ECONOMIC POLICY
& BUSINESS DEVELOPMENT
THINK TANK

'an independent, non-partisan, not for profit organization'

2026-2027

Shadow FEDERAL BUDGET

'An Alternate Plan: From Stabilization to Growth'

‘Promoting People and Business Friendly Policies’

‘Budget for Growth, not just Survival’

ABOUT EPBD

OUR VISION

EPBD's vision is to provide strategic advice and thought leadership to policy makers in shaping a dynamic, inclusive, and forward-looking economic policy ecosystem that unleashes the full potential of private enterprise, drives sustainable GDP growth, and ensures equitable prosperity for all

OUR MISSION

Advocacy for evidence-based and market-friendly economic policies; that catalyze industrial growth, job creation, and export competitiveness:

- Champion private sector led development by identifying and promoting reforms that incentivize innovation, investment, and fair competition
- Promote inclusive growth by ensuring that policy outcomes support social mobility, reduce inequality, and enable Pakistan's youth to thrive in a modern, industrial economy
- Foster informed dialogue between policy makers and business leaders to align national economic priorities with global opportunities

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MESSAGE FROM THE PATRON-IN-CHIEF

Bashir Jan Muhammad

It is my pleasure to present what, I believe, is a defining moment in Pakistan's policy history and advocacy – EPBD's shadow documents – first ever produced by any think tank in the country. This initiative is rightly aligned with EPBD's founding purpose of providing independent, evidence-based alternatives to official policy frameworks, and advocacy for human-centric policy approaches. I am delighted to note that EPBD is presenting 'Shadow Federal Budget' based on the principle *'Budget for Growth, not just Survival*' as part of this landmark suite of four shadow documents. I would like to commend the lean, and highly committed team of EPBD, for the dedication, passion and rigour they have brought to this work.

All proposals in these documents are demand-driven and evidence-based, developed through rigorous sectoral research, structured stakeholder consultations, and expert peer reviews. It is my sincere hope that these will prove genuinely useful to policymakers and that this effort yields positive, tangible outcomes for growth of Pakistan's economy and its people. I would like to express my deep appreciation for the Board, particularly the Chairman Dr. Gohar Ejaz and the CEO Sardar Ahmad Nawaz Sukhera, whose vision, initiative, guidance and steadfast support that have made this pioneering endeavour possible.

Bashir Jan Muhammad

MESSAGE FROM THE CHAIRMAN

Dr. Gohar Ejaz, HI, SI

Pakistan's private sector has long been a bystander in the budget-making process; subject to its consequences but rarely consulted in its design. Budgets have been crafted largely within the walls of government ministries, with limited genuine engagement with the private sector that drives employment, generates exports, and creates the wealth upon which the entire economy depends. Hardly any input is sought from academia or the civil society either. The result has been a recurring disconnect between fiscal policy and business reality, a disconnect that has cost Pakistan dearly in lost investment, stunted industrial growth, and missed export opportunities. This methodology should not continue.

This newly created think tank undertook the challenge of developing and presenting Pakistan's first ever Shadow Budget. The purpose of this exercise is clear: to fill a void that has persisted for too long, and to present a balanced and growth oriented, people and business friendly budget. Pakistan has never had a credible, independently prepared fiscal alternative to the government's budget, one that speaks from the ground up, rooted in the realities of industry, trade, and enterprise. This Shadow Budget exists because the private sector can no longer afford to be a passive recipient of fiscal decisions made without its voice. It exists to demonstrate that sound, evidence-based alternatives are possible, to raise the quality of Pakistan's fiscal debate, and to establish a tradition of independent economic accountability that this country has long needed but never had.

No plan document can cover everything under the sun. Our approach has been to identify those sectors where the quickest and most substantial dividends can be earned in the most cost-effective manner. Since we are taking a human-centric approach to high growth, poverty reduction is our core objective, to be achieved through increasing real incomes and job creation. Stopping brain drain by reducing tax on the salaried class would generate higher real incomes, increase demand for local industrial production and businesses, and feed into higher GDP growth.

EPBD's Shadow Federal Budget 2026-27 represents a decisive step toward correcting this imbalance. For the first time, Pakistan's business and industrial community has come together to produce a credible, evidence-based fiscal alternative, one that places private sector-led growth at the very center of its proposals. This is not a wish list. It is a serious, rigorously researched document that reflects the ground realities of doing business in Pakistan today.

Industry is the backbone of any economy. It creates jobs, develops skills, earns foreign exchange, and generates the tax revenues that fund public services. Yet Pakistan's industrial sector has long been burdened by an uncompetitive cost of energy, a complex and unpredictable tax regime, excessive regulatory friction, and limited access to affordable financing. Each budget cycle brings with it the hope of relief and, too often, the reality of further burden.

A people and business-friendly budget is not a concession to the businesses; it is an investment in the millions of workers employed by Pakistan's factories, mills, and enterprises. It is a signal to domestic and foreign investors that Pakistan is open, competitive, and serious about growth. It is the foundation upon which a modern, industrialized economy is built.

Our Shadow Federal Budget calls on the government to treat the private sector as a partner rather than a revenue target. We urge a fiscal framework that lowers the cost of doing business, rationalizes taxation, incentivizes industrial investment, and creates the conditions for Pakistan's exporters to compete confidently in global markets.Pakistan has the industrial base, the entrepreneurial spirit, and the human capital to become a serious regional economic power. What it needs is a budget that turns this dream into reality.

Dr. Gohar Ejaz, HI, SI

FOREWORD BY CEO

Sardar Ahmad Nawaz Sukhera, HI, PAS (Retd.)

Budgets are, at their core, statements of fiscal intent. They reveal what a government truly values, what it is willing to sacrifice, and what vision it holds for the people it serves. In Pakistan, however, budgets have for decades been something else entirely, annual rituals of incrementalism, where last year's allocations are nudged upward, structural problems are deferred, and the hard choices required for genuine fiscal transformation are quietly set aside. The result is a public finance system under severe strain: a debt burden that consumes the lion's share of national resources, a youth bulge that is rapidly becoming a youth crisis, and a poverty rate that — at 44.7% remains a national emergency by any measure.

Pakistan's budget process has long operated as an executive dominant exercise, with less than fifteen days afforded for parliamentary scrutiny and virtually no space for public or stakeholders' debate and input. This stands in sharp contrast to established democracies, where budget deliberation spans months, not days. EPBD's Shadow Budget exercise aims to address and bridge this democratic deficit offering an independent, citizen-driven alternative that reflects the priorities of those most affected by fiscal decisions, and advocating for a more transparent, participatory, and accountable budget process in Pakistan. Therefore, EPBD suggests amending annual budget calendar to provide two months space for extensive public and parliamentary debate on draft budget proposals before approval, on the Indian model.

Pakistan is home to one of the youngest populations in the world. This should be our greatest asset. Instead, for millions of young Pakistanis, it is a source of profound anxiety, because the jobs are not there, the opportunities are not there, and the sense that the system is working for them is simply not there. The arithmetic here is unforgiving. Over the last three years, Pakistan's average GDP growth rate has been a mere 1.8%. Economists and development planners broadly agree that absorbing our growing youth population into productive employment requires sustained growth of 7-8 percent annually.

Ours is a human-centric approach to high growth. Poverty reduction is our central objective, to be achieved through increasing real incomes and generating productive employment. A critical part of this is addressing brain drain: by reducing the tax burden on the salaried class, we can raise real incomes, stem the outflow of skilled talent, and simultaneously stimulate demand for local industrial production and businesses all of which feeds into higher GDP growth. No plan document can cover everything, nor does this one attempt to. Our approach has been to identify those sectors where the quickest and most substantial dividends can be earned in the most cost-effective manner, targeting interventions for maximum human impact.

It is to confront this reality — honestly, independently, and constructively — that the EPBD, a nascent independent and non-partisan think tank, decided to develop and present Pakistan's first ever Shadow Budget, keeping in view the people, businesses, and growth in mind. The concept of Shadow Budget is not new to the world. In the United Kingdom, the Opposition parties in parliament have for generations presented a formal Shadow Budget ahead of the government's own, holding the Chancellor of the Exchequer publicly accountable for every major fiscal choice. In Canada, independent parliamentary budget officers and think tanks routinely produce alternative fiscal frameworks that are taken seriously in legislative debate. Across the developing world — from India to South Africa to Kenya — civil society institutions have increasingly stepped into this space, producing credible fiscal alternatives that expand the boundaries of the policy conversation.

