



Alfalah Investments

FEDERAL BUDGET FY27

Consolidation Without Compromise

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by VIS & PACRA



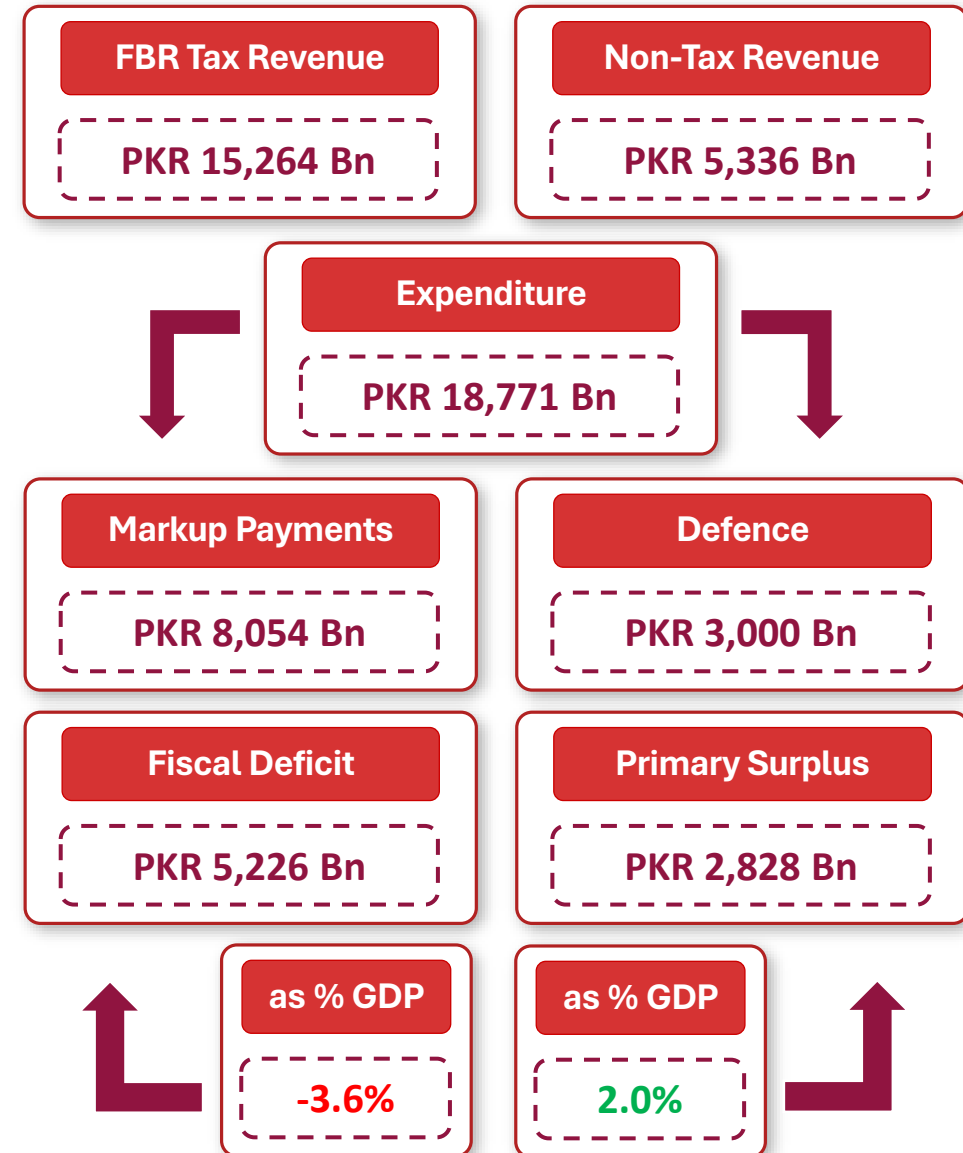
Pakistan Budget FY2026-27: Consolidation Without Compromise

Finance Minister Muhammad Aurangzeb's FY2026-27 budget, in our assessment, is the most consequential fiscal statement Pakistan has produced in a decade. Presented against a backdrop of post-conflict stabilization following the May 2025 India-Pakistan standoff and an unsettled global energy market shaped by the Iran-US war, this third consecutive budget under the coalition government does not flinch from its reform commitments. It consolidates the gains of the preceding two years, falling inflation, recovering growth, rebuilt reserves, and deploys the resulting fiscal room deliberately: relief for the salaried class, structural repair of the energy sector, a more competitive tax regime for corporates, and a credible medium-term debt trajectory.

Economic Indicators

On the macroeconomic scorecard, the numbers are unambiguous. GDP growth is targeted at 4.0% against a current-year outturn of 3.7%, with Large Scale Manufacturing and services both posting multi-year highs. Inflation, which peaked above 38% in early FY2023, is now running at approximately 7.5% and is projected to average 8.2% in FY2026-27, a trajectory that gives the SBP room to continue its rate normalization cycle. The fiscal deficit narrows further to 3.6% of GDP, with the primary surplus widening to 2.0%, a figure that, just two years ago, seemed aspirational. FBR tax collection is targeted at PKR 15,264 billion, a 17.6% increase on the prior year, underpinned by structural broadening of the tax base rather than rate increases alone.

On the debt side, the fiscal position has improved meaningfully. The fiscal deficit stood at 7.8% of GDP in June 2023 and is projected to come down to approximately 4% by the end of FY26. For FY27, the federal deficit is targeted at Rs 7.02 trillion, or 3.6% of GDP, while the government is aiming for a primary surplus of 2% of GDP. On the expenditure side, Rs 8.054 trillion has been allocated for debt servicing in FY27. Notably, the government retired Rs 1.9 trillion in domestic debt during the first nine months of FY26, generating savings of Rs 1.495 trillion in domestic debt servicing costs compared to the same period in FY25.



