

ICAP  
**MODEL FEDERAL  
BUDGET 2026-2027  
AND PROPOSALS**  
FOR GROWTH OF PAKISTAN'S ECONOMY



Economic Advisory & Fiscal Laws Committee of ICAP





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## PREAMBLE – OBJECTIVE OF THE PROPOSAL

The Institute of Chartered Accountants of Pakistan (ICAP) is an autonomous body established through legislation in 1961 for the regulation and advancement of the accountancy profession in Pakistan. Over the past six decades, the Institute has played a pivotal role in shaping the nation's professional and financial landscape by fostering integrity, competence, and leadership among its members. With over 14,000 qualified professionals serving across the public and private sectors both within Pakistan and abroad, ICAP continues to contribute to enhancing transparency, accountability, and good governance in business and government institutions alike.

As the custodian of the accountancy profession, ICAP's mission extends beyond professional regulation to active participation in national economic discourse. Through its technical expertise in accounting, finance, taxation, and governance, the Institute supports the formulation of evidence-based policies that promote financial discipline and sustainable growth. This facilitative role benefits businesses, regulators, and policymakers, strengthening the foundations of Pakistan's economic and fiscal management framework.

In line with this mandate, the Model Budget 2026–27 has been prepared as a policy-oriented document aimed at supporting the government in achieving macroeconomic stability, fiscal prudence, and inclusive growth. It draws upon the collective input of professionals, sectoral experts, and economists to develop recommendations for structural reforms that can unlock productivity, foster investment, and build resilience against global and domestic challenges.

The proposals presented herein are not intended as short-term responses to immediate fiscal pressures but as part of a long-term reform strategy focused on sustainable economic transformation. With up-to-date data, projections, and analytical insights, the document seeks to highlight practical measures that can enhance revenue mobilization, improve public spending efficiency, and strengthen economic fundamentals. The underlying objective is to contribute towards a forward-looking, transparent, and growth-oriented federal budget that supports national development and improves the welfare of Pakistan's citizens.

## MESSAGE FROM THE PRESIDENT



The Institute of Chartered Accountants of Pakistan (ICAP) remains committed to supporting the Government of Pakistan in strengthening the country's economic direction through informed, forward-looking policy engagement. I am pleased to present the Model Budget and Proposals for Economic Reforms 2026–27, developed to assist policymakers in navigating today's complex global and domestic challenges.

In a time of global economic volatility and rising fiscal pressures, the need for a coherent, disciplined, and growth-oriented framework has never been greater. This document focuses on promoting investment, expanding the tax base, enhancing productivity, and ensuring fiscal stability while safeguarding social and development priorities.

The proposals reflect extensive deliberations and professional insights from ICAP members, guided by the principles of transparency, efficiency, and sustainability. They underscore the importance of institutional reforms, sound governance, and coordinated action to achieve inclusive and durable economic growth.

I commend the Economic Advisory & Fiscal Laws Committee and all contributors for their dedication and expertise. ICAP reaffirms its continued partnership with the Government of Pakistan in advancing fiscal strength, economic stability, and national prosperity.

**Muhammad Samiullah, FCA**

President

The Institute of Chartered Accountants of Pakistan

## MESSAGE FROM THE CHAIRMAN

### Economic Advisory & Fiscal Laws Committee



On behalf of the Economic Advisory and Fiscal Laws Committee, I am pleased to contribute to the Institute of Chartered Accountants of Pakistan's Budget Proposals for the Federal and Provincial Budgets 2026–27.

These proposals are the outcome of detailed technical analysis and collaborative efforts of the Committee members, focusing on key fiscal challenges and opportunities within the existing taxation framework. Particular attention has been given to rationalizing tax provisions, improving administrative efficiency, and promoting greater clarity and consistency in the application of fiscal laws.

The Committee has endeavored to put forward pragmatic recommendations aimed at strengthening documentation, facilitating compliance, and addressing structural gaps in the current system. The objective is to support the development of a more coherent, efficient, and responsive tax regime.

I would like to acknowledge the dedication and valuable contributions of the Committee members and conveners, whose expertise has been instrumental in shaping these proposals. I am grateful to all members of the Committee, especially Mr. Sohail Nisar, Mr. Haider Patel, Mr. Mansoor Zaigham, Mr. Tahir Sharif, Mr. Sajid Hussain, and Mr. Asif Mehdi Rizvi, for their valuable contributions in the finalization of this document.

A special note of thanks is extended to Dr. Vaqar Ahmed for his exceptional guidance and continued support throughout the process.

The Committee remains committed to supporting the Institute and relevant authorities in advancing meaningful fiscal reforms.

#### **Zeeshan Ijaz, FCA**

Chairman – Economic Advisory & Fiscal Laws Committee  
The Institute of Chartered Accountants of Pakistan

## Present Economic Overview

**Pakistan's economy sustained the hard-won stabilization during fiscal year 2025-26, though a sharply altered global environment is now testing the resilience of that recovery.**

Growth outturned stronger than anticipated in the previous fiscal year, the country posted its first current account surplus in over a decade, and foreign exchange reserves were rebuilt to levels that provide a meaningful buffer against external shocks. The Ministry of Finance has described the near-term outlook as cautiously optimistic, noting that the economy is better positioned to absorb external pressures than it was a year ago. However, the escalation of hostilities in the Middle East since late February, the consequent disruption of shipping through the Strait of Hormuz, and the resulting surge in global energy prices have introduced significant headwinds. The balance of risks is now firmly tilted to the downside, and the optimism is heavily contingent on steady macroeconomic management and the navigation of a global environment that remains exceptionally uncertain.

**Real GDP expansion has been broad based, with manufacturing registering its strongest expansion in several years and industrial momentum becoming a defining feature of the current fiscal year.**

The recovery has been led by automobiles, wearing apparel, cement, petroleum products, food, and textiles, with the construction sector also showing vigor through rising dispatches and domestic demand. The automobile sector's momentum has been particularly pronounced, reflecting both a revival of consumer confidence and improved supply chain conditions. On the agricultural front, the Rabi season has progressed satisfactorily, with wheat production targeted at a higher level than the previous year, agricultural credit disbursement rising noticeably, and imports of machinery and implements signaling greater farm-level mechanization. Fertilizer offtake has also recorded healthy growth, supporting yield prospects.

**Inflation re-emerges as a serious concern after touching a cyclical low earlier in the fiscal year.**

The pass-through of higher global energy prices and adjustments in administered tariffs is feeding directly into transportation costs and indirectly into food distribution and logistics. Core inflation, which excludes food and energy items, remains persistent, reflecting underlying demand pressures, exchange rate pass-through, and input cost rigidity in manufacturing and services. The International Monetary Fund has revised Pakistan's inflation forecast upward for both the current and the coming fiscal year, citing the drag from elevated global energy prices and potential exchange rate pressures. A potential super El Niño event, which meteorological agencies assess as having a significant probability of developing during the northern hemisphere summer, introduces additional upside risk to food inflation through its likely suppression of monsoon rainfall across the subcontinent.