The Shadow Federal Budget 2026-27 was developed through a structured process benchmarked against international best practices and data. Fiscal data spanning five years was collected across revenue, expenditure, grants, and subsidies, and validated against IMF and World Bank projections. Stakeholder consultations were conducted throughout to incorporate private sector perspectives on taxation, revenue, and expenditure priorities. The document follows the government's own 'Budget in Brief' format, enhanced with graphs, visualizations, and in-depth analysis, and is accompanied by a 3-Year Medium-Term Budget Framework.

This Shadow Federal Budget presents detailed fiscal estimates for FY 2025–26 and FY 2026–27 with viable and actionable policy recommendations across revenue, expenditure, debt management, and federal-provincial fiscal relations. The recommendations are grounded in Pakistan's own constitutional and legal framework and in internationally recognized principles of sound public financial management.

The legal architecture largely already exists. The institutions, imperfect as they may be, already exist. What has been missing is the political will to deploy them as intended, and a public discourse demanding that they be. Having no ulterior motives, we offer this Shadow Federal Budget proposals not in a spirit of mere critique, but in a spirit of constructive engagement and to put across citizen voices to be heard. If our proposals are flawed, we welcome the rebuttal, with evidence and with rigor. If they are sound, we urge their consideration, incorporation and implementation.

The recommendations contained in this Shadow Federal Budget span the full breadth of Pakistan's fiscal architecture. On the revenue side, we propose measures to broaden the tax base, reduce the burden on the already overtaxed formal sector, and bring the untaxed informal economy into the net, not through coercion, but through simplification and incentive. On the expenditure side, we call for a fundamental reordering of priorities: reducing the fiscal space consumed by inefficient subsidies and loss-making state enterprises, and redirecting resources toward human capital, infrastructure, and social protection. And on federal-provincial fiscal relations, we urge a more rational and transparent implementation of the NFC Award, ensuring that resources reach the people they are meant to serve.

We propose implementation of Treasury Single Account, and on government borrowing we propose moving toward a cost-of-funds plus one percent profit rate structure, replacing the current arrangements that have allowed borrowing costs to balloon well beyond what sound fiscal management permits. We aim to achieve Zero fiscal deficit budget in three years. These are not radical proposals; they are the kind of structural corrections that serious economies make when they are ready to stop deferring the inevitable.

Pakistan's fiscal future will not be secured by one budget, one government, or one institution. It will be secured by the gradual building of a culture of fiscal accountability, one in which citizens demand better, institutions perform better, and governments, knowing they are being watched and measured, are compelled to rise to that standard. Every Pakistani, especially the generation coming of age today, impatient, talented, and deserving of far better than what our current trajectory offers, deserves a government and a policy community willing to navigate these choices with honesty, competence, and genuine urgency. This document is offered in that spirit.

We are grateful and acknowledge with sincere appreciation the EPBD Board of Governors for their strategic guidance and steadfast support throughout this exercise. Our deepest gratitude is reserved for our Chairman, Dr. Gohar Ejaz whose vision, leadership, and unwavering belief in the private sector's role in shaping Pakistan's economic future made this entire undertaking possible. To every stakeholder, policymaker, expert, business leader, and especially the FPCCI, who engaged with us, challenged our thinking, and sharpened our proposals; this document reflects your intellectual investment as much as our own. Finally, We thank and acknowledge our EPBD research team for the dedicated and sustained efforts, in tandem with our external consultants, that transformed months of analysis into this publication.

Sardar Ahmad Nawaz Sukhera, HI, PAS (Retd.)

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ACRONYMS

BE	Budgetary Estimates
CCI	Council of Common Interests
DC	Defined Contribution
DCS	Direct Credit System
EAD	Economic Affairs Division
EFF	Extended Fund Facility
FBR	Federal Board of Revenue
FRDLA	Fiscal Responsibility and Debt Limitation Act
LMO	Liability Management Operations
MTDS	Medium-Term Debt Management Strategy
NFC	National Finance Commission
NEC	National Economic Council
NTR	Non-Tax Revenue
PAO	Principal Accounting Officer
PFM	Public Finance Management
PESSI	Punjab Employees Social Security Institution
PSDP	Public Sector Development Program
RE	Revised Estimates
SBA	Stand By Arrangement
SDG	Sustainable Development Goals
SOE	State Owned Enterprises
SRB	Sindh Revenue Board
TDS	Tariff Differential Subsidies
TSA	Treasury Single Account
WWF	Workers Welfare Fund
WPPF	Workers Profit Participation Fund

EXECUTIVE SUMMARY

The National Budget is the most important and principal fiscal policy instrument of the Federal Government. The Constitution of Pakistan 1973 establishes foundational principles governing financial and legislative matters, with specific reference to the Annual Budget Statement, the levy of taxes, and the distribution of revenues between the Federation and the Provinces. The Public Finance Management Act 2019 further mandates medium-term quantified fiscal projections and performance-based budgeting.

A government budget is a formal statement of estimated federal receipts and expenditures for a financial year. A Shadow Budget, by contrast, is an alternative fiscal plan developed independently by opposition parties, non-government think tanks, or research organizations, prepared in parallel with the official government budget. It offers a structured critique of the prevailing fiscal policies of the sitting government and presents a concrete roadmap for improving financial management. Its purpose is to advance transparency, accountability, and public awareness, and to contribute to better service delivery.

This practice has been largely absent in Pakistan. Recognizing its critical significance, the EPBD Think Tank has developed and is now launching Pakistan's first-ever Shadow Budget for the next financial year. The primary purpose of this exercise is to bring forward a different perspective and a diverse vision for resource generation required for incurring expenditure during a financial year. It should be noted that this document was prepared during the ongoing Middle East war crisis; consequently, projections became challenging and will remain subject to variation until the end of the warfare, when the actual adverse impact on the economy can be more accurately estimated.

An independent analysis of federal fiscal and financial management over the past decade FY 2015-16 to FY 2024-25 concludes that overall performance has remained unsatisfactory, weak, non-productive, and inefficient. The objectives of fiscal federalism, fiscal consolidation, and expenditure rationalization have not been successfully accomplished. The constitutionally mandated NFC Award, required at intervals not exceeding five years, has not been implemented, which has shaken the sacred trust between the Federation and the Provinces in respect of the distribution of resources. No prudent mechanism has been developed to bridge the fiscal gaps created after the passage of the 18th Constitutional Amendment, and the key constitutional bodies — the NEC and CCI — have remained inactive, unproductive, and superfluous.

Four major IMF Programs — the 2013–16 EFF, the 2019–22 EFF, and the 2023 SBA and 2024–27 EFF & RSF — coupled with the government's own policies and measures, have not shown the desired improvements. After the release of over Rs 5 trillion in subsidies to the power sector, circular debt has still not been eliminated. The combined circular debt stock across the Power, Petroleum, and Gas sectors has now reached Rs 5 trillion, while the accumulated losses of state-owned enterprises, particularly power sector companies have reached Rs 6 trillion.

Pakistan's federal tax system is critically dysfunctional, mainly due to excessive rates, policy inefficiencies, non-liable tax impositions, structural complexities, and distortions. The FBR's failure to simplify procedures has systematically eroded state-taxpayer trust and violated core taxation principles. Although revenue collection during the last five years has increased in absolute terms, it remains heavily concentrated in indirect, regressive taxation. FBR tax collection in FY 2020-21 was Rs 4,764 billion, rising to Rs 11,744 billion in FY 2024-25 — a growth of over 25%. Despite this increase, the tax-to-GDP ratio remains stagnant, hovering at around 10% of GDP, reflecting the absence of meaningful structural reform.

The federal government has equally failed to control total annual expenditures, and particularly non-development recurrent expenses have shot up considerably. Total federal current expenditures stood at Rs 6,349 billion in FY 2020-21 and crossed Rs 15,814 billion in FY 2024-25, an increase of more than 25%. The federal fiscal deficit has consistently remained significantly high, often exceeding 6–7% of GDP, rising from Rs 3,717 billion in FY 2020-21 to Rs 7,089 billion in FY 2024-25. Provincial governments, by contrast, are running surpluses. These continuous deficits have resulted in huge domestic debt buildups and rising debt servicing costs for the Federal Government.

Public debt has increased exponentially from approximately Rs 19 trillion in FY 2015-16 to Rs 80 trillion in FY 2025-26, ranging between 65% and 75% of GDP, driven mainly by persistent fiscal deficits, currency devaluations, high SBP policy rates, and enlarged interest payments. Domestic borrowings have grown from Rs 1,263 billion in FY 2015-16 to Rs 9,775 billion in FY 2024-25, account for a major portion of total federal government current expenditures. Even during dire need, the federal and provincial governments cannot borrow from the SBP, and the resulting dependency on commercial banks has placed the federal government in an increasingly appalling fiscal situation.