Executive Summary

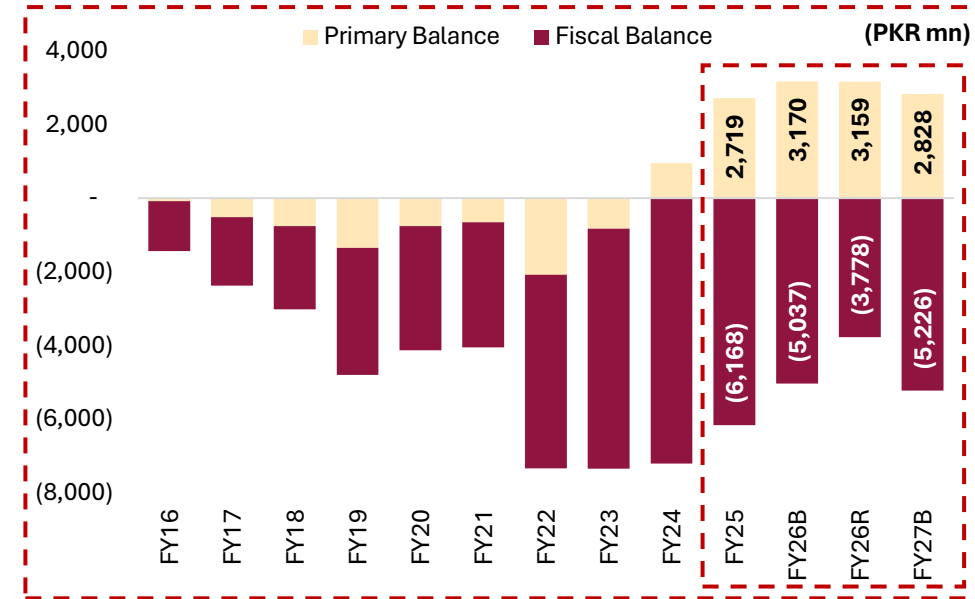
Income Taxes: Relief to the common man

The centerpiece of the relief package is the restructuring of salaried income tax slabs. The government has introduced new intermediate brackets and, critically, raised the threshold at which the maximum 35% rate kicks in from PKR 4.1 million to PKR 7.0 million annually. For a household earning in the PKR 3–5 million range, squarely the urban middle class and the core mutual fund investor base, this is a tangible improvement in take-home income. The downstream effect on consumer discretionary spending, savings mobilization, and retail investment appetite should not be underestimated.

Equally significant is the abolition of Section 7E. The deemed income tax on underdeveloped immovable property had become one of the most litigated and resented provisions in the Ordinance since its introduction in FY2022. Its removal clears a cloud over the real estate market and, combined with the sharp reductions in advance tax on property transactions, Section 236C cut to a flat 2.75% and Section 236K to 1.25%, both down meaningfully from their prior ranges, creates the conditions for a genuine revival in real estate activity. The construction multiplier from that revival will be felt across cement, steel, cables, tiles, and housing finance.

Super Tax

On Super Tax, the government has drawn a clear line. Entities (excluding Banks, E&Ps and Fertilizer) earning up to PKR 500 million are fully relieved, the tax is abolished for them. Entities above that threshold see the rate fall from 10% to 8%. The carve-outs for banking, E&P, and fertilizer are deliberate and, from a revenue standpoint, necessary; these three sectors account for a disproportionate share of Super Tax receipts. For the broad industrial and services corporate universe, however, the relief is genuine and will flow directly into earnings. Market EPS estimates for non-banking, non-fertilizer industrials will be revised upward accordingly.



Executive Summary

Capital Markets:

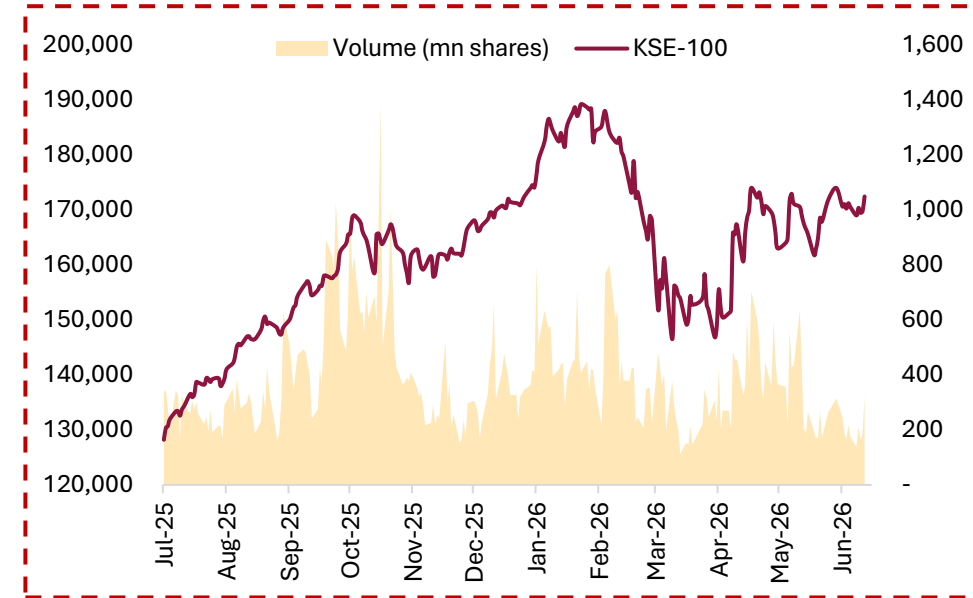
For capital markets, the Finance Bill introduces two changes worth noting. The Capital Value Tax on overseas assets held by resident Pakistanis has been abolished, removing a levy that had quietly discouraged Pakistanis from declaring and repatriating foreign holdings into domestic instruments.

Separately, NCCPL's role has been formally expanded to serve as the authoritative body for computing capital gains on listed securities for banks, insurers, and mutual funds — replacing a previously ambiguous framework with statutory clarity and reducing the risk of disputed tax computations for institutional investors.

Importantly, the capital gains tax regime on listed securities remains unchanged, and no new taxes have been introduced on mutual fund income or unit holder returns, providing continuity and stability for investors in the asset management industry.