**Fiscal discipline has been the standout feature of the current fiscal year, with the fiscal deficit contained at a negligible share of output and the primary surplus running comfortably ahead of programme targets.**

Total federal expenditure has contracted, driven by a decline in current spending, which in turn has reflected a sharp reduction in interest payments as the benefits of monetary easing have flowed through to the public finances. Development expenditure has risen, consistent with the stated fiscal priority of protecting growth-enhancing outlays. However federal PSDP faced cuts as allocations had to be made to sustain social protection spending to protect the poor from the fallout of the middle east crisis. On the revenue side, tax collections have grown at a healthy pace, with direct taxes expanding faster than indirect taxes. The government has reaffirmed its commitment to achieving the underlying primary balance target agreed with the Fund, underpinned by continued broadening of the tax base rather than increases in rates, and the budget for the coming fiscal year is expected to legislate the removal of several dozen outdated non-tariff barriers as part of a broader trade liberalization effort.

**The external position has strengthened markedly, with the current account posting a sizeable surplus in March and turning the cumulative nine-month position positive, supported by robust remittance inflows and a continued expansion in information technology exports.**

Remittances reached their highest monthly inflow of the fiscal year, bolstered by seasonal factors associated with Ramadan and Eid, although they registered a modest year-on-year decline, partly reflecting emerging economic strains in key host economies. Gross liquid foreign exchange reserves have risen to multi-year highs, with the central bank's holdings providing several months of import cover, a level that strengthens the economy's capacity to withstand external shocks. The reserve position has been strengthened by the receipt of deposits from Saudi Arabia. However, the current account deficit is projected to widen in the coming fiscal year, reflecting the combined effect of higher import costs, particularly for energy, and the normalization of remittance inflows.

**Monetary policy has entered a delicate phase, with the central bank holding the policy rate steady through the first quarter of the calendar year at 10.5 percent, even as rising energy costs and a deteriorating inflation outlook have prompted markets to price in the possibility of a tightening.**

The Monetary Policy Committee maintained its cautious stance in January and again in March, judging that a positive real interest rate environment remained necessary to anchor inflation expectations. Since then, however, the further increase in global crude prices, the continued disruption of Hormuz shipping, and a domestic supply shock from the shutdown of a major refinery in the north have materially altered the inflation outlook. Market surveys indicate that participants are now divided on the direction of the next policy move, with a substantial minority expecting a rate increase at the upcoming meeting. Private sector credit has responded positively to the easing cycle witnessed earlier in the fiscal year, with fixed investment loans rising strongly, and any tightening will need to be carefully calibrated to avoid prematurely choking the recovery in capital formation.

**The energy sector has emerged as the most acute locus of macroeconomic vulnerability, with the surge in global crude prices compounded by a major domestic supply disruption.**

The effective closure of the Strait of Hormuz to normal commercial shipping has kept the global benchmark crude price elevated through the spring, with further increases anticipated in the near term. Simultaneously, fuel demand has slumped unexpectedly, with diesel sales well below projections despite the peak harvest season, creating financial strains across the oil marketing and refinery ecosystem. The government has responded by establishing a high-level committee on strategic petroleum reserves, with a mandate to deliver an implementation roadmap within weeks, marking a long-overdue step towards building a buffer against external energy shocks.

**Looking ahead to the coming fiscal year 2026-27, the economic outlook is one of guarded caution, contingent upon steady macroeconomic management and the navigation of a global environment that remains exceptionally uncertain.**

Multilateral institutions project growth to remain below the government's own target, reflecting the drag from elevated energy costs and a less supportive external backdrop. The fiscal consolidation path, while credible, will be tested by a heavy external debt repayment schedule and the imperative to protect social spending. The inflation trajectory will be determined in large measure by the course of the Middle East conflict and the timing of any normalization of Hormuz transit. The experience of the current fiscal year has demonstrated that Pakistan's economy can absorb significant shocks when policy buffers are rebuilt and reforms are pursued consistently. The federal budget for the coming year, expected in June, will be a defining test of whether this hard-won resilience can be translated into a durable and inclusive expansion.

## ICAP MODEL BUDGET 2026–27 (PKR BILLION)

Items	Note	FY2025–26 (Prog.) (A)	ICAP Model Budget (FY27) (B)	Revised Govt. Budget (FY27) (C)	% Variation (B/A)	% Variation (C/A)
<b>Receipts</b>						
<b>FBR Tax Revenue</b>	1	13,450	14,629	15,232	8.8	13.2
<b>Non-Tax Revenue (Federal)</b>	2	5,058	5,412	4,797	7.0	-5.2
<b>Gross Revenue Receipts (A)</b>		18,508	20,041	20,029	8.3	8.2
<b>Less: Transfer to Provinces (NFC Award)</b>	3	7,773	8,417	8,612	8.3	10.8
<b>Net Revenue Receipts – Federal Share (C = A–B)</b>		10,735	11,624	11,417	8.3	6.4
<b>Current Expenditure</b>						
<b>Mark-up Payments (D)</b>	4	8,225	8,230	8,251	0.1	0.3
<b>Defence Affairs and Services</b>	5	2,575	2,880	2,874	11.8	11.6
<b>Pensions</b>		1,055	1,060	1,060	0.5	0.5
<b>Grants and Transfers to Provinces and Others</b>	6	1,889	1,962	1,962	3.9	3.9
<b>Subsidies</b>	7	1,050	1,235	1,007	17.6	-4.1
<b>Provision for Emergency and Contingencies</b>	8	65	445	440	584.6	576.9
<b>Running of civil govt.</b>		971	971	1,202	0.0	23.8
<b>Total Current Expenditure (E)</b>		15,830	16,783	16,796	6.0	6.1
<b>Development Expenditure</b>						
<b>Federal PSDP</b>	9	837	840	885	0.4	5.7
<b>Net Lending and Other Development</b>		96	94	107	-2.1	11.5
<b>Total Development Expenditure (F)</b>		933	934	992	0.1	6.3
<b>Total Expenditure (G = E+F)</b>		16,763	17,717	17,788	5.7	6.1
<b>Federal Balance (H = C– G)</b>		-6,028	-6,093	-6,371	1.1	5.7
<b>Primary Balance (I = D+H)</b>	10	2,197	2,137	1,880	-2.7	-14.4
<b>GDP (market prices)</b>		129,567	140,664	140,664	8.6	8.6
<b>Fiscal Balance as % of GDP</b>		-4.7	-4.3	-4.5	-6.9	-2.6
<b>Primary Balance as % of GDP</b>		1.7	1.5	1.3	-10.4	-21.2

**Note 1 (FBR Tax Revenue).** The ICAP projection of Rs 14,629 billion assumes that, under the current difficult environment, it will be challenging for FBR tax revenue to exceed 10.4 percent of GDP, the level observed in FY2025-26. The government is expected to agree to higher targets with the IMF, but the ICAP model takes a more cautious view.

**Note 2 (Non-Tax Revenue – Federal).** The ICAP estimate of Rs 5,412 billion is higher than the government's projection because it assumes that taxes on petroleum cannot be lowered significantly. The government has been trying to absorb the effects of the Middle East crisis, and that degree of relief may not be sustainable during FY2026-27.

**Note 3 (Transfer to Provinces – NFC Award).** Under the ICAP model, the federal transfer to provinces is assumed to remain at the same share as in FY2025-26, equivalent to 42 percent of gross federal revenue receipts.

**Note 4 (Mark-up Payments).** Mark-up payments under the ICAP budget are slightly lower than the government's projection because some relief is expected. International lenders are considering measures to bail out heavily indebted countries from the economic effects of the Middle East crisis.

