment. In that sense, the budget preserves the improving investment case for documented savings and capital market participation.

This remains important because Pakistan's long-term financing needs cannot be met sustainably through bank deposits, government borrowing, and real estate activity alone. A deeper savings culture, supported by mutual funds, pension products, REITs and other regulated investment vehicles, is essential if domestic savings are to be channelled into productive assets rather than remaining trapped in informal or speculative stores of value.

### **What Was Discussed — But Did Not Appear**

Every budget season generates its own ecosystem of speculation, and FY2026–27 was no different. Several widely anticipated measures that had circulated in pre-budget commentary did not ultimately make it into the Finance Bill.

- Cryptocurrency taxation had been widely anticipated given the government's formalisation push, but did not appear in the Finance Bill and in hindsight, that is perhaps not surprising. Taxing crypto meaningfully requires regulatory and enforcement infrastructure that simply does not yet exist
- The anticipated GST increase on solar panels did not materialise, with the existing rate retained, a sensible call given the country's chronic power sector challenges. Proposals around an environmental levy on petrol-based vehicles and a broader GST rate increase were similarly absent from the bill, both quietly set aside, one suspects, with an eye on the cost-of-living environment.

## Key Risks to Watch in FY27

The government's own fiscal-risk framework underlines why execution remains central. Revenue collection, petroleum levy realisation, SBP profits, interest rates and refinancing requirements all carry measurable downside risk to the deficit path. This does not weaken the stabilisation story, but it does mean that the FY27 framework has limited room for slippage.

Risk	Why it matters
<b>Revenue shortfall</b>	The FBR target remains ambitious and depends heavily on enforcement and tax-base expansion.
<b>Petroleum levy collection</b>	PDL remains a major non-tax revenue source and is sensitive to oil prices, demand and political pass-through.
<b>Debt refinancing</b>	Large rollover needs keep the budget exposed to auction dynamics, maturity profile and interest-rate volatility.
<b>Tax expenditures</b>	Exemptions and concessions remain a major structural leakage in the revenue base.
<b>External account</b>	A growth recovery that lifts imports faster than exports could again pressure the current account and the rupee.

## Looking Forward — Execution Remains the Variable

The FY2026–27 budget reflects a government attempting to do several things at once: consolidate fiscally under IMF commitments, stimulate growth through Uraan Pakistan, extend targeted relief to households and the corporate sector, and deepen the tax base through formalisation. That these objectives sometimes pull in different directions is not unique to Pakistan, it is the perennial challenge of budget-making in a developing economy operating under external programme constraints.

What distinguishes this year's document, perhaps more than any specific measure, is the sheer range of sectors it attempts to address. From EV policy to cancer drug duties, from IT export tax extensions to digital influencer withholding frameworks, the Finance Bill 2026–27 is notably wide in its reach.

As investors, the constructive read is that macro stabilisation - in the shape of lower rates, a more stable rupee and recovering corporate earnings - provides a foundation that this budget reinforces rather than undermines. Equities remain well-positioned, fixed income continues to offer calibrated opportunity as the rate cycle matures, and the gradual formalisation of the economy should, over time, benefit those operating within the documented sector. The direction, at least, is not without merit; the delivery will determine whether it becomes more than another familiar road.

## Investor Read-Through

For investors, the budget does not materially disrupt the improving macro and market setup, but it does reinforce the need for selective positioning. The direction is broadly supportive for documented investors, although the gains are not uniform across sectors and asset classes.



### Equities:

Equities remain supported by macro stabilisation, lower interest rates, recovering corporate earnings, selective corporate tax relief and, importantly, the absence of a major adverse capital-market measure. The reduction in super tax for the broader corporate sector is constructive, though the exclusion of banks, exploration and production companies and fertilizer manufacturers means the benefit will not be evenly distributed across the index. The Finance Bill leaves the taxability framework for Limited Liability Partnerships unresolved, an area investors operating through those structures will need to monitor. Late filing penalties have also been sharply increased — PKR 100,000 for companies, PKR 50,000 for AOPs and PKR 25,000 for individuals — reinforcing the government's intent to pair formalisation with enforcement. Market performance will therefore remain tied to earnings delivery, rupee stability, liquidity conditions and clarity around tax implementation.

### Fixed income:

Fixed income continues to offer calibrated opportunity, but the nature of that opportunity is

changing as the rate cycle matures. At the peak of the rate cycle, the case for fixed income was anchored primarily in high nominal yields. Going forward, investors will need to balance duration positioning with reinvestment risk, credit quality and liquidity needs. Worth noting is the increase in withholding tax on disposal of debt securities from 15% to 20%, mutual funds remain exempt at the fund level, which continues to make CIS structures a more tax-efficient route to fixed-income exposure. Large government borrowing requirements also mean that auction dynamics, maturity management and market appetite will remain important signals for fixed-income investors.

### Real estate and REITs:

The rationalisation of advance tax on property transactions — purchase rate reduced to a flat 1.25% and sales rate to 2.75% — and the withdrawal of Section 7E should improve sentiment toward real estate. The streamlining of exemption issuance procedures for Collective Investment Schemes, REITs and NPOs is a further positive, reducing administrative friction for fund managers and investment vehicles. A durable revival, however, will depend on confidence, liquidity and documentation rather than tax relief alone. From a capital-market perspective, formal real estate vehicles such as REITs deserve greater policy attention because they can channel savings into transparent, regulated and income-generating assets, while also helping move real estate activity away from informality.

### Export and IT sectors:

Export-oriented sectors and IT appear relatively better placed in the budget framework. The removal of certain export-related surcharges, duty-free machinery access for textiles and the extension of the concessionary tax regime for IT and IT-enabled services provide useful policy visibility. However, the eventual benefit will depend on energy costs, exchange-rate management, global demand and the ability of firms to convert fiscal relief into competitiveness rather than short-term margin support.

**Consumers and savers:**

For consumers, salaried relief is welcome and should support sentiment at the margin, but it does not fully offset the cumulative pressure from inflation, energy costs and indirect levies. For savers, the Finance Bill aligns the withholding and chargeability rates for capital gains on CIS and REIT units under Division VII of the First Schedule — removing a long-standing divergence that created uncertainty and should make these structures more predictable from a tax planning perspective. More broadly, the more important question remains whether policy continues to encourage formal, long-term savings through mutual funds, VPS, pension products and regulated investment channels. In that sense, the budget preserves the improving investment case, but it still stops short of making documented savings a central pillar of economic reform.

<b>Asset class</b>	<b>Budget read</b>
<b>Equities</b>	Broadly constructive; corporate relief and no major adverse capital-market shock support sentiment.
<b>Fixed income</b>	Still attractive, but duration should be managed as rate cuts mature and borrowing needs remain large.
<b>Real estate</b>	Tax rationalisation is supportive, but activity revival depends on confidence, liquidity and documentation.
<b>Export / IT sectors</b>	Positive direction through targeted concessions, tariff relief and longer-term tax visibility.
<b>Consumers</b>	Salaried relief helps sentiment, but inflation, indirect levies and energy costs remain relevant.

## **Disclaimer:**

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