Energy Sector

The energy sector receives the budget's most structurally important reforms. IPP renegotiations have delivered PKR 3.7 trillion in capacity payment savings, circular debt accumulation has been brought to zero in the current year, and the Competitive Trading Bilateral Contract Market launched in January 2026 marks the beginning of genuine price discovery in electricity. The transition to a BISP-based Direct Subsidy Mechanism by January 2027 — replacing blanket tariff subsidies — is perhaps the single most consequential structural reform in this budget; if executed, it resolves the root cause of the circular debt cycle. The LNG renegotiation with Qatar and Italy, locking in USD 1.2 billion in annual savings across 35 cargoes, adds further to the energy sector's improving economics.



External Sector

On trade and external sector dynamics, the Export Finance Scheme maturity extension from 9 to 18 months, combined with the reduction in exporter surcharge to 1.25%, addresses a persistent cash flow complaint from the export community. The IT/ITeS concessionary rate extension through Tax Year 2029 provides the multi-year visibility that technology exporters need to plan hiring and investment. The National Tariff Policy 2025-30, rationalizing intermediate goods duties and saving PKR 120 billion in input costs for manufacturers, signals a meaningful shift away from the high-protection import substitution model that has historically penalized export competitiveness.

Our overall assessment is straightforward: this is a budget that earns its credibility. It does not promise what it cannot deliver, it does not reverse the structural reforms of the preceding two years, and it allocates relief where the economic case is strongest. The equity market implications are broadly positive, corporate earnings will benefit from Super Tax relief and energy cost normalization, the real estate cycle has been given a meaningful catalyst, and the capital markets infrastructure has been deepened. AAML equity funds are well positioned to benefit from the consequent sector positives unveiled in the budget impacting construction & materials, technology and consumer discretionary .

External Sector (USD mn)	FY26	FY27B
Current Account Deficit	1.1	3.6
Total Exports	41.2	44.2
Goods Exports	30.3	32.9
Services Exports	10.9	11.3
Total Imports	77.7	83.8
Goods Imports	66.3	70.0
Services Imports	11.4	13.8
Worker Remittances	41.3	42.4

Source (s): AAML Research

FY27 Budget At Glance

Resources	PKR Bn	Expenditures	PKR Bn
Tax Revenue (FBR)	15,264	A. Current Expenditure	17,495
Non-Tax Revenue	5,336	Interest Payments	8,054
(a) Gross Revenue Receipt	20,600	Pensions	1,169
(b) Less: Provincial Share	8,848	Defence Affairs & Services	3,000
I. Net Revenue Receipts (a - b)	11,751	Grants & Transfers	2,680
II. Non-Bank Borrowing (NSSs & Others) - Public Account	2,034	Subsidies	1,091
III. Net External Receipt - Fed. Consolidated Fund	813	Running of Civil Govt.	1,071
IV. Bank Borrowing (T-Bills, PIBs, Sukuk) - Fed Consolidated	4,012	Provision for Emergency and Others	430
V. Privatization Proceeds	161	B. Development & Net Lending	1,276
		Federal PSDP	1,000
Total (II + III + IV + V)	7,020	Net Lending	276
Total Resources (I to V)	18,771	Total Expenditures (A + B)	18,771

Source (s): Budget Document, AAML Research

FY27 Budget Deficit Financing

Fiscal Deficit	PKR Bn	Financing	PKR Bn
Federal Revenue (Net)	11,751	Net External Financing	813
Total Federal Expenditure	18,771	Multilateral & Bilateral Sources	30
(a) Current Expenditure	17,495	Commercial & Euro Bond	783
(b) Development and Net Lending (I & II)	1,276	Net Domestic Financing	6,046
I. Federal PSDP	1,000	National Saving Scheme	274
II. Net Lending	276	Bank (Govt. Securities)	5,772
		Privatization Proceeds	161
Federal Deficit	(7,020)	Total Financing	7,020

Source (s): Budget Document, AAML Research

Key Budgetary Measures

Measure	Prior Rate	New Rate
Max salaried income tax rate threshold	PKR 4.1 mn	PKR 7.0 mn
Super Tax (non-banking, income > PKR 500 mn)	10.0%	8.0%
Super Tax (income ≤ PKR 500 mn)	Applicable	Abolished
236C advance tax (property sale)	4.5% – 5.5%	2.75% flat
236K advance tax (property purchase)	1.5% – 2.5%	1.25% flat
Export surcharge	2.0%	1.3%
IT/ITeS concessionary rate	0.25% (TY2026)	0.25% (extended TY2029)
Card payments abroad (advance tax)	5.0%	0.5%
Section 7E (deemed property income)	Applicable	Abolished
Capital Value Tax (overseas assets)	Applicable	Abolished
WH tax – independent professionals	Not categorized	15.0%
Social media/influencer WH tax	Not applicable	5% (final for non-residents)

Source (s): Budget Document, AAML Research

Fiscal Snapshot

PKR Bn	FY25B	FY26B	FY26R	FY27B	YoY	YoY (%)
Tax Revenue (FBR)	11,744	14,131	12,983	15,264	2,281	17.6%
Non - Tax Revenue	5,056	5,147	5,093	5,336	243	4.8%
Gross Revenue	16,801	19,278	18,076	20,600	2,524	14.0%
Less: Provincial Share	6,854	8,206	7,592	8,848	1,256	16.5%
Net Revenue	9,947	11,072	10,485	11,751	1,266	12.1%
Total Expenditure	17,036	17,573	15,642	18,771	3,129	20.0%
Current Expenditure	15,815	16,286	15,006	17,495	2,489	16.6%
Markup Payments	8,887	8,207	6,937	8,054	1,117	16.1%
Defence	2,194	2,550	2,588	3,000	412	15.9%
Federal Budget Deficit	(7,089)	(6,501)	(5,157)	(7,020)	1,863	36.1%
Provincial Surplus	921	1,464	1,379	1,794	415	30.1%
Overall Budget Balance	(6,168)	(5,037)	(3,778)	(5,226)	1,448	38.3%
Primary Balance	2,719	3,170	3,159	2,828	(331)	-10.5%
Consolidated Fiscal Balance (as % of GDP)	-5.4%	-3.9%	-3.0%	-3.6%		
Consolidated Primary Balance (as % of GDP)	2.4%	2.4%	2.5%	2.0%		
GDP	114,692	129,567	126,870	143,604	16,734	13.2%