**Note 5 (Defence Affairs and Services).** Defence spending under the ICAP projection is on the higher side due to the security situation on both the western and eastern borders, including ongoing tensions with Afghanistan. The allocation reflects a realistic assessment of the country's defence needs in a volatile region.

**Note 6 (Grants and Transfers to Provinces and Others).** This line captures all federal grants and transfers outside the NFC Award, including support for social safety nets. The ICAP projection is modestly higher than the FY2025-26 level, consistent with continued spending on the Benazir Income Support Programme and related targeted assistance.

**Note 7 (Subsidies).** The ICAP model assumes higher spending on subsidies relative to the government's projection because of an expected rise in inflation and poverty following a slowdown in economic activity. A larger subsidy envelope is needed to absorb the shock for vulnerable households.

**Note 8 (Provision for Emergency and Contingencies).** The ICAP budget sets aside a substantially larger contingency reserve—Rs 445 billion—because of the protracted Middle East crisis and the possibility of an early monsoon. Both factors could generate unforeseen fiscal demands, and the reserve is intended to absorb them without derailing the primary surplus.

**Note 9 (Federal PSDP).** The ICAP projection assumes only a minor increase in the federal Public Sector Development Programme because spending on social protection and other contingencies may have to be increased. The resources available for fresh development projects remain constrained under the current fiscal consolidation path.

**Note 10 (Overall Fiscal Prudence).** The ICAP Model Budget delivers a narrower fiscal deficit and a higher primary surplus than the government's projected outturn, despite the more cautious revenue assumptions. This outcome is achieved not by a single large adjustment but by a combination of prudent choices on both sides of the ledger. On the revenue side, the ICAP model assumes that the government will be unable to sustain lower petroleum levies through the fiscal year, thereby generating higher non-tax receipts that partially offset the more conservative FBR target. On the expenditure side, the ICAP model restrains the running of the civil government to the same nominal level as the previous year, resists any increase in development spending beyond a token amount, and trims mark-up payments slightly on the assumption that international lenders will offer some relief. These savings, together with a marginally lower provincial transfer out of the gross revenues, more than compensate for the higher allocations to defence, subsidies, and the contingency reserve that the ICAP model deems unavoidable. As a result, the ICAP primary surplus stands at 1.5 percent of GDP, exceeding the government's projected 1.3 percent, and the overall fiscal deficit is contained at 4.3 percent of GDP compared with the government's 4.5 percent. The ICAP framework thus demonstrates that a credible path to fiscal consolidation remains available even in a difficult global environment, provided that austerity in non-essential spending is paired with resilience in non-tax revenue and a realistic assessment of tax-collection capacity.

## RISKS TO THE ICAP MODEL BUDGET FY 2026–27

**The ICAP Model Budget for FY2026/27 rests on a set of assumptions about revenue generation, expenditure containment, and a macroeconomic environment that, while difficult, remains orderly.**

The following statement identifies the principal risks that could cause the actual fiscal outcome to deviate materially from the ICAP projection. These risks are predominantly external in origin but transmit powerfully through domestic energy prices, the exchange rate, interest costs, and political economy channels. The statement of risk is organized around the main transmission mechanisms rather than individual line items.

**The most immediate and consequential risk to the ICAP projections stems from the prolonged closure of the Strait of Hormuz and the absence of a durable ceasefire between the United States and Iran**

This together keeps global crude prices far above the levels embedded in both the ICAP and IMF budget baselines. Closely linked to the energy price risk is the danger that the subsidy envelope proves wholly inadequate, breaking the single largest fiscal assumption in the ICAP model.

**On the revenue side, the ICAP projection of FBR collections, which is below the IMF's proposed target, faces a considerable risk of shortfall itself.**

The FBR missed its nine-month FY2025/26 target, with the Middle East conflict alone erasing an estimated Rs 100 billion in March 2026 through disrupted gas supplies to fertilizer plants and lower import stage collections. The IMF has not lowered the FY2025/26 annual target, and the persistent pattern of quarterly shortfalls raises serious doubts about the tax machinery's capacity to achieve even the more modest ICAP goal.

**Monetary policy faces a sharp dilemma that could push interest payments higher.**

The growth outlook itself is subject to considerable uncertainty, with implications for the tax base, employment, and social stability that the ICAP model treats as largely exogenous. A compounding risk, and one that is difficult to price into budget forecasts, is the possibility of a super El Niño event during the July to September 2026 window, which meteorological agencies assess with a significant probability. Political and implementation risks, though softer in nature, could prove decisive. Finally, the entire ICAP edifice is premised on the maintenance of the IMF programme through FY2027, an assumption that cannot be taken for granted.

**The ICAP model demonstrates that a credible consolidation path exists, but its realisation depends on steady macroeconomic management, continued external support, and a measure of geopolitical luck that is far from assured.**

## PROPOSED MEASURES FOR ECONOMIC RECOVERY

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## 1. EXECUTIVE SUMMARY

**This analysis presents a comprehensive economic reforms agenda for the federal budget FY 2026–27, intended for consideration by the federal government and parliamentary committees.**

The proposals, collated from a wide range of ICAP and sectoral experts, address the critical structural constraints impeding Pakistan's long term growth trajectory. The upcoming fiscal year is pivotal; while recent stabilization efforts have yielded a measure of macroeconomic calm, the economy remains acutely vulnerable to external shocks, particularly from the ongoing Middle East conflict and its attendant energy price volatility. The FY 2026–27 budget must therefore navigate a narrow path between adhering to the fiscal discipline required under the International Monetary Fund (IMF) Extended Fund Facility (EFF) and investing in the structural drivers of productivity and export competitiveness.

**The overarching objective of this analysis is to pivot the fiscal policy framework from short term crisis management towards building resilience and a medium-term growth strategy centered on export diversification, agricultural productivity, energy sector viability, and digital transformation.**

The global economic backdrop, as projected by the World Bank and IMF, suggests a period of subdued growth and heightened uncertainty, underscoring the need for Pakistan to accelerate domestic reforms to build resilience. This document outlines specific, actionable recommendations across agriculture, energy, construction, finance, digital economy, and manufacturing, all anchored in the imperative of broadening the tax base, rationalizing expenditures, and improving the efficiency of public resource allocation. The successful implementation of these proposals, aligned with the government's commitments under the ongoing IMF programme, can help Pakistan transition from a cycle of recurrent balance of payments crises to a more stable and inclusive growth path.

**The proposals herein are presented with a deliberate focus on structural, rather than cyclical, interventions.**

Recognizing the significant fiscal constraints and the need to achieve a primary balance target<sup>1</sup> of 2.0 percent of GDP in FY27 as agreed with the IMF, the recommendations prioritize regulatory streamlining, institutional strengthening, and targeted incentives over broad based subsidies or tax giveaways. The Ministry of Finance's cautious optimism regarding the economic outlook is noted, yet this submission argues that this optimism can only be realized through the decisive execution of a reform agenda that tackles long standing distortions in the power sector, revives a deindustrializing manufacturing base, and unleashes the potential of a young, digitally native population. The budget for FY2026–27 represents a crucial opportunity to signal policy credibility and lay the groundwork for the higher, more sustainable growth of 5 to 6 percent that Pakistan requires to absorb its growing labour force.