The Treasury Single Account framework has not been fully enforced across federal government organizations. Huge amounts have been deposited over the years by public sector entities in commercial bank accounts, and the unutilized money available with these offices and bodies is being invested by commercial banks in government securities at high rates of return, representing a direct and avoidable cost to the public exchequer. Under these prevailing dismal conditions, a brave effort has been made through the publication of the Shadow Federal Budget FY 2026-27, which provides ways and means for the federal government to confront the challenges of persistent fiscal imbalances and proposes a three-year consolidation and reform pathway to restore stability and enhance economic growth.

To begin with, a national, quantified, medium-term, performance-based fiscal budgetary framework — covering both revenues and expenditures — must be prepared and enforced across all federal and provincial governments and SOEs, under strict compliance with the FRDLA 2005, PFM Act 2019, and SOEs Act 2023. Complete operationalization of the vital constitutional bodies NFC, CCI, and NEC alongside a robust National Financial Management Plan to deal with crises, war, disasters, and emergencies, is a non-negotiable institutional requirement for the financial viability and development of Pakistan. Approval of the fiscal framework by the Federal and Provincial Governments, NEC/CCI, and the National and Provincial Assemblies, and execution of the federal taxation policy by the FBR in collaboration with the provinces, are the essential policy choices that must be made without further delay.

The FBR's direct and indirect taxation plans and procedures must be introduced and implemented by the Federal Government consistently for a three-year period, in consultation with the Provincial Governments and with the approval of the National Assembly. Phase-wise reduction in tax expenditures must be pursued, and the grant of exemptions by the FBR should be curtailed. Where sectoral support is genuinely necessary, subsidies by the Federal or Provincial Governments should be granted to the deserving sectors for a limited time period only. Revenue mobilization must be driven by broadening the direct tax net and reducing income tax rates for the salaried class and industry, which should remain unchanged for three years. Enforcing a uniform and harmonized national sales tax, reducing GST rates over three years, and establishing a single unified revenue authority with provincial representation are the key additional policy interventions required.

Non-Tax Revenues, a vital non-divisible federal resource, have remained severely undermined by institutional misalignment, the absence of joint efforts, and unresolved streams including GIDC recovery, low collection of dividends and markup, unresolved issues in the transfer of surplus profits of Authorities and SOEs including NADRA, passport fee collection, and Workers Welfare Fund/Workers Profit Participation Fund matters. Various classes of NTRs should be merged and consolidated by the Finance Division in consultation with relevant organizations. Petroleum Development Levy rates, which are presently very high, should be capped at no more than Rs 100 per liter, and all NTR-related policies, procedures, and rates should be formulated for a three-year period to ensure consistency and predictability.

All federal government autonomous bodies, organizations, corporations, entities, and authorities should compulsorily deposit their funds in the TSA system under the Rules, Regulations, and Procedures framed by the Finance Division and SBP. The Finance Division, in consultation with MOPDSI, should sanction and issue Indicative Budget Ceilings for current and development expenditures for three years. However, the annual approval of Budget Appropriations should continue to be obtained from the Federal Cabinet and National Assembly, along with authorization from the Prime Minister, as required under the Constitution, PFM Act, and the relevant Rules. No Supplementary Budget, Finance Bill, or Regular Supplementary Grant should be issued during any financial year except under special situations such as disaster or emergency, and only with the approval of the National Assembly.

Expenditure rationalization must be one of the foremost priorities of all governments. The federal fiscal deficit must be brought to zero percent of GDP over three years through a reduction of Rs 3 to 4 trillion in current and development expenditures. Savings will be achieved through reductions in markup, Running of Civil Government (RoCG), pension, grants and subsidies expenses, and PSDP portfolio cleansing. The Primary Balance will remain positive and in surplus, and overall general government targets will be firmly achieved to complete the ongoing IMF Program. These measures will also raise the tax-to-GDP ratio to 16% during the next three years and to 18% over five years. In addition, a Medium-Term Fiscal Framework must be developed, and a shift to Performance-Based and Zero-Based Budgeting must replace the current incremental budgeting approach.

The SBP should develop a mechanism enabling citizens to invest in government securities through commercial banks with only a 1% intermediary charge. Commercial bank lending rates to the government should not be based on commercial or KIBOR+ rates but should instead be determined on the basis of the declared cost of funds plus 1% profit, on the pattern of National Savings Schemes. Civil government bloat must be addressed through cabinet rationalization, the merger of redundant Ministries, Divisions, and Departments, a three-year freeze on the creation of new entities and organizations, and strict enforcement of the austerity measures notified by the Cabinet Division. Increases in federal employees' salaries should be made on the recommendations of the Pay and Pension Commission and only after three years.

Given regional security imperatives, allocations for Defence Services must be appropriately increased over the next three years within a rationalized overall expenditure envelope. Debt servicing costs require administrative transformation and structural reforms through competitive, economical, and diversified domestic borrowing. The SBP policy rate and exchange rate must be maintained at rational, sustainable, and justifiable levels for a longer period of time in order to restore macroeconomic stability. The enforcement of pension reforms in all Federal Government Organizations must be ensured, and increases in pension should be made on the recommendations of the Pay and Pension Commission only after every three years.

Expenditures on Grants-in-Aid to the provinces, AJK, GB, and other SOEs by the Federal Government must be reduced as non-recurring expenses and executed under the NFC review. Grant allocations for BISP and HEC should be shared between the Federal and the Provincial Governments, and Federal Baitul Mal should be funded through the Zakat Fund. Complete transfer and handover of all devolved subjects, projects, and entities from the federal to the respective provincial governments must be effected within the next three years. The expenditure-sharing formula and the laid-down procedure between the Federal and Provincial Governments should be amicably agreed upon and strictly enforced.

Implementation of the IMF program, energy sector reforms, and achievement of structural benchmarks by all governments and SOEs remain critical matters that cannot be deferred. The Annual Budget Calendar should be amended to provide two months of space for extensive public and parliamentary debate on draft budget proposals before approval, on the model practiced in India. Privatization or transfer of all DISCOs and Pakistan Steel Mills to the respective provinces must be ensured without further delay, and power and gas sector subsidies and funding for the circular debt must be reviewed and independently audited.

The PSDP portfolio requires immediate cleansing, and all provincial-based projects must be transferred to the respective provinces. The much-needed reforms and upgradation of auditing, accounting, reporting, and procurement systems should be completed within the next three years by the Finance Division, the Auditor General, the Controller General of Accounts, and the State Bank of Pakistan. The fiscal consolidation measures and tax system overhaul will result in adjustments of approximately Rs 1,000 billion in FBR tax collections for FY 2026-27 and during subsequent financial years. This revenue gap will be managed by bringing new filers into the direct tax net, increasing sales tax registrations, enforcing the POS regime, implementing e-invoicing and digital measures, reducing tax expenditures over the medium term, and reviewing the NFC formula.

In conclusion, the policy recommendations and proposals contained in this Shadow Budget will steer the way through a disciplined graduation — from stabilization to sustainable growth — building private sector confidence, domestic investment, employment generation, and technology-driven financial management. Pakistan's Shadow Federal Budget FY 2026-27 is anchored in four interlocking convictions: that fiscal policy must be balanced, people and business friendly, and growth-oriented, and that its ultimate measure must be poverty reduction. Every recommendation contained herein has been assessed against this unified standard, recognizing that tax relief, real income, job creation, and business competitiveness are not competing priorities but mutually reinforcing ones. This is an independently prepared, evidence-based fiscal alternative, offered in a spirit of constructive engagement — not to compete with the government but to complement it.

INTRODUCTION & METHODOLOGY

The Constitution of Pakistan 1973, along with the Laws, Rules, and Regulations made thereunder, provides a comprehensive legal framework for the preparation, approval, and execution of the annual budget by the Federal and Provincial Governments. The budgetary process is further governed by key statutory instruments, including Articles 78–84 and 153–167 of the Constitution, Sections 3, 5, 8, 9, and 17 of the Public Finance Management Act 2019, and Sections 3, 5, and 7A of the Fiscal Responsibility and Debt Limitation Act (FRDLA) 2005. These provisions collectively define the fiscal responsibilities of both the Federal and Provincial Governments and establish the legal boundaries within which budget preparation, execution, and accountability must operate.