Source (s): Budget Document, AAML Research

Fiscal Operations (as % of GDP)

as % of GDP	FY25	FY26B	FY26R	FY27B
Tax Revenue (FBR)	10.3%	10.9%	10.2%	10.6%
Non - Tax Revenue	4.4%	4.0%	4.0%	3.7%
Total Revenue	14.7%	14.9%	14.2%	14.3%
Total Expenditure	14.9%	13.6%	12.3%	13.1%
Current Expenditure	13.9%	12.6%	11.8%	12.2%
- Mark-Up Payments	7.8%	6.3%	5.5%	5.6%
- Defence	1.9%	2.0%	2.0%	2.1%
Federal Budget Balance	-6.2%	-5.0%	-4.1%	-4.9%
Overall Budget Balance	-5.4%	-3.9%	-3.0%	-3.6%
Primary Balance	2.4%	2.4%	2.5%	2.0%

Source (s): Budget Document, AAML Research

FBR Tax Revenue Receipts

Tax Revenue FBR (PKR Bn)	FY26B	FY26R	FY27B
I. Direct Taxes	6,902	6,432	7,613
Income Tax	6,811	6,331	7,481
Capital Value Tax	17	20	27
Workers Welfare Fund	26	8	22
Workers Profit Participation Fund	48	72	84
II. Indirect Taxes	7,229	6,551	7,651
Custom Duties	1,588	1,366	1,651
Sales Tax	4,753	4,334	4,927
Federal Excise Duty	888	851	1,073
Tax Revenue FBR (I + II)	14,131	12,983	15,264

Source (s): Budget Document, AAML Research

Current Expenditure

PKR Bn	FY26B	FY26R	FY27B
I. Mark-up Payments	8,207	6,937	8,054
Mark-up on Domestic Debt	7,197	6,007	6,983
Mark-up on Foreign Debt	1,009	931	1,071
II. Pension	1,055	1,055	1,169
Military	742	742	822
Civil	243	243	273
Federal Pension Fund	4	4	10
Pension Increase (Civil + Defence)	66	66	65
III. Defence Affairs & Services	2,550	2,588	3,000
Defence Services	2,550	2,588	3,000
IV. Grants & Transfers	1,928	1,971	2,680
Defence Services	150	150	152
Defence Services	1,778	1,821	2,528
V. Subsidies	1,186	1,157	1,091
VI. Running of Civil Government	971	1,021	1,071
VII. Provision for Emergency & Others	389	276	430
Current Expenditure (I to VII)	16,286	15,006	17,495

Source (s): Budget Document, AAML Research

Income Tax Slabs-wise Rates

Tax Slabs	FY26	FY27
Below PKR/- 600,000	Nil	Nil
PKR/- 600,000 to PKR/- 1,200,000	1% of Amount Exceeding PKR/- 600,000	1% of Amount Exceeding PKR/- 600,000
PKR/- 1,200,000 to PKR/- 2,200,000	PKR/- 6,000 + 11% Amount Exceeding PKR/- 1,200,000	PKR/- 6,000 + 11% Amount Exceeding PKR/- 1,200,000
PKR/- 2,200,000 to PKR/- 3,200,000	PKR/- 116,000 + 23% Amount Exceeding PKR/- 2,200,000	PKR/- 116,000 + 20% Amount Exceeding PKR/- 2,200,000
PKR/- 3,200,000 to PKR/- 4,100,000	PKR/- 346,000 + 30% Amount Exceeding PKR/- 3,200,000	PKR/- 316,000 + 25% Amount Exceeding PKR/- 3,200,000
PKR/- 4,100,000 to PKR/- 5,600,000	PKR/- 616,000 + 35% Amount Exceeding PKR/- 4,100,000	PKR/- 541,000 + 29% Amount Exceeding PKR/- 4,100,000
PKR/- 5,600,000 to PKR/- 7,000,000	PKR/- 1,141,000 + 35% Amount Exceeding PKR/- 4,100,000	PKR/- 976,000 + 32% Amount Exceeding PKR/- 5,600,000
Above PKR/- 7,000,000	PKR/- 1,631,000 + 35% Amount Exceeding PKR/- 4,100,000	PKR/- 1,424,000 + 35% Amount Exceeding PKR/- 7,000,000

Source (s): Budget Document, AAML Research

Super Tax Slabs-wise Rates

Tax Slabs	FY26	FY27
Up to PKR 150 mn	Nil	Nil
PKR 150 mn to PKR 200 mn	1.0%	Nil
PKR 200 mn to PKR 250 mn	1.5%	Nil
PKR 250 mn to PKR 300 mn	2.5%	Nil
PKR 300 mn to PKR 350 mn	3.5%	Nil
PKR 350 mn to PKR 400 mn	5.5%	Nil
PKR 400 mn to PKR 500 mn	7.5%	Nil
Income Exceeding PKR 500 mn	10.0%	8.0%

Source (s): Budget Document, AAML Research, **Banks, E&Ps, and Fertilizers pay 10% Super Tax regardless of income level**

SECTOR REFORMS AND TAX MEASURES



E&Ps

Impact

10% Super Tax on E&Ps remains intact.

Neutral

Customs concession On Operational Equipment Imports Extended to 2027

Positive

Refinery

Sales Tax exemption on capital goods for upgradation and overhaul of existing refineries

Positive

Customs Duty: 0% on refinery machinery

Positive

Income Tax exemption for deep conversion refineries continues - (20 Years for New Deep Conversion & 10 Years for Upgradation of Existing refineries)

Positive

OMCs

FED on Naphtha and Solvent Oil/ White Spirit - PKR 80 Per Liter

Negative

5% FED on Base Oil – Lubricants

Negative

PDL Target for FY27 has been budgeted PKR 1.677 Trillion vs. PKR 1.468 Trillion Compared to Last Year

Negative

Carbon Levy will be enhanced to PKR 5.00 Per Liter from FY27 from Current PKR 2.5 Liter

Negative

Pharmaceuticals

Removal of Duties on Imports of APIs for Chronic Disease Like Cancer

Positive

Sales Tax and FED on Essential Women Health items Proposed to be Completely Abolished

Positive

Source (s): Budget Document, AAML Research

Cements

Impact

The Federal Government has allocated a PKR 1,000 billion PSDP budget for FY27, with the largest portion allocated to infrastructure development.