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<sup>1</sup> International Monetary Fund (IMF): Staff-level agreement for the third review of the Extended Fund Facility (March 2026).

## 2. MACROECONOMIC CONTEXT AND OUTLOOK FOR FY 2026–27

**Pakistan's economy enters FY2026–27 having regained a measure of stability after a turbulent period, but the outlook is overshadowed by significant external and domestic risks.**

The World Bank projects Pakistan's GDP growth to rise modestly to 3.4 percent in FY27, up from an estimated 3.0 percent in FY26, driven largely by a recovery in agricultural output.<sup>2</sup> The State Bank of Pakistan (SBP) offers a more optimistic assessment, projecting growth in a range of 3.75 to 4.75 percent for FY26, with momentum expected to carry into the next fiscal year, supported by easing financial conditions and a reduction in the Cash Reserve Requirement to 5 percent.<sup>3</sup> However, the IMF's latest World Economic Outlook (WEO) paints a more sobering picture, downgrading Pakistan's growth forecast for FY27 to 3.5 percent, a reflection of the anticipated drag from higher global energy prices and a less favourable external environment.<sup>4</sup>

**Inflationary pressures, while having eased considerably from their peaks, are expected to remain persistent and present a key policy challenge for FY27.**

The SBP projects inflation to remain within its target range of 5 to 7 percent for most of FY26 and FY27, underpinned by a prudent monetary policy stance and continued fiscal consolidation. The Ministry of Finance, in its latest economic outlook, describes the near-term inflation trajectory as "cautiously optimistic," with expectations of 7.5 to 8.5 percent in early 2026. However, the IMF's assessment is more pessimistic, forecasting that Consumer Price Index (CPI) inflation will rise to 8.4 percent in 2027, up from 7.2 percent in the current year, driven by the pass through of elevated global energy costs and potential exchange rate pressures. This divergence in forecasts highlights the acute vulnerability of Pakistan's price stability to developments in the global oil market, where Brent crude is currently trading above \$100 per barrel amid persistent disruptions in the Strait of Hormuz.

**The external sector position, while currently manageable, is projected to come under renewed strain in FY2026–27 as import demand recovers and the terms of trade potentially worsen.**

The current account deficit for FY26 is expected to remain contained at between 0 and 1 percent of GDP, with a higher trade deficit being partly offset by robust workers' remittances and planned official inflows. The SBP's foreign exchange reserves are projected to rise to around \$18 billion by June 2026, providing import cover of close to three months. Looking ahead to FY27, however, both the World Bank and the IMF anticipate a widening of the current account deficit. The IMF has more than doubled its projection for the deficit in FY27 to 0.9 percent of GDP, or approximately \$5 billion, reflecting higher import demand associated with strengthening growth and the normalization of remittance inflows. This widening deficit, against the backdrop of a heavy external debt repayment schedule that includes a \$3.5 billion obligation to the United Arab Emirates, will necessitate continued vigilance in external account management and a focus on boosting export earnings.

**The fiscal framework for FY2026–27 will be tightly constrained by the government's commitments under the ongoing \$7 billion IMF Extended Fund Facility, which now includes 75 structural and policy benchmarks.**

A key fiscal requirement is that the federal budget be approved by the National Assembly in full alignment with IMF programme parameters, marking the second consecutive year of such legislative alignment. The primary fiscal target is to achieve an underlying primary balance surplus of 2 percent of GDP in FY27, a goal that demands both a significant expansion of the tax base and continued restraint on current expenditures.

<sup>2</sup> World Bank. (2026). *Global Economic Prospects, January 2026*. Washington, DC: World Bank Group. Retrieved from <https://www.worldbank.org/en/publication/global-economic-prospects>

<sup>3</sup> State Bank of Pakistan. (2026). *Monetary Policy Report, February 2026*. Karachi: State Bank of Pakistan.

<sup>4</sup> International Monetary Fund. (2026). *World Economic Outlook, April 2026*. Washington, DC: International Monetary Fund.

The government has indicated that the budget will focus on broadening the tax base rather than increasing rates, with sectors such as agriculture, retail, real estate, and information technology being brought more fully into the tax net. The removal of 70 outdated non-tariff barriers, identified from a mapping of 2,662 such restrictions, is also planned as part of a broader trade liberalization effort that will see the weighted average tariff reduced from 10.7 percent to around 9.5 percent.

**Monetary policy is expected to remain on a cautious easing path, with the SBP carefully balancing the need to support growth against persistent inflation risks.**

The policy rate currently stands at 10.5 percent, having been held steady in January 2026 as the Monetary Policy Committee assessed the balance of risks. While analysts anticipate further rate cuts in the coming months, the stickiness of core inflation, which is projected at around 10 percent year on year, and the uncertain global energy price outlook are likely to limit the pace and extent of monetary easing. The SBP's commitment to maintaining positive real interest rates will continue to shape the monetary policy stance, with implications for private sector credit growth and investment activity. The development of a centralized credit ecosystem and the strengthening of financial inclusion will be essential complements to monetary policy in ensuring that the benefits of easing are transmitted effectively to productive sectors of the economy.

### 3. SECTORAL POLICY PROPOSALS FOR FY2026–27

#### 3.1. Agriculture and Food Security: Raising Productivity and Climate Resilience

**Pakistan's agriculture sector, which accounts for nearly a quarter of GDP and employs over a third of the labour force, remains beset by low productivity, inefficient water use, and a fragmented policy environment.**

The World Bank's projection of 3.4 percent growth for FY27 hinges in part on a recovery in agricultural production following the 2025 floods, yet the underlying structural weaknesses of the sector persist. The potential onset of El Niño conditions from mid-2026 introduces significant downside risk to agricultural output, particularly for water intensive crops such as wheat and rice. Without sustained investment in water management, seed technology, and rural infrastructure, the sector will remain vulnerable to climate shocks and unable to meet the food security needs of a growing population.

**Addressing water scarcity requires a multi-pronged strategy that combines demand side efficiency with supply side augmentation.**

The budget for FY27 should include a dedicated allocation for promoting high efficiency irrigation systems, including drip and sprinkler technologies, through a targeted subsidy programme for smallholder farmers. Simultaneously, investment in small scale water harvesting and storage infrastructure, such as farm ponds and check dams, must be prioritized to capture and conserve monsoon rainfall. The government should also accelerate the formulation of an integrated agricultural and livestock policy framework that aligns the currently fragmented mandates of various federal and provincial agencies, thereby improving policy coherence and enforcement.

**Raising crop yields is fundamentally dependent on the accelerated adoption of modern farming practices, high quality inputs, and mechanization.**

It is proposed that the budget introduce a scheme to facilitate the phased replacement of obsolete agricultural machinery, particularly the decades old combine harvesters that result in grain losses of 15 to 18 percent, compared to just 2 percent for modern equipment. A ban on the import of second-hand machinery that fails to meet minimum efficiency standards should be accompanied by concessional financing for the procurement of new, high efficiency equipment. Furthermore, public sector agricultural research institutions must be revitalized and held accountable for developing and disseminating high yielding, climate resilient seed varieties. This should be complemented by a public private partnership for soil health improvement, whereby fertilizer, seed, and pesticide companies are incentivized to provide soil testing and advisory services to farmers as part of their commercial operations.