Under the existing democratic system, ruling political parties, on the basis of their majority in the National and Provincial Assemblies, remain responsible for the preparation and approval of budgetary expenditure estimates and finance bills. Opposition parties also participate in the budgetary process through criticism, cut motions, and voting. Public opinion is further channeled through media reports, publications of think tanks, NGOs, chambers of commerce, and other bodies.

One established tradition in developed democracies is the submission of a Shadow Federal Budget by opposition parties, a practice followed in many countries, e.g. Canada, South Africa, the United Kingdom, and Singapore. This practice has not yet been formally introduced in Pakistan.

Pakistan's budget process suffers from chronic structural weaknesses, minimal public consultation, strong executive dominance, weak fiscal transparency, and limited engagement from parliament, academia, think tanks, labour organizations, and the broader citizenry. EPBD's Shadow Budget addresses these deficiencies by modelling what an inclusive, transparent, and deliberative budget process could look like. Drawing on global best practices from India's 7–8 weeks of committee scrutiny to Germany's detailed multi-month parliamentary examination, EPBD proposes a Reformed Budget Calendar anchored around mid-April pre-budget consultations, April–May stakeholder hearings, a mid-May budget presentation, and robust parliamentary scrutiny through to final passage before 30 June. This document is both a policy alternative and a call to institutionalize meaningful citizen participation in Pakistan's fiscal governance.

The EPBD Think Tank has taken this initiative to analyze and review the Federal Budget's preparation, presentation, approval, and execution procedures and practices. After thoughtful deliberations, this Shadow Federal Budget largely follows the structure of the Federal Government's 'Budget in Brief', enriched with graphs, data visualizations, analytical reviews, and in-depth assessments. A series of stakeholder consultations, including receipt of tax proposals from the FPCCI and various Business Chambers, were carried out to incorporate justified proposals on revenue measures, expenditure priorities, and taxation into the final document.

This Shadow Federal Budget has been prepared through a structured, evidence-based methodology. Fiscal data spanning five years (FY 2020-21 to FY 2025-26) covering tax and non-tax revenues, current and development expenditures, grants, subsidies, and debt obligations, were collected from official sources including Finance Division publications, FBR reports, SBP accounts, and Budget Explanatory Memoranda. Historic trends were analyzed alongside projections by the IMF, the World Bank, and other international institutions to build medium-term macroeconomic and fiscal assumptions. All analysis have been benchmarked against the constitutional and statutory framework outlined above to assess fiscal conduct and identify areas requiring reform. Stakeholder consultations with the FPCCI, Business Chambers and sectoral representatives were conducted, with their proposals on revenue measures, expenditure rationalization, and taxation selectively incorporated into the final recommendations.

Growth figures expressed over multi-year periods in this document are calculated as Compound Annual Growth Rates (CAGR). Minor variances between stated and calculated percentages reflect standard rounding practices.

Hiran Minar

Table - 1
SHADOW FEDERAL BUDGET AT A GLANCE
BE & RE FY2025-26 and BE FY2026-27

Table 1 presents important percentages of the Budget & Revised Estimates of FY2025-26 and Shadow Federal Budget Estimates of FY2026-27 along with Financing.

(Rs. in Billion)

	Govt Estimat	EPBD Projections	
	B.E 2025-26	R.E 2025-26	B.E 2026-27
Gross Revenue (FBR+NTR)	**19,278**	**18,642**	**19,558**
Revenue Receipt (FBR)	14,131	13,450	14,500
Non-Tax Revenue	5,147	5,191	5,058
Less: Transfer to Provinces (-)	**-8,206**	**-7,801**	**-8,265**
Net Revenue for Federal Government	**11,072**	**10,840**	**11,293**
Total Expenditure	**17,573**	**16,667**	**14,943**
Interest Payments	8,207	7,650	6,216
Defence Affairs & Services	2,550	2,750	2,959
Pension	1,055	1,020	1,119
Running of Federal Government	971	920	851
Grants	1,928	1,928	1,482
Subsidies	1,186	1,499	1,248
Provision for Emergencies	389	0	300
Federal PSDP & Net Lending	1,287	900	767
Budget Deficit (Federal)	**-6,501**	**-5,826**	**-3,650**
as %GDP	-5.0%	-4.6%	-2.6%
Primary Balance (Federal)	**1,706**	**1,824**	**2,566**
as %GDP	1.3%	1.4%	1.9%
Provincial Surplus	1,464	1,106	919
Overall Fiscal Deficit	**-5,037**	**-4,720**	**-2,731**
as %GDP	-3.9%	-3.7%	-1.9%
Overall Primary Balance	**3,170**	**2,930**	**3,485**
as %GDP	2.4%	2.3%	2.5%
Nominal GDP	**129,567**	**127,012**	**137,971**
Financed by:			
Net External Sources	106	106	116
Non-Bank Borrowing	2,874	2,579	1,532
Bank Borrowing	3,435	3,055	1,907
Privatization Proceeds	87	87	95

Table - 2
REVENUE RECEIPTS

Table 2 presents the details of Revenues collected by FBR

(Rs in Million)

	Govt Estimates	EPBD Projections			
Classification	**B.E 2025-26**	**R.E 2025-26**	**B.E 2026-27**	**B. E 2027-28**	**B.E 2028-29**
FBR TAXES (I + II)	**14,131,000**	**13,450,113**	**14,500,357**	**16,499,689**	**17,999,815**
I. Direct Taxes	**6,902,000**	**6,480,113**	**6,971,450**	**7,953,256**	**8,601,384**
- Income Tax	6,811,243	6,389,113	6,943,136	7,922,111	8,567,124
- Capital Value Tax	17,192	26,000	28,314	31,145	34,260
II. Indirect Taxes	**7,229,000**	**6,970,000**	**7,528,907**	**8,546,433**	**9,398,431**
- Customs Duties	1,588,000	1,538,000	1,696,756	1,921,432	2,063,575
- Sales Tax	4,753,000	4,643,000	4,855,302	5,550,468	6,202,869
- Federal Excise	888,000	789,000	976,848	1,074,533	1,131,987
- Workers Welfare Fund	25,740	48,000	-	-	-
- Workers Profit Participation Fund	47,825	17,000	-	-	-

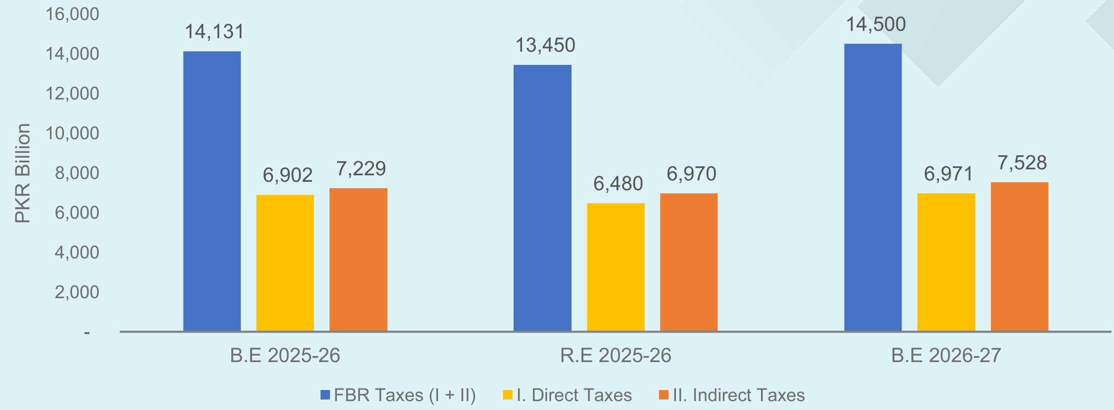
FBR Revenues

Pakistan's federal tax structure is complex and generally beyond the comprehension of an average taxpayer. Citizens are being subjected to excessive taxation to cover systemic inefficiencies within FBR, while full implementation of simplification of tax processes, despite various administrative and legislative exercises over the last decade, remains unachieved. Exorbitant rates charged on the same basis defy fundamental taxation principles, and the practice of taxing amounts otherwise not liable to tax has eroded the sacred trust between the state and its citizens. Left unaddressed, these distortions risk further layering and entrenchment.