Positive

Significant reduction in withholding taxes on property purchases from 2.5% to 1.25%. Tax on property sale reduced from 5.5% to 2.75%.

Positive

Super tax has been reduced from 10% to 8%, and is expected to support earning growth across cement sector.

Positive

Tax on deemed income from immovable property (Section 7E) abolished

Positive

PKR 71bn allocated for PM's Apna Ghar Scheme to boost mortgage financing for lower income groups.

Positive

Automobile

Extend exemption on import of CKD kits for electric vehicles by one year to 30-Jun-2027 supporting local EV assembly.

Positive

SUVs (2,000–3,000cc) and EVs priced above PKR 20mn will be subject to FED.

Negative

Hybrid vehicle sales tax increased to 18% (from 8.5% previously).

Negative

Environmental levy introduced: 10% on 2000–3000cc vehicles and 19.5% on 3000cc+ vehicles.

Negative

Tax on raw materials for local auto manufacturers reduced from 4% to 1% to support localization.

Positive

Import tax on vehicle parts for local assembly reduced from 11% to 5%.

Positive

Reduction in CD from 20% to 10% for special construction vehicles.

Positive

Power

Rs116.2 billion allocated for key power sector projects, including Dasu Hydropower, Tarbela 5th Extension, and Mohmand Dam Hydropower Project.

Positive

Source (s): Budget Document, AAML Research

Steel	Impact
Real Estate Sector Incentives could benefit long steel industry.	Neutral
Higher PSDP budget (PKR1 trillion) and infrastructure spending may boost construction activity and steel demand.	Positive
Lower property transaction taxes (purchase WHT: 2.5% → 1.25%, sale WHT: 5.5% → 2.75%) could support real estate and construction.	Positive
Information Technology	
Final Tax Regime (FTR) for IT exports extended for 3 years till FY'29.	Positive
The FTR of 0.25% on IT export income is proposed to be maintained.	Neutral
0.25% Export Development Surcharge on export income has been abolished.	Positive
Banking	
Super Tax rate maintained at 10% of income exceeding PKR 150 million, no change from FY2025-26.	Neutral
The withholding tax on international transactions made through credit and debit cards has been reduced from 5% to 0.5%.	Positive
Textile	
Export tax burden has been eased for exporters, with the rate under minimum tax rules reduced from 2.0% to 1.25% reducing cost of export-oriented financing.	Positive
Under the Export Facilitation Scheme, markup rate reduced to 4.5% from 19% and operational facility period extended from 9 to 18 months, resolving cash flow pressures and liquidity for exporters.	Positive
0.25% Export Development Surcharge on export income has been abolished.	Positive

Source (s): Budget Document, AAML Research

Revenue Measures

The Government has officially announced fixed tax Asaan scheme for retailers earning up to Rs200mn. The retailers will pay minimum Rs25k per annum or 1% of the sales.

Imposition of FED at Rs. 16500 from Rs. 10000 per kg e-liquid for electronic cigarettes. This measure also remove the highest possible tariff of 65% of the retail price imposed under the previous regime.

A 5% withholding tax regime has been introduced on revenues received by digital content creators and social media influencers from platforms such as YouTube, Facebook, Instagram and TikTok.

The reduced minimum tax rate for distributors, dealers, sub-dealers and wholesalers of specified sectors has been increased from 0.25% to 0.5%, subject to prescribed documentation requirements

The exclusion available from enhanced tax rates applicable to non-ATL persons on capital gains from listed securities has been withdrawn to encourage tax compliance and return filing.

Minimum tax rate for distributors and wholesalers increased from 0.25% to 0.5%.

Source (s): Budget Document, AAML Research

Relief Measures

The government has proposed the removal of the first six super tax slabs. Moreover, income exceeding Rs500mn will now be subject to a super tax rate of 8%, compared to the previous rate of 10%

Tax collection on export proceeds (1% withholding tax and 1% advance tax) has been reduced from 2% to 1.25% to encourage exports

Currently applicable 2% Advance Income Tax & Minimum Income Tax to be reduced to 1.25% collected as Minimum Tax.

WHT on international Credit/Debit Card Transactions to be reduced from 5% to 0.5%.

Income of qualifying Special Purpose Vehicles established for asset-backed securitization has been exempted to facilitate capital market development

The turnover threshold for exemption from withholding tax for small traders has been increased from PKR 100Mn to PKR 200Mn.

The government has allocated Rs71bn under the Apna Ghar Housing Scheme, which will provide concessional housing financing at a rate of 5%

Source (s): Budget Document, AAML Research

Other Measures

Tax collection on export proceeds (1% withholding tax and 1% advance tax) has been reduced from 2 % to 1.25% in order to encourage exports.

Advance tax on foreign transactions made through debit, credit and prepaid cards has been reduced from 5% to 0.5%.

Fixed tax regime introduced for retailers with annual sales up to Rs. 200mn. Tax to be collected through a 1% adjustable withholding tax mechanism.

Imposition of FED at Rs16,500 from Rs10,000 per kg e-liquid for electronic cigarettes

A withholding tax has been introduced on revenues received through digital platforms (YouTube, Facebook, Instagram and TikTok)

FED on business-class international travel is being abolished

7% increase in pensions for federal retired employees.

The reduced minimum tax rate for distributors, dealers, sub-dealers and wholesalers of specified sectors has been increased from 0.25% to 0.5%.