**Market inefficiencies and weak rural infrastructure continue to depress farm incomes and undermine food security.**

To reduce the exploitative influence of middlemen and improve price discovery, the government should actively promote the establishment of farmer cooperatives and provide technical and financial support for their operations. A targeted grain storage finance scheme, coupled with subsidies for the construction of modern on farm storage facilities, would enable farmers to hold their produce beyond the immediate post-harvest period and secure better prices. These measures must be supported by sustained investment in rural infrastructure, particularly farm to market roads and cold chain facilities, to reduce post-harvest losses and enhance access to domestic and international markets. The increase in agricultural credit disbursement to Rs1,649 billion in the first seven months of FY26 is a welcome development, but credit must be directed towards productivity enhancing investments rather than merely sustaining existing operations.

## 3.2. Power Sector: Addressing the Structural Roots of the Circular Debt Crisis

**The power sector remains the single largest source of macroeconomic vulnerability in Pakistan, with circular debt and distribution inefficiencies imposing a heavy fiscal and economic burden.**

The energy purchase price accounted for 39 percent of the total power purchase cost in FY2024–25, while the larger share of 61 percent comprised capacity purchase payments to power producers. This cost pressure has been exacerbated by the recent surge in global oil prices amid the Middle East conflict. The IMF has tightened its conditionality in this area, mandating the strict implementation of quarterly tariff adjustments and automatic monthly fuel cost adjustments, alongside full enforcement of annual electricity pricing reforms by January 2027 under the Extended Fund Facility.<sup>5</sup> In this context, the budget for FY27 must move beyond short term fixes and lay the groundwork for a fundamental restructuring of the sector.

**Privatization and concessioning of distribution companies (DISCOs) must be accelerated to address the chronic inefficiencies that smart metering alone cannot resolve.**

The government's stated target to privatize IESCO, FESCO, and GEPCO by mid-2026 is a step in the right direction, but the process must be underpinned by a robust regulatory framework that provides clear, enforceable performance standards for private operators. The goal should be to reduce transmission and distribution (T&D) losses to 13 percent and improve recovery to 97 percent by 2028, a target that would unlock an estimated Rs250 to 300 billion in annual savings. These savings are critical not only for stemming the flow of circular debt but also for creating the fiscal space needed to finance investments in grid modernization and renewable energy integration.

**The rationalization of Independent Power Producer (IPP) contracts must proceed on a commercial and collaborative basis, avoiding the adversarial approaches that risk damaging investor confidence and disrupting power supply.**

The government has already secured Rs1.3 trillion in lifetime savings through renegotiations, and the path forward lies in further commercial restructuring. A particularly urgent priority is the restructuring of the debt owed to foreign IPPs. The proposal to convert this debt to government-to-government concessional terms, with a 30-year tenor and a 2 percent interest rate, would reduce annual debt servicing and should be pursued vigorously through diplomatic channels.

**Tariff rationalization may be accompanied by a fundamental shift in how subsidies are targeted.**

The current untargeted subsidy of Rs5 per unit is fiscally unsustainable and regressive, benefiting higher consumption households disproportionately. This submission strongly endorses the proposal to replace this blanket subsidy with targeted cash transfers through the Benazir Income Support Programme (BISP). This approach, which the IMF has supported through an increase in the BISP stipend, ensures that the most vulnerable households are protected while eliminating the fiscal drain of subsidizing affluent consumers.<sup>6</sup> The Rs3.23 per unit Debt Servicing Surcharge should be ring fenced and dedicated exclusively to retiring the circular debt stock, with transparent public reporting on its utilization.

**The federal budget should use the tax system, targeted subsidies, and market design to make self-generated renewable energy the cheapest source of power for manufacturers and low- and middle-income households.**

<sup>5</sup> Pakistan: End-of-Mission Statement on the Third Review of the 37-month Extended Arrangement under the Extended Fund Facility and the Second Review of 28-month Arrangement Under the Resilience and Sustainability Facility (RSF).

<sup>6</sup> IMF Staff-Level Agreement (2025), as reported by Business Recorder, details the electricity subsidy reform and its integration with BISP, including the commitment to a simplified tariff structure and income-based targeting in the FY 2026-27 budget.

The sales tax on imported solar panels and related components for small systems should be removed, and a concessional tax regime for domestic solar equipment manufacturers should be reinstated to pass lower production costs through to consumers. For low-income households identified through existing social protection registries, a capital subsidy covering a substantial share of the upfront cost of a small rooftop solar-plus-battery system should be provided, repayable through a zero-markup instalment facility that is serviced entirely from the electricity cost savings the system generates, thereby eliminating any net cash outflow for the household. For industry, the regulator should be directed to notify a long-term renewable-only green tariff, offered through fixed-price power purchase agreements set meaningfully below the prevailing industrial grid tariff, and a defined minimum share of capacity offered through competitive wholesale market auctions should be reserved exclusively for solar- and wind-based projects. On the revenue side, customs duties on lithium-ion battery cells and inverters should be eliminated, and an accelerated depreciation allowance should be introduced that permits a full write-off of a new captive renewable installation in the first year, lowering the effective after-tax cost of clean energy self-generation to a level that decisively undercuts the retail industrial tariff.

**The federal budget should make electric vehicle ownership consistently cheaper than conventional alternatives through decisive fiscal and regulatory intervention.**

General sales tax on domestically manufactured electric two-wheelers, three-wheelers, and their components should be minimized, while customs duties on lithium-ion cells, battery packs, and charging equipment should be eliminated until local manufacturing matures. Building control regulations should mandate charging-ready infrastructure in all new commercial and residential developments. A viability gap fund should cover the capital cost differential for public charging stations, and electricity distribution companies should offer a dedicated lower-tariff industrial category for charging operators. Finally, a predictable multi-year tariff and incentive roadmap should be notified to give investors the certainty required for domestic battery assembly and motor production.

**A comprehensive energy security framework is essential to mitigate the impact of external shocks.**

The government's recent initiative to establish a high-level committee on Strategic Petroleum Reserves, with a mandate to submit recommendations by 8 May 2026, is a prudent and timely measure given the ongoing disruptions in the Strait of Hormuz. The budget for FY27 should make provision for the initial capital outlay required for this strategic reserve, while also advancing the conversion of imported coal-based power plants to utilize Thar coal, a shift that could save an estimated US \$915 million annually in foreign exchange. Furthermore, the transition to a market driven power sector model, through the expedited implementation of the Competitive Trading Bilateral Contract Market (CTBCM), will enable generators to sell directly to industrial consumers, optimizing dispatch and reducing the costs associated with stranded thermal capacity.

**The trans-boundary energy trade initiatives e.g., expanding oil and electricity imports from Iran and activating the ready-to-use LNG procurement corridor with Azerbaijan, may be facilitated through targeted budget instruments.**

Meanwhile, a framework agreement signed in 2025 between Azerbaijan's state energy company and Pakistan LNG Limited enables Islamabad to procure LNG cargoes under an accelerated procedure, providing a geographically diversified alternative to Gulf-based supplies disrupted by the Strait of Hormuz crisis. The budget should allocate a dedicated energy-import finance facility offering concessional foreign-exchange cover for electricity imports from Iran, permit settlement in local currencies under the barter-trade framework already operational at the border, and exempt electricity imported through recognised cross-border transmission lines from all customs and regulatory duties. For the Azerbaijan LNG corridor, the budget may direct the relevant authority to issue a firm multi-year offtake schedule that locks in the framework agreement's accelerated procurement mechanism, thereby giving the supplier the volume certainty required to offer competitively priced cargoes without exposing Pakistan to spot-market volatility.

