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PBC warns of deep-rooted challenges



The Pakistan Business Council (PBC) has warned that the country is grappling with deep-rooted structural economic challenges that continue to suppress growth, weaken competitiveness, and discourage investment, as compliant businesses face excessive scrutiny, unnecessary notices, and prolonged delays in tax refunds.

In a document shared with policymakers, the PBC stated that Pakistan's economic difficulties stem from a combination of fiscal imbalances, a narrow tax base, weak export competitiveness, and persistent policy uncertainty. It noted that high taxation on the formal sector, coupled with a large undocumented economy, has created an uneven playing field where compliant businesses bear a disproportionately heavy burden.

"Fiscal policy has largely focused on short-term stabilisation rather than long-term structural transformation. A large segment of economic activity remains outside the formal tax net, while undocumented competitors operate at a structural cost advantage over formal firms," the PBC said. "The documented, compliant sector carries an effective tax burden of 55–60 per cent—among the highest in the region—while much of the undocumented economy remains outside the tax system."

The Council observed that Pakistan's tax system relies heavily on high rates applied to a limited base, resulting in low compliance and widespread tax evasion. It stressed the need for a strategic shift towards broadening the tax base through improved enforcement and documentation, rather than further increasing tax rates.

According to the report, bringing untaxed sectors—such as retail, real estate, and informal businesses—into the tax net could significantly enhance revenue without placing additional pressure on existing taxpayers.

The PBC also called for the development of a transparent, rules-based tax system to rebuild trust between taxpayers and authorities. Key recommendations include eliminating discretionary exemptions, streamlining refund mechanisms, and introducing a taxpayer charter to ensure fairness and accountability. Highlighting distortions affecting the formal economy, the report proposed withdrawing the super tax, eliminating double taxation on inter-corporate dividends, and reducing corporate tax rates to align with regional benchmarks. These measures, it argued, would promote reinvestment, attract foreign investment, and support sustainable revenue growth.

On the export front, the Council warned that Pakistan is steadily losing ground to regional competitors, including Bangladesh, India, Vietnam, and Turkey. Persistent issues such as delayed tax refunds, high input costs, and limited access to financing have significantly eroded export competitiveness.

To address these challenges, the PBC recommended restoring the one per cent final tax regime for exporters and fully reinstating the Export Facilitation Scheme to reduce production costs and improve liquidity.

Energy constraints were identified as another major hurdle, with high and unpredictable tariffs, unreliable supply, and the absence of a long-term policy framework undermining industrial productivity. The report called for competitive energy pricing, uninterrupted supply for industry, and increased reliance on renewable energy sources.

The document further highlighted the growing outflow of skilled professionals and capital, attributing it to high personal income taxes and the Capital Value Tax (CVT), which contributes minimally to revenue while discouraging investment. It recommended reducing personal tax rates and abolishing the CVT to retain talent and capital within the country.

Pakistan's business environment also remains challenging, with weak performance in areas such as tax compliance, contract enforcement, and property registration, all of which continue to undermine investor confidence and economic activity.

The PBC emphasised that sustainable reform requires strong institutional backing, including a "Charter of Economy" to ensure policy continuity across political cycles. Without such commitment, it warned, frequent policy reversals will continue to impede long-term growth.

The report presents a clear choice for policymakers: continue with the current approach of overburdening the existing tax base—resulting in slower growth and rising informality—or adopt a reform-driven strategy focused on broadening the tax base, reducing distortions, and enabling exports and investment.

It concluded that Pakistan's core issue is not insufficient taxation, but inefficient taxation, and that sustainable economic growth depends on building a fair, broad-based, and competitive system.

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