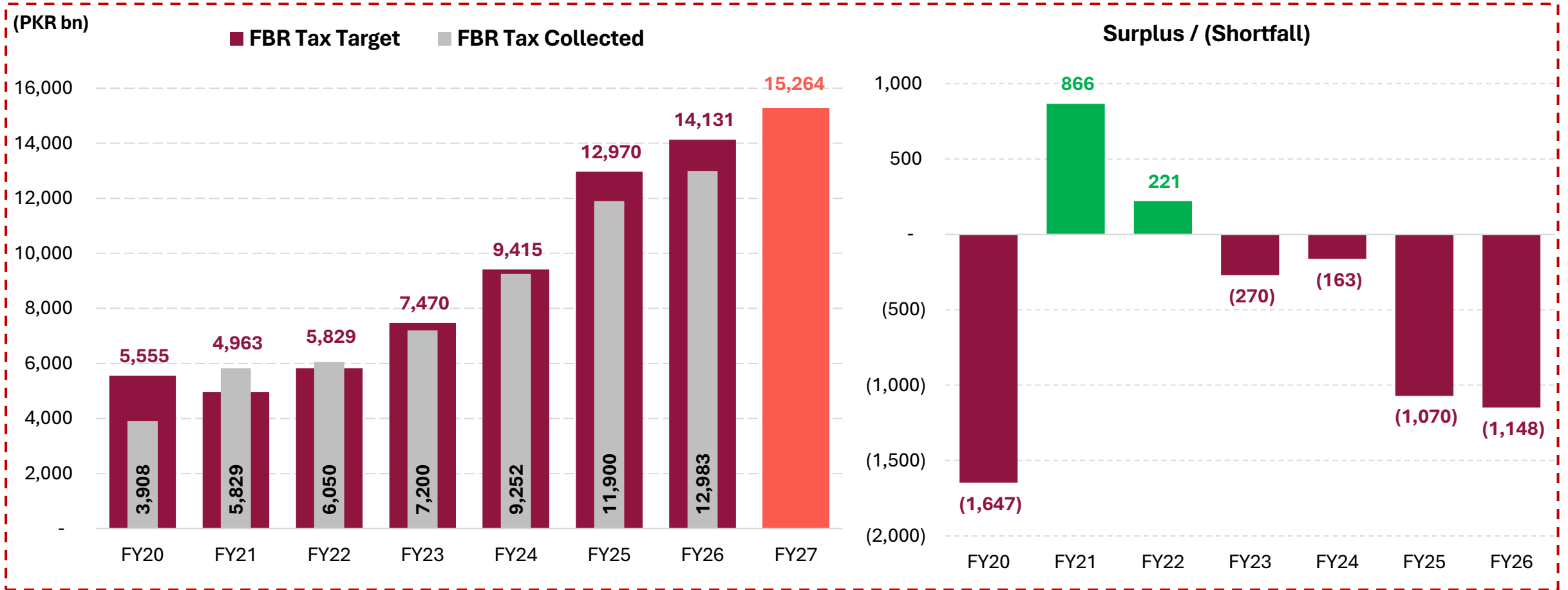
Extension of Exemption on Import of CKD kits for electric vehicles for one year extended to FY2028.