### 3.3. Construction and Real Estate: Unlocking a Vital Engine of Growth & Employment

**The construction and real estate sector, a key driver of employment and backward linkages to allied industries, has been constrained by a complex regulatory environment, an opaque taxation system, and limited access to long term finance.**

The introduction of the concept of deemed income under Section 7E of the Income Tax Ordinance, 2001, has had a particularly chilling effect on investment, as it taxes notional rental income regardless of actual earnings. This provision, alongside multiple layers of transaction taxes, has driven capital away from the formal real estate market and into informal and less productive avenues. The budget for FY27 must signal a decisive break from this punitive approach and position the sector as a partner in economic development.

**Regulatory simplification and the embrace of e-governance are essential to reducing transaction costs and building investor confidence.**

The establishment of a unified, digital land registry system, with clear and transparent procedures for title transfer, would significantly reduce the scope for fraud and litigation. Zoning and building codes must be modernized to encourage mixed use developments and promote sustainable urban planning. Critically, the budget should include a specific provision for the abolition of Section 7E, as its continuation undermines the very investment the government seeks to attract. Instead, the focus should shift to a modernized property tax system that utilizes satellite data and digital valuation techniques to ensure fair and transparent assessment and collection.

**Deepening the financial ecosystem for real estate is crucial for both affordable housing and commercial development.**

The budget should introduce and strengthen measures, such as government-backed partial credit guarantee schemes, to incentivise banks and financial institutions to extend long-term mortgage financing at competitive rates for affordable housing projects. The development of Real Estate Investment Trusts as a viable asset class should be accelerated through tax incentives and streamlined regulatory approvals.<sup>7</sup> This is particularly relevant for the monetization of underutilized public assets, such as the extensive landholdings of public sector enterprises and could be developed through a REIT structure to generate funds for modernisation without burdening the public exchequer. The recent successful initial public offering of a petroleum infrastructure company, which raised Rs4.8 billion, demonstrates that there is appetite for well-structured real asset offerings, and this momentum should be capitalized upon.<sup>8</sup>

**The protection of consumer interests and the speedy resolution of disputes are non-negotiable prerequisites for a healthy real estate market.**

This submission strongly recommends the establishment of a specialized Real Estate Ombudsman or Regulatory Authority with the power to adjudicate disputes between buyers, developers, and agents in a time bound and cost-effective manner. This would provide an alternative to the overburdened civil courts, where property litigation can languish for years. Mandatory disclosure of project approvals, timelines, and construction status for pre-construction sales should be enforced, with severe penalties for fraud and misrepresentation. Simultaneously, investment in skill development for the construction labour force is needed to promote the adoption of modern construction technologies, green building materials, and improved project management practices.

<sup>7</sup> Pakistan Stock Exchange. (2025). Budget proposals for FY2025–26: Recommendations on REIT taxation. April 27, 2025.

<sup>8</sup> Dawn. (2026, April 23). SECP approves two more IPOs. <https://www.dawn.com/news/1994245>

### 3.4. Financial Sector and Capital Markets: Deepening Intermediation for Sustainable Growth

**A stable and efficient financial sector is the lifeblood of a modern economy, yet Pakistan's banking system continues to face structural constraints that limit its ability to channel savings into productive investment.**

Credit penetration to the private sector remains low, and the cost of borrowing, while easing, is still elevated. The budget and accompanying regulatory reforms must focus on reducing the cost of capital, strengthening credit infrastructure, and broadening financial inclusion. The SBP's projection of rising foreign exchange reserves, reaching close to three months of import cover by FY27, provides a more stable backdrop for these reforms, but the underlying structural issues must be addressed with urgency.

**The development of a centralized credit ecosystem is a foundational reform with the potential to transform lending practices.**

The establishment of a unified national credit scoring system that integrates data from NADRA and private credit bureaus would dramatically reduce information asymmetry and enable financial institutions to make more accurate and efficient lending decisions. This, in turn, would facilitate the creation of pre-approved lending frameworks for individuals and small and medium enterprises (SMEs), lowering the cost and time associated with loan origination. To complement this, the budget should provide for the strengthening of specialized financial courts to expedite the resolution of commercial disputes and the enforcement of foreclosure laws under Ordinance IX of 2019. A reformed insolvency framework that prioritizes business rehabilitation over liquidation is also essential for preserving economic value and employment.

**Expanding financial inclusion requires a concerted push on both the demand and supply sides of the equation.**

The continued expansion of branchless banking and digital financial services, supported by simplified Know Your Customer (KYC) procedures and nationwide financial literacy campaigns, is essential for bringing the large unbanked population into the formal financial system. The exploration of blockchain technology for remittances, as evidenced by the recent memorandum of understanding between Stacks and the Bank of Punjab, points towards a future where cross border payments can be faster, cheaper, and more transparent, and such innovations should be encouraged through a supportive regulatory sandbox approach.

**The Islamic finance sector represents a significant and rapidly growing segment of the financial system, with demand for Shariah compliant products exceeding 90 percent according to SBP surveys.**

The transition towards a Riba free financial system is not only a constitutional obligation but also an economic opportunity to deepen financial markets and attract a wider pool of domestic and international capital. The budget should provide a clear roadmap for this transition, including the introduction of separate legislation for Islamic banks to reflect their distinct operational nature. A directive to all government and public sector entities to place their surplus funds exclusively in Shariah compliant instruments would provide a major boost to the Islamic banking sector. To incentivize the expansion of the Islamic banking footprint, a three-year tax holiday should be offered to all new Islamic banks or Islamic banking subsidiaries. Furthermore, Sukuk should become the sole instrument for government borrowing, as they are inherently asset backed and generally more cost effective.

**The capital market remains an underutilized channel for mobilizing long term finance, and a series of targeted measures can significantly enhance its depth, liquidity, and contribution to economic growth.**

Recent primary market activity demonstrates that there is both latent supply and demand for equity capital, but a more supportive policy environment is required to translate this potential into sustained market expansion. To this end, this submission proposes the reintroduction of a preferential tax rate for listed companies, reversing the trend of delisting by multinational corporations and encouraging large domestic conglomerates to seek public listing. State owned enterprises that are being considered for privatization should be brought to market through initial public offerings, a process known as share issue privatization, an approach that has been recommended by multilateral development banks as a means to ensure fair price discovery and to subject the enterprises to the discipline of public market disclosure and governance standards.

**Tax-distortion across asset classes remains the single biggest deterrent to equity participation.**

The Pakistan Stock Brokers Association has proposed a further reform for the FY2027 budget: zero CGT on securities held more than three years and a 10 percent maximum on shorter holdings. The budget can therefore eliminate the remaining tax bias against equities and encourage long-term investment.

**The gap between filer and non-filer rates on older holdings continues to discourage new entrants from entering the formal equity market.**

This punitive wedge was maintained for securities acquired before July 2025. Although the post-June-2025 regime is now neutral, millions of first-time investors remain unaware of it or hold legacy positions that attract the old penalty rates. The budget can resolve this by extending the flat 15 percent rate to all holding periods and introducing a three-year concessional CGT window for first-time retail investors, thereby creating a clean on-ramp into the documented economy.