Analysis

Direct Taxes collection has shown continuous growth over the last five fiscal years, rising from Rs. 1,731 billion in FY 2020-21 to Rs. 5,791 billion in FY 2024-25, reflecting a growth of approximately 35%. For the current financial year, the original FBR total revenue target was Rs. 14,131 billion (figure 1). By the half-year mark, total collection stood at Rs. 6,161 billion, 43.6% of the annual target with Income Tax collections reaching Rs. 3,030 billion against the target of Rs. 6,811 billion. By July–March, cumulative collection reached Rs. 9,307 billion, falling short of the quarterly target. Revised estimates for the current financial year now stand at Rs. 13,450 billion, indicating a shortfall of Rs. 680 billion.

Figure 1 BE 2026-27 for Direct & Indirect taxes



Source: MoF, EPBD

Indirect Taxes have similarly grown from Rs. 3,032 billion in FY 2020-21 to Rs. 5,953 billion in FY 2024-25, with an average growth of 18%. Sales Tax on goods is collected by FBR while Sales Tax on services falls under Provincial Governments. Uniformity of rates and harmonization of procedures across the country remains a persistent challenge for taxation authorities.

IMF targets for FY 2025-26 stand at Rs. 14,307 billion under the program, revised to Rs. 13,979 billion in the IMF's December 2025 Report. For FY 2026-27, the IMF has projected a target of Rs. 15,712 billion, Rs. 1,582 billion higher than the previous year. Finance Division and FBR are expected to align with the revenue targets agreed upon during the Third Review of the EFF and RSF in March 2026.

Macroeconomic pressures add further strain to the revenue outlook. Media reports, Business Chambers, and independent experts have flagged that tax rates are already excessively high, amounting to a regressive taxation regime. Geopolitical uncertainties, the Middle East conflict, rising fuel prices, and food supply pressures are expected to adversely impact consumers and economic activity during the current and next financial years.

Proposals

- **Medium-Term Revenue Framework:** A comprehensive Medium-Term Revenue Framework covering all FBR taxes should be introduced by the Federal Government in consultation with Provincial Governments and with approval of the National and Provincial Assemblies. All FBR taxation plans and strategies should be prepared for a rolling 3-year period and approved by the Federal Government and National Assembly. The practice of annual taxation policy revision through Finance Bills should be discontinued.

- **One Revenue and Taxation Authority:** A single Revenue and Taxation Authority should be established with legally ensured provincial representation in the Tax Policy Office of Finance Division and Revenue Division/FBR. A unified Revenue Service should be created within FBR, and the portfolio of Customs Duty should be transferred to a separate Board/Authority/Commission under the Ministry of Commerce and Trade so that it is not used for revenue purposes only but also to protect and promote indigenous industries.

- **No supplementary budget or Finance Bill** should be moved during FY 2026-27. Medium-term targets from FY 2026-27 to FY 2028-29 should be realistic, avoiding undue burden on the salaried class and industry, with tax broadening and enforcement measures progressively strengthened.
- **Tax consolidation and simplification:** Consolidation and merger of various taxes, levies, surcharges, and fees should be prioritized. Simplification of tax procedures and timely delivery of relief to taxpayers should be a prime objective. Fiscal data collection, integration, and sharing among SBP/RAAST, FBR/PRAL, and CGA/FABS should be further strengthened, with malpractices and departmental inefficiencies controlled under supervision of the Federal Government, CCI/NEC, and Provincial Governments.
- **Tax relief measures:** EPBD proposes the following:
- Reduction of maximum salary Income Tax to 20% from 35%, non-salaried individuals / AOPs from 45% to 25% and standard Corporate Tax rate to 25% from 29%; rationalization of tax slabs for salaried classes; withdrawal of Super Tax except for banks; withdrawal of inter-corporate dividend tax and WHT with minimum collection
- Abolition of Income Tax non-filer category
- Reduction of General Sales Tax from 18% to 15% and harmonization of Federal and Provincial taxes and processes over 3 years; reduction in Custom Duties on selected items in line with the National Tariff Policy
- Upward revision of FED on tobacco by 25%–30%; increase on sugary beverages from 20% to 25%; extension of FED to luxury items currently outside the excise net
- *(Total estimated revenue loss Rs. 1,380 billion and projected revenue gains Rs. 1,380 billion)*
- **Revenue target for FY 2026-27:** EPBD proposes an achievable FBR revenue target of Rs. 14,500 billion, comprising Direct Taxes of Rs. 6,971 billion and Indirect Taxes of Rs. 7,529 billion.

Collection of Workers Welfare Funds (WWF) and Workers Profit Participation Fund (WPPF) by FBR

Following the 18th Constitutional Amendment, labor and welfare became provincial subjects. Sindh and Punjab now collect workers-related funds through their own institutions — such as the Punjab Employees Social Security Institution (PESSI) — and maintain separate records through their respective revenue authorities, the Punjab Revenue Authority (PRA) and Sindh Revenue Board (SRB). Despite this devolution, companies operating across multiple provinces are still required to pay Workers Welfare Fund (WWF) and Workers Profit Participation Fund (WPPF) to the Federal Government through FBR, which continues to include these amounts in its overall revenue collection.

Analysis

Federal collection despite devolution: FBR remains the designated collection agency for trans-provincial entities, as the CCI decided in December 2019 that until a mutually agreed mechanism is developed between provinces, FBR will continue collecting WWF and WPPF from multi-province businesses. However, there is a significant backlog in transfers of these funds to the provinces, and businesses remain confused about whether to pay FBR or Provincial Authorities.

Misclassification in revenue figures: WWF and WPPF are not Tax Revenue receipts of the Federal Consolidated Fund, they are Public Accounts receipts. Their continued inclusion in FBR's tax revenue collection figures misrepresent the actual tax performance of FBR and distorts fiscal reporting.

Proposals

- **One-Window Filing Portal:** The CCI should approve creation of a single online portal through which a company files one return, with the system automatically splitting funds between federal and provincial accounts based on the company's operational footprint across provinces.
- **Clear redistribution formula:** The CCI should finalize a transparent formula for how FBR redistributes collected WWF and WPPF back to provinces based on where the workers are actually located.
- **Tax consolidation as ease of doing business:** Elimination, reduction, and consolidation of the wide variety of taxes, NTRs, and related levies should be pursued as a core component of ease of doing business in Pakistan.
- **Private sector management of funds:** Collected funds of WWF, WPPF, and EOBI should be efficiently utilized and managed by private sector companies or boards.
- **Reclassification of WWF/WPPF:** As WWF and WPPF are Public Accounts receipts and not Tax Revenue receipts of the Federal Consolidated Fund, they must not be included or reflected in FBR's tax revenue collection figures.

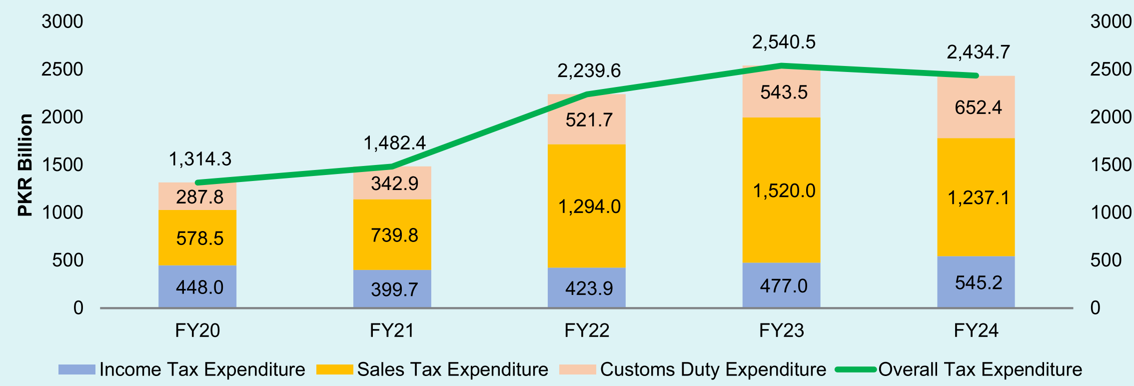
Tax Expenditures Statements

Tax expenditure refers to revenue that governments forgo by granting special tax exemptions, concessions, credits, and preferential rates to specific sectors or groups. These are effectively "hidden" subsidies provided through the tax code rather than direct government spending. Under Section 8 of the Public Finance Management Act 2019, the Federal Government and FBR are required to submit a statement of estimated tax expenditures, covering Sales Tax, Income Tax, and Customs Duty in the Annual Budget Statement every financial year.

Analysis

Scale and growth of tax expenditures: FBR submitted tax expenditure of Rs. 2,434 billion, equivalent to 2.32% of GDP, with Sales Tax remaining the largest contributor at Rs. 1,237 billion. Tax expenditure reflects a consistent upward trend from Rs. 1,315 billion in FY 2019-20 to Rs. 2,434 billion in FY 2023-24, Sales Tax has been the highest contributor throughout (Figure 2).