Source (s): Budget Document, AAML Research

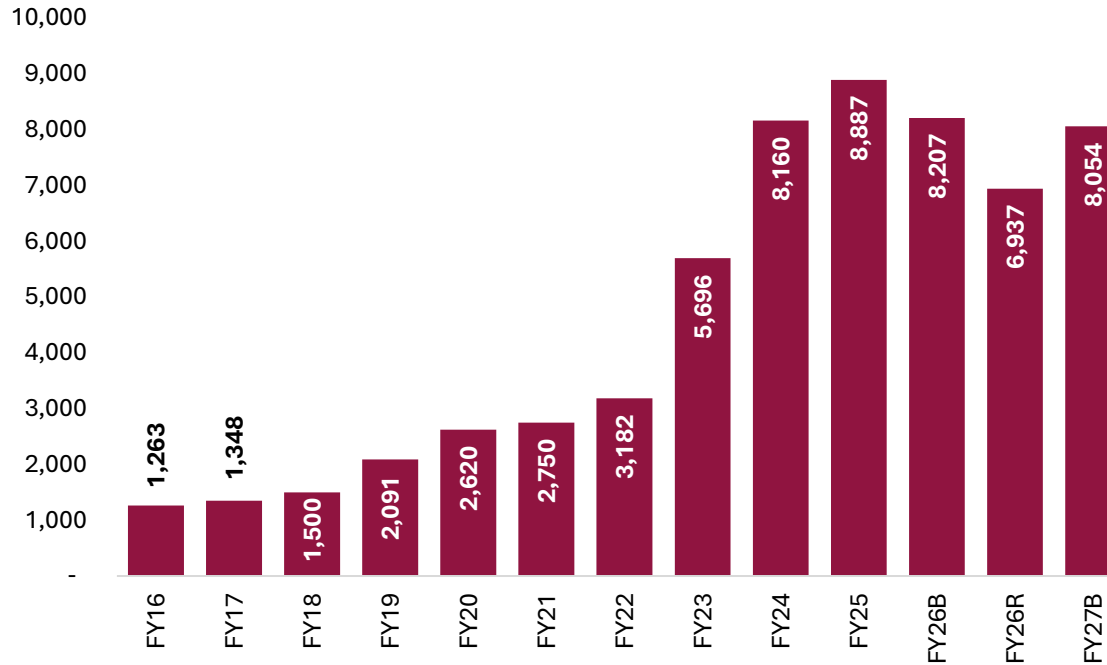
FOCUS CHARTS



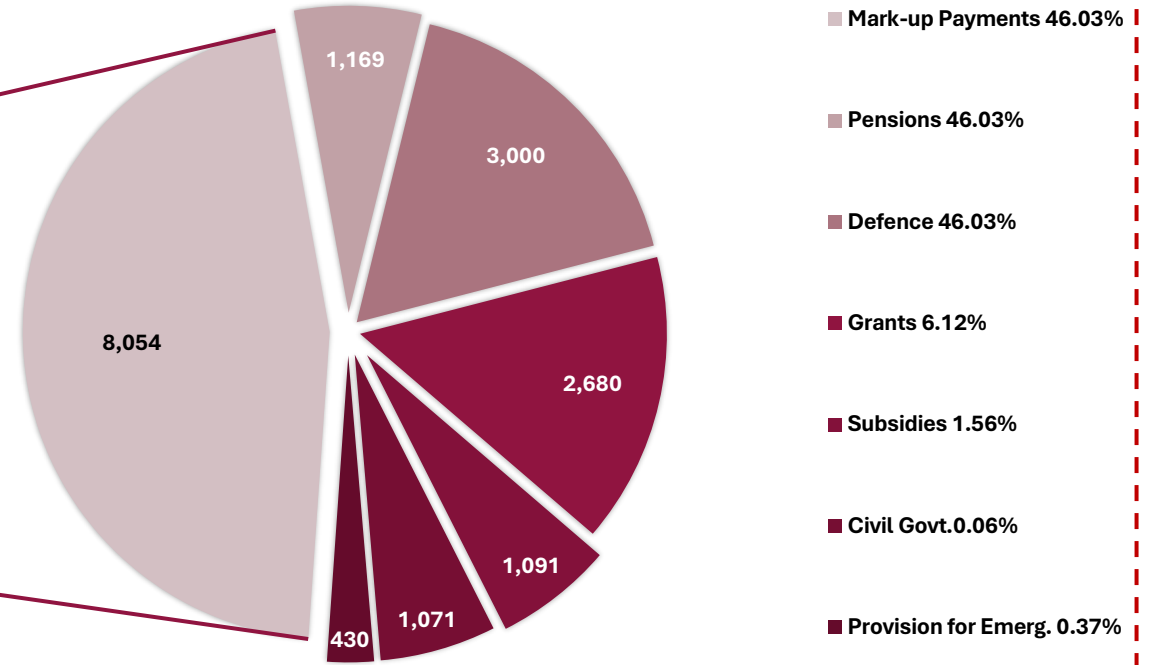
FBR Tax Collection (Surplus / Deficit)



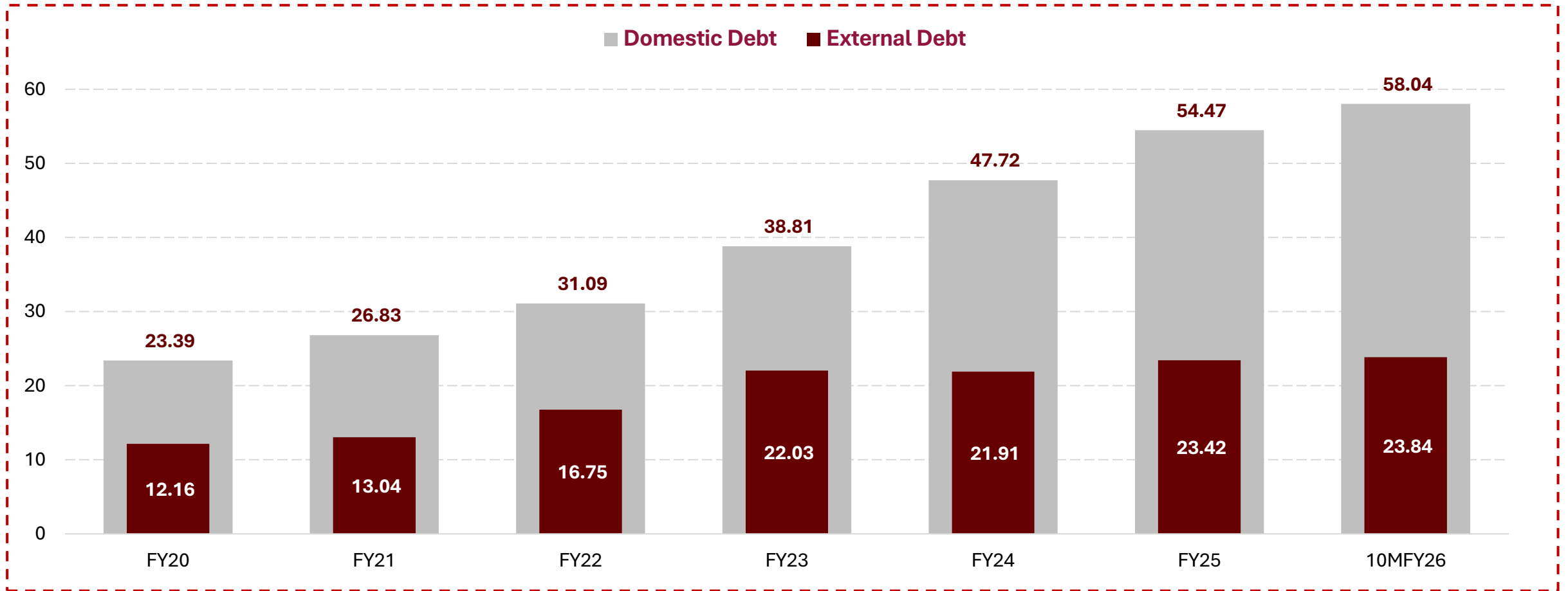
Mark-up Payments (PKR bn)