**Low financial literacy and cultural resistance keep stock-market participation below 0.2 percent of the population.**

The total number of individual investor sub-accounts still represents a fraction of the total population. Research confirms that financial illiteracy, lack of accessible knowledge, and cultural reservations are primary barriers. The budget should fund a national financial-literacy programme delivered through schools, universities, and digital channels, with a dedicated focus on women and rural populations.

**Account-opening processes have been markedly simplified, but further digitalization is needed.**

In March 2026 the SECP raised the Sahulat Account investment limit and allowed investors to open such accounts with multiple brokers, using only their Computerized National Identity Card. The SECP had earlier established a multi-stakeholder committee to overhaul the end-to-end onboarding process and advance digital verification. The budget should now accelerate the transition to fully digital, video-based KYC for full brokerage accounts, removing the remaining physical-presence and notarization barriers.

**A trust deficit rooted in historic manipulation scandals and weak investor protection persists.**

The SECP has strengthened enforcement, including action against online trading scams and multi-level marketing schemes, but the complaint-redressal mechanism remains slow and opaque. To address this, the budget can establish a dedicated Capital Market Ombudsman with statutory powers and strict resolution timelines, complemented by a public-awareness campaign that visibly communicates these strengthened protections.

**Retail access to primary-market offerings is limited, despite recent improvements.**

Current IPO practice already reserves 25–30 percent of shares for retail investors, and the SECP's 2026 push toward book-building has widened participation. Nevertheless, subscription mechanics remain cumbersome and few retail investors participate in government-debt auctions. The budget can mandate a minimum 25 percent retail allocation in all federal-debt primary auctions and require

that this be accessible through a single mobile interface integrated with the RAAST instant-payment system.

**Overseas Pakistanis remain virtually absent from the domestic equity market.**

The Roshan Digital Account (RDA) already allows non-resident Pakistanis to invest in PSX-listed securities, mutual funds, and government instruments. However, equity-market investments via RDA stand at its lowest. The budget can unlock this pool by introducing a dedicated Roshan Equity Investment Account with a single low withholding-tax rate on combined dividend and capital-gains income and guaranteed full reparability of both principal and profit.

**The informal economy systematically diverts liquidity away from the formal capital market.**

Wholesale and retail trade lies at the heart of this informality, with around seven in ten non-agricultural workers employed informally. The absence of verifiable financial records makes it impossible for many businesses to access formal credit or equity markets. The budget can address this by offering a time-limited asset-regularization window that channels newly declared funds exclusively into listed equities and government securities, converting a portion of the informal sector's liquidity into a formal capital-market pipeline.

**The Pakistan Mercantile Exchange (PMEX) remains constrained by a narrow product base concentrated in gold, silver, crude oil and currencies, an inverted tax structure that makes futures trading costlier than equity investing.**

Despite recent progress toward launching rice, maize and sugar futures, the exchange has struggled for years to develop a functional market in locally produced commodities because producers lack the literacy, resources and technological access to connect with the platform, while intermediaries resist a transparent, web-based marketplace that would erode their pricing power. On the tax side, capital gains on PMEX futures were historically taxed at a uniform 5 percent for filers and 10 percent for non-filers regardless of holding period, a regime that, while simple, offered none of the holding-period incentives available to stock market investors.

**The federal budget for FY27 can unlock PMEX potential through three targeted measures**

First, grant a full tax exemption for agricultural futures contracts based on Electronic Warehouse Receipts, thereby drawing farmers, millers and traders into the regulated market for price discovery and hedging; second, allow financial institutions to meet a prescribed portion of their mandatory agricultural credit targets through PMEX-settled forwards and options, creating institutional demand and liquidity; and third, enable banks and Development Finance Institutions to issue Shariah-compliant commodity Murabaha and Salam instruments using PMEX-listed contracts as the underlying asset, thereby integrating the exchange into the formal credit system while broadening its participant base.

**Critically, if the objective is to channel citizens away from unregulated offshore platforms and into PMEX, the federal budget must make trading on the regulated exchange materially cheaper than the illicit alternatives.**

Unlicensed online platforms offer comparable exposure with zero sales tax, negligible onboarding friction, and minimal commissions. Offshore operators continue to solicit Pakistani clients aggressively by offering lower margins, higher leverage, and instant digital account opening. To level the playing field, the FY27 budget should explicitly exempt all PMEX-traded commodity futures from provincial sales tax, direct the SECP to cap exchange fees and member commissions at levels competitive with regional hubs, and preserve the flat 5 percent capital gains tax that already applies uniformly to filers and non-filers without introducing any new levy or withholding obligation. Lowering the total cost of a round-turn trade on PMEX to a level that credibly undercuts the offshore shadow market is the single most effective step the budget can take to shift investment flows into the regulated, documented financial system.

**The federal budget should clearly define virtual assets as a distinct class of capital asset under the Income Tax Ordinance.**

It should also prescribe a flat 5 percent capital gains tax on disposal proceeds, uniformly applicable to both filers and non-filers. A time-limited voluntary disclosure window should be introduced to allow citizens to bring holdings from unlicensed offshore platforms onto licensed domestic exchanges without penalty or inquiry into the source of funds. Licensed exchanges and custody providers should be integrated into the existing withholding tax infrastructure so that tax is deducted at source on every transaction. The tax treatment should mirror that of listed securities on the stock exchange, so the fiscal system does not penalize one regulated asset class in favor of another.

**Deepening the debt capital market and aligning it with sustainable development objectives is a key priority.**

Government securities, including Treasury Bills and Pakistan Investment Bonds, should be auctioned through the Pakistan Stock Exchange platform to broaden investor participation and achieve more transparent price discovery. The development of an Environmental, Social, and Governance (ESG) investment framework and a dedicated ESG Index would attract foreign capital that is increasingly mandated to invest in sustainable assets and would also position Pakistan to participate in the global market for carbon credits. A carbon pricing mechanism, whether through a tax or a cap-and-trade system, should be explored as a tool for both environmental sustainability and revenue generation. Finally, the government should actively pursue debt for climate swap arrangements with the Paris Club, leveraging the country's acute vulnerability to climate change to negotiate a reduction in its external debt burden of up to US \$32 billion in exchange for investments in climate adaptation and mitigation projects.

### 3.5. Digital Economy: Catalyzing a Knowledge Driven Growth Model

**With approximately 60 percent of its population under the age of 30, Pakistan possesses a demographic dividend that can only be fully realized through a comprehensive and accelerated digital transformation of its economy.**

The digital economy is not merely an adjunct to traditional sectors; it is a fundamental enabler of productivity, innovation, and global connectivity. The budget for FY27 should reflect a strategic commitment to building the foundational infrastructure and human capital required for a knowledge-based economy. This includes broadening access to affordable, high quality mobile and broadband networks, with a specific focus on accelerating the 5G ecosystem and fiber to the home in urban centers while addressing last mile connectivity in underserved rural areas through collaborative models with telecom operators.