Figure 2 Breakdown of Tax Expenditure (FY20-FY24)



Source: Tax Expenditure Report 2025, FBR

Structural consequences: While these measures are primarily intended to attract investment, protect local industries, achieve social welfare goals, and reduce the administrative burden of direct subsidy programs, they often lack transparency, create market distortions, and erode the tax-to-GDP ratio, contributing to Pakistan's persistent fiscal deficit.

IMF conditionality: Under the Extended Fund Facility (EFF), the IMF has mandated specific revenue-raising measures involving the reduction of tax expenditures. The Federal Government and FBR are required to rationalize the tax regime by removing broad-based exemptions during the coming fiscal years.

Proposals

- **Shift from SROs to Finance Act:** The practice of granting exemptions through Statutory Regulatory Orders (SROs) should be discontinued. Any necessary relief must be incorporated directly into the Finance Act to ensure better parliamentary oversight and transparency.
- **Gradual elimination of exemptions:** Over the next 3 years, tax exemptions should be gradually eliminated or reduced to the minimum level. Where necessary, subsidies may be granted by respective Provincial Governments to protect specific sectors or sub-sectors. This will increase overall tax collection, eliminate distortions, and ensure Sales Tax collected is transferred to provinces under the NFC formula.
- **Provincial tax expenditures:** Any tax expenditure arising from Sales Tax on Services, which falls within the domain of Provincial Governments, should similarly be minimized or eliminated.

TABLE - 3
NON-TAX REVENUE RECEIPTS

Table 3 presents Non-Tax revenue receipts

(Rs in Million)

Classification	Govt Estimates	EPBD Projections			
	B.E 2025-26	R.E 2025-26	B.E 2026-27	B.E 2027-28	B.E 2028-29
A. LEVIES & FEES	**29,790**	**29,790**	**43,258**	**50,509**	**58,005**
- Mobile Handset Levy	12,000	12,000	13,200	15,840	19,008
- Fee collected by ICT Administration	17,737	17,737	30,000	34,605	38,926
- Airport Fee	53	53	58	64	71
B. INCOME FROM PROPERTY & ENTERPRISES	**519,332**	**529,283**	**684,650**	**738,057**	**812,831**
- Pakistan Telecom Authority (Surplus)	1,100	1,100	1,210	1,331	1,597
- PTA (4G/5G Licenses)	22,049	32,000	72,000	65,000	37,500
- Regulatory Authorities (Surplus/Penalties)	6,239	6,239	20,490	25,000	30,000
- Mark up (Provinces)	95,810	95,810	120,390	126,469	145,439
- Mark up (PSEs & Others)	188,000	188,000	219,800	248,160	285,384
- Dividends	206,134	206,134	250,760	272,097	312,911
C. RECEIPTS FROM CIVIL ADMINISTRATION AND OTHER FUNCTIONS	**2,450,392**	**2,478,752**	**2,194,134**	**1,979,990**	**1,923,435**
- General Administration	5,841	5,841	6,425	7,068	7,775
- SBP Profit	2,400,000	2,428,360	2,135,000	1,915,000	1,853,000
- Defence	35,442	35,442	42,690	46,900	50,174
- Law and Order	5,625	5,625	6,187	6,806	7,486
- Community Services	1,904	1,904	2,094	2,304	2,764
- Social Services	1,580	1,580	1,738	1,912	2,236
D. MISCELLANEOUS RECEIPTS	**2,147,576**	**2,153,639**	**2,135,459**	**2,192,467**	**2,229,872**
- Economic Services	34,785	34,785	38,264	42,090	50,508
- Foreign Grants	2,000	2,000	2,200	2,420	2,662
- Petroleum Levy	1,468,395	1,468,395	1,247,000	1,193,000	1,123,000
- Natural Gas Development Surcharge	49,437	62,000	68,600	75,200	82,500
- Citizenship, Naturalization & Passport	76,500	70,000	88,930	92,565	101,822
- Royalty on Crude Oil	69,000	69,000	75,900	83,490	100,188
- Royalty on Natural Gas	138,000	138,000	151,800	182,160	218,592
- Discount Retained on Local Crude Price	30,000	30,000	33,000	36,300	39,930
- Windfall Levy against Crude Oil	20,000	20,000	22,000	24,200	26,620
- Gas Infrastructure Development Cess (GIDC)	2,400	2,400	125,000	150,000	125,000
- Petroleum Levy on LPG	5,000	5,000	5,500	6,050	6,655
- Windfall Levy on Gas	450	450	495	545	599
- Off the Grid (Captive Power Plants) Levy	105,000	105,000	115,500	127,050	146,108
- Extraordinary Receipts (UNO)	31,200	31,200	34,320	37,752	41,527
- Extraordinary Receipts (Others)	6,400	6,400	7,041	7,745	8,519
- Other Receipts	109,009	109,009	119,909	131,900	155,642
Total (A +B+C+D)	**5,147,090**	**5,191,464**	**5,057,501**	**4,961,023**	**5,024,143**

Non-Tax Revenue

Non-Tax Revenues (NTRs) are a major resource for the Federal Government and a critical component of the Federal Fiscal Framework, falling outside the divisible pool. These are recurring incomes earned from sources other than taxes, broadly falling under four major heads. They also include Straight Transfers to the Provinces such as Royalties on Gas, Oil, Excise Duty on Gas, and others.

Analysis

Overall performance: During the last 5 years, NTR collection achieved growth of 35%–50% across many fields, with overall receipts rising from Rs. 1,506 billion in FY 2020-21 to Rs. 5,147 billion in FY 2025-26. As projected in the Explanatory Memorandum on Federal Receipts Budget Book for FY 2025-26, this growth has been largely driven by petroleum-related levies and central bank profits.

Structural weaknesses: Despite this growth, the Federal Government lacks coordination between Finance Division and other relevant Divisions and Departments. Joint and harmonized efforts are not being made by PAOs and Revenue Collecting Agencies to effectively manage NTRs. The Federal Government remains overly reliant on windfall gains particularly high interest rates driving SBP profits, which is not a sustainable revenue base.

GIDC recovery crisis: The GIDC Act 2015 provides the legal framework to levy and collect Cess from gas consumers outside the domestic sector, earmarked for infrastructure development of IPPP, TAPI, LNG, and ancillary projects. Recovery has been severely hindered by litigation and stay orders in lower courts, with the Federal Government also restrained from charging new GIDC until current arrears are recovered. The Supreme Court ordered payment of Rs. 417 billion in unpaid arrears, with the repayment schedule extended to 60 monthly installments in November 2020. The current recovery position is:

- Total outstanding as of early 2026: Rs. 400+ billion
- Amount recovered by 2024: Rs. 3.0 billion

Key defaulting sectors and their outstanding arrears:

Sector	Arrears (Rs. billion)
Fertilizer	171
CNG	82
Captive Power & Textiles	76
K-Electric	32

Outstanding markup receipts: Finance Division has a pending recovery of Rs. 283 billion in markup receipts from provinces and autonomous bodies that have historically delayed payments.

Proposals

- **Sustainable NTR strategy:** The Federal Government must move beyond windfall reliance on SBP profits and develop an achievable 3-year strategy to stabilize and grow NTRs. Governance of major SOEs, particularly OGDCL and PPL, must be reformed to improve efficiency and ensure consistent dividend payouts. Beyond dividends, focus should shift to privatization of loss-making SOEs to stop the bleeding of NTRs.
- **Cap on Petroleum Development Levy:** PDL rates must not be increased to cover tax revenue shortfalls. A maximum cap of not more than Rs. 100 per liter should be imposed on PDL on petroleum products. Finance Division, Ministry of Petroleum, FBR, and relevant organizations must formulate a solid action plan to reform and digitalize the entire oil and gas revenue collection system.
- **Regulatory Authorities and Civil Service Fees:** Fees for civil services including passports, ICT administration, and regulatory services should be periodically enhanced to reflect current inflation and service costs. Surplus profits of all Regulatory Authorities including PTA, NEPRA, SECP, PNRA, PEMRA, OGRA, PQA, DRAP, and AOB must be timely deposited into the Federal Consolidated Fund, with strict oversight of their authorized expenditures.
- **GIDC recovery:** The Federal Government, Finance Division, and Ministry of Energy/Petroleum Division, with assistance of the Attorney General of Pakistan and Advocate Generals must proactively pursue recovery at all available judicial forums. Legal and administrative actions should be taken without further delay.
- **Markup receipts recovery:** Finance Division must aggressively pursue Rs. 283 billion in outstanding markup receipts from provinces and autonomous bodies, utilizing the Public Finance Management Act 2019 as the legal instrument for recovery.
- **PAO accountability and digitalization:** Complete collection of Federal NTRs and their real-time transfer to the Government Treasury should be established as a key responsibility of all PAOs and Heads of Government Organizations and Bodies. Finance Division should carry out an exercise to consolidate, merge, or eliminate NTR items that contribute negligible amounts but create undue compliance burdens. All modern IT-based channels, digital payments, and branchless banking means should be legally permissible and actively used by Revenue Collecting Agencies and Authorities.