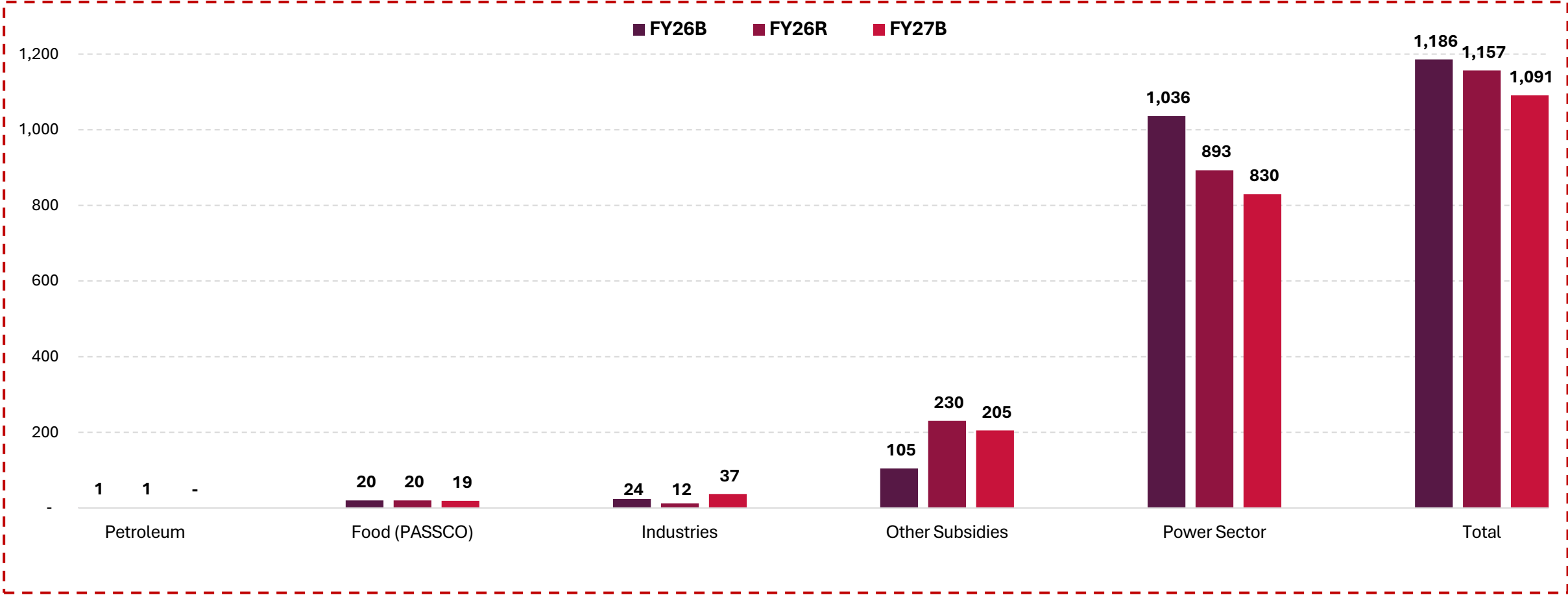
Current Expenditure Breakup



Total Central Govt. Debt (PKR trn)

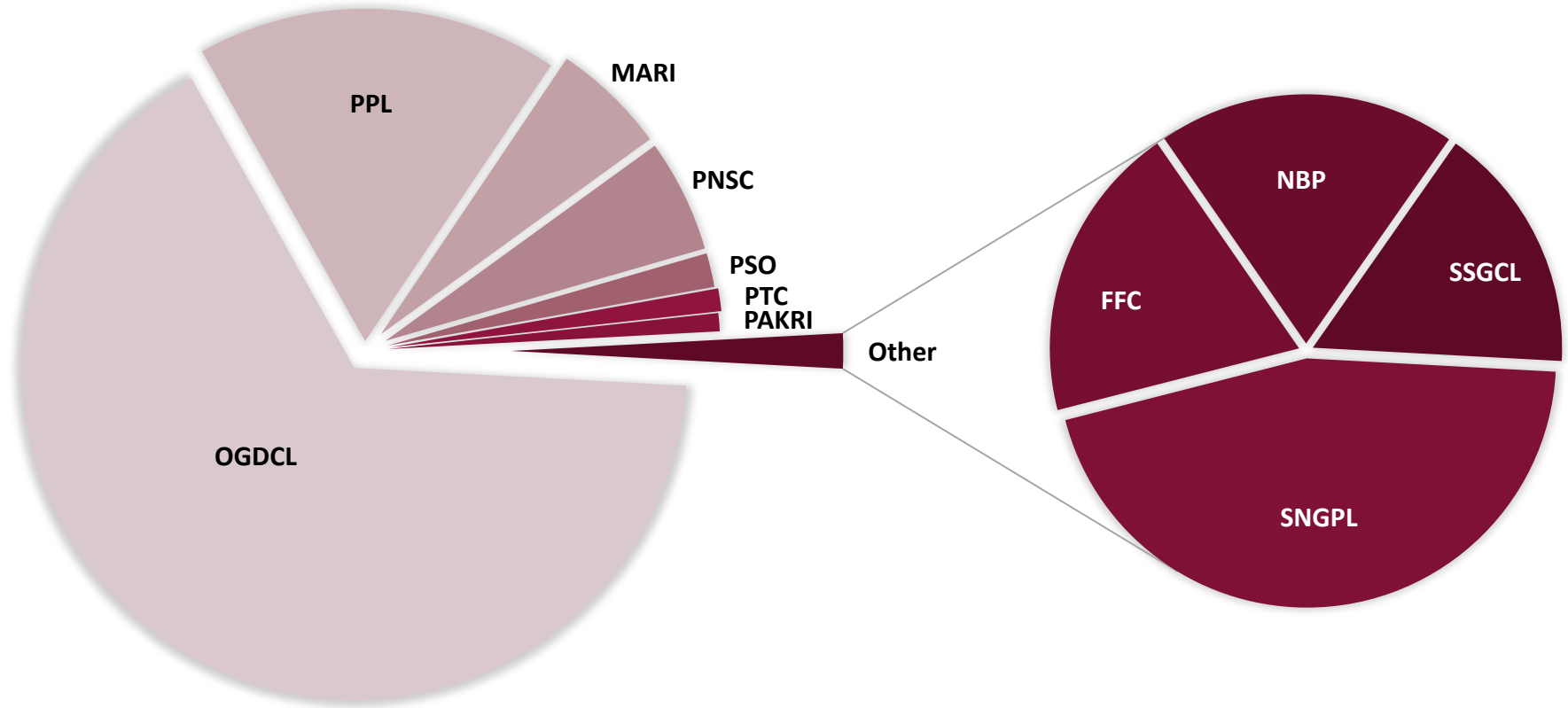


Subsidies (PKR mn)



Dividend on Govt. Share in Listed Space

PKR mn	FY27B
OGDCL	60,000
PPL	16,000
MARI	5,070
PNSC	5,000
PSO	1,500
PTC	1,000
PAKRI	800
SNGPL	700
FFC	300
NBP	300
SSGCL	250
Total	90,920





Business

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Mission

Map



Timeline

Team



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