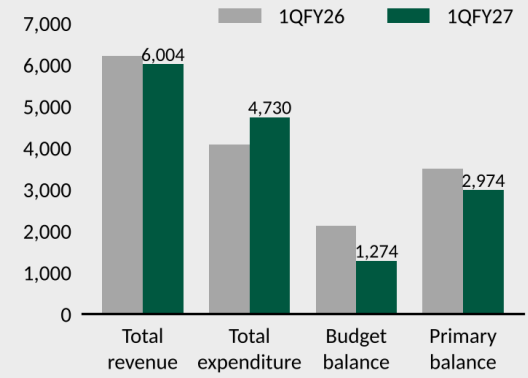
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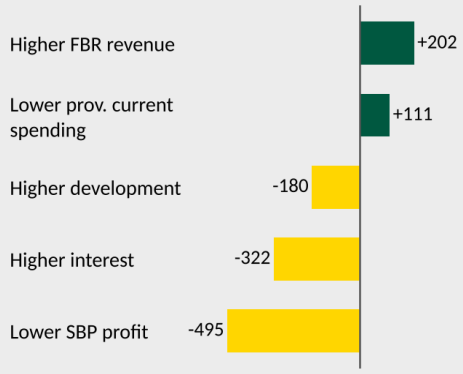


Fiscal operations (PKR bn)



Source: MoF, Foundation Research, Nov 2026

Change in budget balance vs 1QFY26 (PKR bn)



Source: MoF, Foundation Research, Nov 2026

Analyst

Zeeshan Azhar
zeeshan@fs.com.pk
+92 213 5612290
Ext 331

Foundation Securities (Pvt) Ltd
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Pakistan Economy

Fiscal surplus narrows

1QFY27 fiscal surplus clocked in at 0.9% of GDP

As per the latest numbers released by Ministry of Finance, Gov't posted a fiscal surplus of Rs1.27tn (0.9% of GDP) in 1QFY27 vs Rs2.12tn (1.6% of GDP) in 1QFY26, down 40% YoY. The primary surplus stood at Rs2.97tn (2.1% of GDP) compared to Rs3.50tn (2.7% of GDP) in the same period last year.

The narrower surplus is largely explained by Rs495bn lower SBP profit and a Rs322bn increase in interest payments, which together more than offset the Rs202bn gain in FBR revenue and Rs111bn saving in provincial current spending. Higher development spending (Rs180bn) and defence outlay (Rs48bn) also weighed on the balance.

During 1QFY27, total revenues decreased 3% YoY to Rs6.0tn as federal non-tax revenue fell 15% YoY, partly offset by 7% YoY growth in FBR revenue. Comparatively, total expenditures increased 16% YoY to Rs4.7tn as federal current expenditure rose 13% YoY and development spending & net lending jumped 61% YoY, whereas provincial current expenditure declined 8% YoY.

Lower SBP profit pulled down total revenues

Federal non-tax revenue declined 15% YoY to Rs2.5tn during 1QFY27, mainly due to 20% YoY lower SBP profit (Rs1.93tn vs Rs2.43tn). Petroleum levy collection was up 3% YoY at Rs382bn, while other non-tax income rose 17% YoY. Provincial tax and non-tax revenues increased 12% YoY and 39% YoY, respectively.

FBR collection grew a modest 7% YoY to Rs3.1tn, with direct taxes up 6% YoY. Indirect taxes increased 8% YoY, led by (1) sales tax (up 12% YoY), (2) federal excise duty (up 4% YoY) and (3) customs duty (up 1% YoY).

Debt servicing drives up current expenditures

Total expenditures were up 16% YoY during 1QFY27. Current expenditure (federal) rose 13% YoY amid 23% YoY higher mark-up payments (Rs1.7tn), which absorbed 55% of FBR collection during the quarter. Defence expenditure increased 11% YoY and running of civil Gov't & pension rose 15% YoY, whereas subsidies and grants fell 29% YoY and 12% YoY, respectively. Provincial current expenditures were down 8% YoY.

Development spending & net lending rose 61% YoY to Rs475bn as PSDP (federal) increased 85% YoY to Rs75bn, while PSDP (provincial) dipped 2% YoY. Net lending to PSEs stood at Rs7bn against a net recovery of Rs146bn in 1QFY26, which lowered the base.

Surplus and external inflows used to retire bank debt

Gov't borrowed Rs609bn/592bn from external sources/domestic non-banks during 1QFY27. Together with the fiscal surplus, this allowed net retirement of Rs2.5tn to domestic banks during the quarter vs Rs2.2tn in 1QFY26.

Sustaining fiscal gains remains a challenge

The 1QFY27 surplus continues to rest on the SBP profit, which typically lands in the first quarter and is not expected to recur in the remaining quarters of FY27. With interest payments up 23% YoY and FBR revenue growing only 7% YoY, the gap between debt servicing and tax collection remains the key risk to the full-year fiscal target. Current expenditures are largely fixed in nature, leaving development spending as the main adjustment lever. We expect the balance to swing into deficit over the coming quarters.

Table 1: Fiscal Operations (PKR Bn)

	1QFY27	1QFY26	YoY
Total Revenue	**6,004**	**6,200**	**-3%**
FBR Revenue	**3,086**	**2,884**	**7%**
Direct	1,440	1,364	6%
Indirect	1,646	1,520	8%
- Sales Tax	1,137	1,019	12%
- Excise Duty	197	190	4%
- Custom Duty	312	311	1%
Tax Revenue (Provincial)	**301**	**269**	**12%**
Non Tax Revenue (Federal)	**2,531**	**2,985**	**-15%**
- Petroleum Levy	382	372	3%
- Surplus Profit of SBP	1,933	2,428	-20%
- Other	216	185	17%
Non Tax Revenue (Provincial)	**86**	**62**	**39%**
Total Expenditure	**4,730**	**4,080**	**16%**
Current Expenditure (Federal)	**3,031**	**2,675**	**13%**
- Mark up payment	1,700	1,378	23%
- Defence	495	447	11%
- Subsidies	85	120	-29%
- Grant to others	281	319	-12%
- Running of Civil Govt and Pension	471	411	15%
Current Expenditure (Provincial)	**1,261**	**1,373**	**-8%**
Development Expenditure & net lending to PSE	**475**	**295**	**61%**
-PSDP (Federal)	75	41	85%
-PSDP (Provincial)	392	400	-2%
-Net lending to PSE	7	(146)	N/A
Statistical Discrepancy	**(38)**	**(262)**	**N/A**
Budget Balance	**1,274**	**2,119**	**-40%**
Budget Balance (% of GDP)	0.9	1.6	-0.7
Primary Balance	**2,974**	**3,497**	**-15%**
Primary Balance (% of GDP)	2.1	2.7	-0.6
Financing	**(1,274)**	**(2,119)**	**N/A**
External	609	(39)	N/A
Domestic	(1,883)	(2,081)	N/A
Non - Bank	592	112	428%
Bank	(2,475)	(2,193)	N/A

Source: MoF, Foundation Research, November 2026

Abbreviations

FBR	Federal Board of Revenue
PSDP	Public Sector Development Program
PSE	Public Sector Enterprise
SBP	State Bank of Pakistan
YoY	Year on Year

Important disclosures:

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Recommendations definitions

If	
Expected return >+15%	Outperform.
Expected return from 0% to +15%	Neutral.
Expected return <0%	Underperform.