TABLE - 4
DETAILS OF DIVISIBLE POOL TAXES
(TRANSFERS TO PROVINCES)

Table 4 presents details of divisible pool taxes

(Rs in Million)

Classification	Govt Estimates	EPBD Projections			
	B.E 2025-26	R.E 2025-26	B.E 2026-27	B.E 2027-28	B.E 2028-29
A. DIVISIBLE POOL TAXES	**7,988,537**	**7,594,613**	**8,046,442**	**8,995,269**	**9,637,871**
- Income Tax	3,866,504	3,675,801	3,894,530	4,353,769	4,664,792
- Capital Value Tax	9,859	9,373	9,931	11,101	11,895
- Sales Tax (Excluding GST on Services)	2,716,863	2,582,950	2,736,556	3,059,248	3,277,793
- Federal Excise (Excluding Excise Duty on Natural Gas)	503,141	478,324	506,788	566,548	607,021
- Customs Duties (Excluding Export Dev. Surcharge)	892,170	848,165	898,637	1,004,603	1,076,370
B. STRAIGHT TRANSFERS	**217,186**	**206,388**	**218,760**	**244,557**	**262,026**
- Gas Development Surcharge	37,240	35,403	37,510	41,934	44,929
- Royalty on Natural Gas	112,700	107,056	113,517	126,903	135,968
- Royalty on Crude Oil	56,840	54,037	57,252	64,003	68,575
- Excise Duty on Natural Gas	10,406	9,892	10,481	11,717	12,554
TOTAL (A + B):	**8,205,723**	**7,801,001**	**8,265,202**	**9,239,826**	**9,899,897**
PROVINCE- WISE SHARE					
Punjab	4,076,008	3,874,971	4,105,553	4,589,675	4,917,551
Sindh	2,043,762	1,942,960	2,058,576	2,301,321	2,465,722
Khyber Pakhtunkhwa (Inclusive of 1% for War on Terror)	1,342,788	1,276,559	1,352,521	1,512,009	1,620,023
Balochistan	743,166	706,511	748,552	836,821	896,601
TOTAL PROVINCIAL SHARE:	**8,205,723**	**7,801,001**	**8,265,202**	**9,239,826**	**9,899,897**

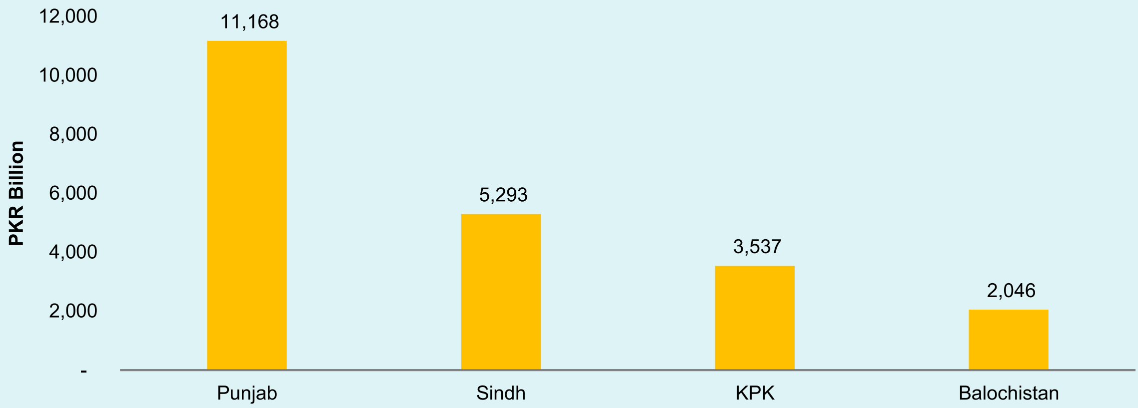
National Finance Commission & Provincial Transfers

The National Finance Commission (NFC) is a key constitutional body established under Article 160 of the Constitution of Pakistan 1973, through which net proceeds of the Divisible Pool Taxes are distributed among the Federation and Provinces. Straight Transfers are also constitutional payments made directly to the provinces of origin

Analysis

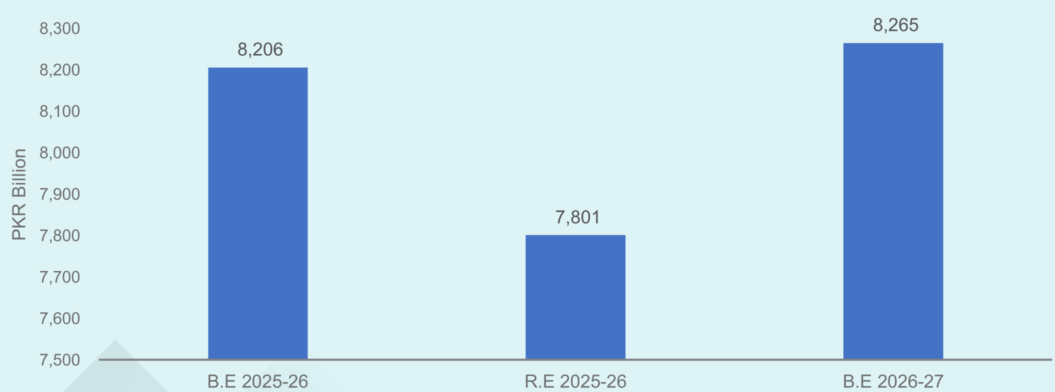
Provincial share distribution: During FY 2020-21 to FY 2024-25, total NFC shares transferred to provinces increased by over 25%, with Punjab receiving Rs. 11,168 billion, Sindh Rs. 5,293 billion, KP Rs. 3,537 billion, and Balochistan Rs. 2,046 billion (figure 3). This excludes straight transfers of Rs. 55 billion to Punjab, Rs. 406 billion to Sindh, Rs. 202 billion to KP, and Rs. 91 billion to Balochistan.

Figure 3 Total Share of NFC transfers to provinces from FY21 to FY25



Moreover, B.E for FY26 was Rs. 8,206 billion while projected R.E is Rs. 7,801 billion. EPBD proposed B.E for FY27 at Rs. 8,265 billion (figure 4).

Figure 4 BE 2026-27 for provincial share in NFC along with BE & RE for FY2025-26



Source: EPBD

Federal fiscal squeeze: The Federal Government frequently runs deficits while provinces run surpluses, as the Centre bears the full burden of national debt, defence, and development expenditures for territories such as AJK and Gilgit-Baltistan. Under the 6th NFC Award (2006), provinces received 47.5% of the Divisible Pool, increased to 57.5% under the 7th NFC Award (2010), leaving the Federal Government with only 42.5%. For FY 2025-26, total transfers to provinces under the existing formula are projected to reach a record Rs. 8.2 trillion.

A decade of constitutional failure: The 7th NFC Award came into force in July 2010 and was due for review every 5 years. It is now over a decade since a new formula has been agreed upon, a grave legal and administrative failure on the part of both Federal and Provincial Governments. Key unresolved matters include the decreased Federal share, the existing allocation formula, Balochistan's shortfall obligations, grant-in-aid to Sindh for abolition of OZT, settlement of the issue of erstwhile FATA in KP's share, Sales Tax on Services, provincial taxation of agriculture and real estate, and failure to hold quarterly NFC meetings.

Proposals

- **New NFC Award on priority basis:** Both Federal and Provincial Governments must treat finalization of a new NFC Award as their foremost constitutional obligation, given that over a decade has passed without a review.

- **Gradual increase in Federal share:** Under the new NFC Award, the Federal Government's share of net proceeds should be gradually increased by 2% to 5% over three years to restore fiscal balance at the Centre.

- **Shift of provincial subjects to provinces:** Full financial responsibility for subjects that are provincial in nature, including Agriculture/PARC, Education/HEC, and Social Welfare/BISP should be transferred to the provinces, easing fiscal pressure on the Federal Government.