**Digital literacy and skills development must be elevated to a national priority.**

The education system, from primary schooling to higher education, must be reoriented to equip students with the skills demanded by Industry 4.0, including artificial intelligence, data science, cybersecurity, and the Internet of Things. The budget should allocate resources for customized training programmes, with a particular focus on empowering women and youth in rural and peri urban areas. A structured internship programme, co-financed with the private sector, is essential to make IT graduates market ready. Furthermore, a National Venture Capital Fund, co-financed by the government and leading institutional investors, should be established to provide seed and early-stage capital to technology startups, addressing a critical gap in the innovation financing ecosystem.

**A unified digital identity framework, built upon the robust NADRA database, is the cornerstone of a modern digital state.**

The CNIC should be evolved into a full digital identity enabling secure login, digital signatures, and legally enforceable digital consent across all public services and regulated private sector interactions. This would eliminate the need for repetitive documentation and in person visits, reducing the cost and friction of doing business. Similarly, the digitization of Pakistan's product certification and conformity regime would streamline trade and improve consumer safety. In the realm of digital trade and payments, the accelerated adoption of RAAST, Pakistan's real time instant payment system, should be promoted, and efforts to integrate with international payment platforms like PayPal and Stripe must be redoubled to provide freelancers and IT exporters with seamless access to global markets.

**The application of digital technologies can transform traditional sectors such as agriculture and healthcare.**

The creation of a mobile based "Agriculture Information Portal" that disseminates real time data on prices, weather, and crop diseases in local languages can significantly improve the productivity and incomes of smallholder farmers. In healthcare, the development of a National Electronic Health Records (EHR) system and the expansion of licensed telemedicine platforms can extend the reach of quality medical services to remote and underserved communities. In education, a National e-Learning Platform with offline capable content can help bridge the rural urban divide in teaching quality and learning outcomes.

**Pakistan's tax framework for digital consulting and freelancing is driving skilled professionals to relocate their tax residency to jurisdictions offering greater certainty and lower burdens, directly eroding the domestic tax base.**

The budget should extend the final tax regime for IT and ITeS export income for a minimum of ten years, eliminating the June 2026 expiry cliff that is the primary source of policy uncertainty. The corporate income tax rate for IT and ITeS companies should be reduced to bring it into competitive alignment with regional peers, removing the incentive for firms to maintain offshore holding structures. A simplified single page tax return should be introduced for digital freelancers and consultants with annual export earnings below a defined threshold, eliminating the compliance burden of wealth statements and detailed accounts that drives small scale digital exporters into the informal economy or out of the country entirely.

### 3.6. Manufacturing: Reversing Deindustrialization and Building Export Competitiveness

**The sustained decline in the manufacturing sector's share of GDP is a stark indicator of Pakistan's deindustrialization and a key contributor to its chronic external account imbalances.**

In the Large-Scale Manufacturing (LSM) while there are signs of a nascent recovery, the sector remains hamstrung by high input costs, policy inconsistency, and a challenging business environment. The budget for FY27 must articulate a clear, long term National Industrialization Policy that prioritizes export orientation, technological upgradation, and the development of a skilled workforce.

**The cornerstone of a pro manufacturing fiscal policy must be the sustainable availability of competitively priced imported raw materials.**

The current system of high customs duties, additional customs duties, and sales tax on raw and intermediate inputs is self-defeating, as it raises production costs, undermines competitiveness, and fuels the informal economy. This submission strongly supports the planned removal of non-tariff barriers and the second phase of duty reduction under the National Tariff Policy, which will lower the weighted average tariff. However, this must be accompanied by a more fundamental shift in fiscal philosophy, where the burden of taxation is progressively shifted from imported raw materials to imported finished goods, thereby protecting and incentivizing domestic value addition. The concerns raised by the auto parts manufacturing sector regarding the uniform application of tariff

policy without adequate safeguards are valid and underscore the need for a more nuanced, sector specific approach to trade liberalization.

**Attracting investment in medium and high-tech industries requires a skilled and job ready workforce, which is currently a significant bottleneck.**

Pakistan produces approximately half a million graduates annually, yet employability remains weak due to a skills mismatch. The budget should fund a national initiative to transform vocational and technical training institutions, in close collaboration with the private sector, to develop a globally recognizable workforce aligned with the demands of Industry 4.0. This is not merely an expense but a strategic investment that will signal to both domestic and foreign investors that Pakistan is ready to move up the value chain. This must be coupled with a policy framework that incentivizes the upgradation of existing industrial machinery and technology, perhaps through accelerated depreciation allowances or concessional financing for the import of state-of-the-art equipment.

**A targeted strategy for export focused industries is essential to diversify the export base away from its overwhelming reliance on textiles.**

The budget should introduce a tax rebate scheme for companies that demonstrate consistent year on year growth in exports, directly linking fiscal incentives to performance. The information technology and IT enabled services (ITeS) sector, which has shown robust growth, should be given special focus, with the Pakistan Software Export Board mandated to lead market development initiatives in high growth regions such as the Gulf Cooperation Council, Europe, and Southeast Asia. The potential of the China Pakistan Economic Corridor (CPEC), with its nine Special Economic Zones (SEZs), must be fully harnessed, but this will require urgent action on the ground to provide the necessary infrastructure, a transparent incentive regime, and a globally competitive business environment for investors. The sweeping overhaul of the SEZ and Special Technology Zones frameworks agreed with the IMF, which aims to phase out profit-based incentives in favor of cost-based structures, must be implemented in a manner that does not disrupt existing or committed investments.

## 4. Cross Cutting Recommendations and Implementation

**The success of the proposed sectoral reforms is contingent upon a parallel and equally ambitious programme of governance and institutional strengthening.**

The budget should not be viewed merely as a statement of revenues and expenditures but as a comprehensive policy document that signals the government's commitment to regulatory transparency and ease of doing business. The commitment to establish the Pakistan Regulatory Registry by June 2027, centralizing all business regulations at the federal level, is a critical step towards reducing the compliance burden on firms. This must be complemented by the ongoing reforms in tax administration, including the centralization of audit case selection at FBR and the move towards a risk-based compliance system that focuses on high-risk taxpayers and non-filers.

**The phasing of reforms and the management of their social impact are crucial for building and maintaining public support.**

The government's decision to increase the BISP stipend is a necessary and welcome measure to cushion the most vulnerable households from the effects of inflation and energy price adjustments. The budget should further explore the feasibility of a debt repayment contribution rewarding system, where citizens and corporations can voluntarily contribute to a dedicated External Debt Repayment Fund and receive a corresponding reduction in their tax liability. While the fiscal impact of such a scheme may be uncertain, its symbolic value in fostering a sense of national ownership over the country's economic challenges should not be underestimated.

**The global and domestic economic environment for FY2026–27 will be challenging, but it also presents a unique opportunity to accelerate the structural transformation of Pakistan's economy.**

The stabilization gains achieved over the past year have provided a narrow window of macroeconomic calm. This window must be used not for complacency but for the bold and decisive implementation of the reforms outlined in this submission. A budget that is fiscally prudent, growth oriented, and socially conscious, aligned with the IMF programme parameters, can set Pakistan on a path towards the 5 to 6 percent annual growth that is necessary to create jobs, reduce poverty, and improve the living standards of all its citizens. The World Bank's observation that with bold reforms Pakistan could become a "new Asian economic tiger" is a realistic assessment of the country's potential if the right policy choices are made. The budget for FY2026–27 represents a critical juncture on that journey.

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