- **Provincial contribution to national imperatives:** Practical mechanisms should be explored whereby provinces contribute a defined share back to the Centre for collective national obligations such as debt servicing, defence, and internal security.

- **Expenditure sharing mechanism:** A solid and transparent expenditure sharing mechanism must be finalized between Federal and Provincial Governments to address the structural fiscal imbalance.

- **Inclusion of AJK, GB, and ICT:** AJK, Gilgit-Baltistan, and Islamabad Capital Territory should be formally included in the NFC framework to ensure equitable and constitutionally consistent resource distribution across all territories.

TABLE - 5
CURRENT EXPENDITURE

Table 5 presents summarized form of Current expenditure

(Rs in Million)

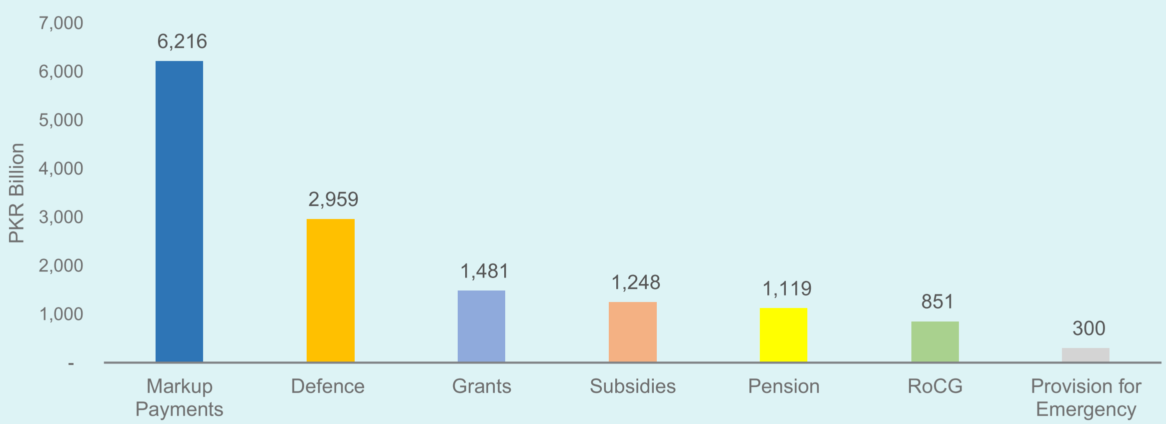
		Govt Estimates	EPBD Projections			
	Classification	**B.E 2025-26**	**R.E 2025-26**	**B.E 2026-27**	**B.E 2027-28**	**B.E 2028-29**
(i)	**Mark-up Payments**	**8,206,657**	**7,650,000**	**6,216,000**	**5,526,000**	**4,822,000**
	- Mark-up on Domestic Debt	7,197,335	6,700,000	5,389,000	4,639,000	3,909,000
	- Mark-up on Foreign Debt	1,009,322	950,000	827,000	887,000	913,000
(ii)	**Pension**	**1,055,000**	**1,020,105**	**1,119,350**	**1,231,385**	**1,360,246**
	- Military	742,000	766,275	839,490	924,364	1,019,044
	- Civil	243,000	249,530	269,773	291,878	321,139
	- Federal Pension Fund	4,300	4,300	10,087	15,143	20,063
	- Pension Increase (Civil+Defence)	65,700				
(iii)	**Defence Affairs and Services**	**2,550,000**	**2,750,000**	**2,959,000**	**3,175,000**	**3,430,000**
	- Defence Services	2,550,000	2,750,000	2,959,000	3,175,000	3,430,000
(iv)	**Grants and Transfers**	**1,927,895**	**1,927,895**	**1,481,990**	**1,039,950**	**1,003,000**
	- Grants to Provinces	150,000	150,000	90,000	0	0
	- Grants to Others	1,777,895	1,777,895	1,391,990	1,039,950	1,003,000
(v)	**Subsidies**	**1,186,036**	**1,498,600**	**1,248,200**	**886,200**	**658,200**
(vi)	**Running of Civil Government**	**971,000**	**920,000**	**851,000**	**805,000**	**815,000**
(vii)	**Provision for Emergency and others** (of which Rs.15 billion is provision for natural disasters triggered by natural hazards FY2025-26)	**389,000**	**-**	**300,000**	**300,000**	**300,000**
	CURRENT EXPENDITURE (i to vii)	**16,286,045**	**15,766,600**	**14,175,540**	**12,962,535**	**12,388,446**

Current Expenditure

Current expenditure constitutes the largest component of Federal Government spending, encompassing the recurring obligations of the state that must be met each fiscal year. It includes markup payments on domestic and foreign debt, defence services, running of civil government (RoCG), grants, subsidies, and pension payments to retired civil and military employees. Over the last five years, current expenditure has grown substantially, driven primarily by rising debt servicing costs, an expanding pension burden, and persistently high civil administration expenses. Collectively, these pressures leave minimal fiscal space for development spending and social investment.

For BE 2026-27, Markup Payments remain the dominant component at Rs. 6,216 billion, followed by Defence at Rs. 2,959 billion, Pension at Rs. 1,119 billion, Grants at Rs. 1,481 billion, Subsidies at Rs. 1,248 billion and Running of Civil Government at Rs. 851 billion (figure 5).

Figure 5 Breakdown of BE2026-27 estimates of Current Expenditure, Rs. Billion



Markup payments account for 44% of current expenditure in BE 2026-27 while defence is at 21%. The share of each component in current expenditure is given in figure 6.

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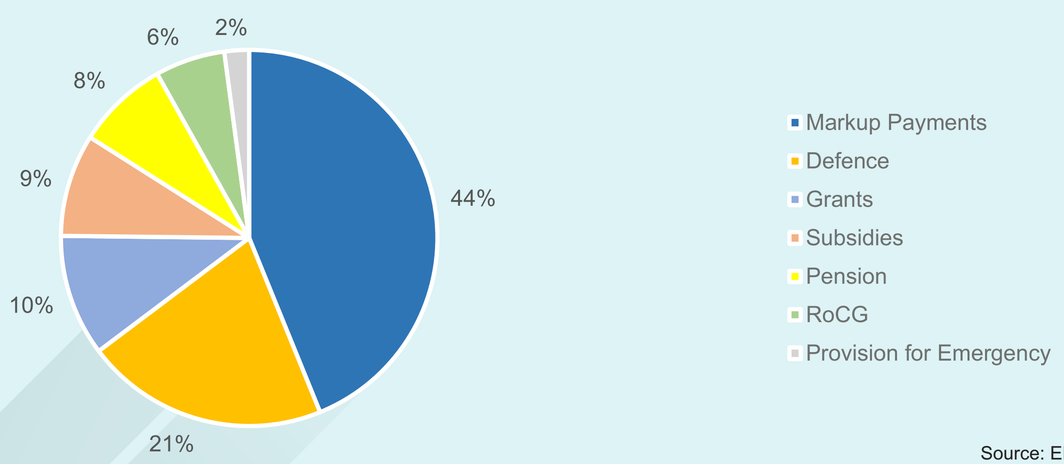
Figure 6 Percentage share of each component in Current Expenditure BE 2026-27



Source: EPBD

The sections below analyze each major component of current expenditure and present EPBD's proposals for reform and rationalization.

Debt Management

Borrowing by the Federal Government is permitted under Article 166 of the Constitution and provisions of the Fiscal Responsibility and Debt Limitation Act (FRDLA) 2005. The CCI, Finance Division, EAD, and SBP have been allocated the functions of Federal Debt Management.

Analysis

Markup payments growth: During the last 5 years, markup payments have increased by approximately 34%, rising from Rs. 2,749 billion in FY 2020-21 to Rs. 8,887 billion in FY 2024-25. Interest payments for FY 2026 are estimated at Rs. 7.65 trillion, consuming approximately 60% of government revenue and leaving minimal fiscal space for development or social spending.

Structural vulnerabilities: Approximately 80% of domestic debt is subject to interest rate re-fixing within two years, making the budget extremely vulnerable to fluctuations in SBP's policy rate. For FY 2026, domestic debt maturities are estimated at Rs. 15.6 trillion, requiring constant new borrowing to repay maturing loans. A significant portion of domestic debt remains short-term, compounding rollover risk.

Banking sector dominance and private sector crowding out: The Federal Government remains the primary borrower from the banking sector to finance its deficit, limiting credit available for private businesses. The market is heavily dominated by commercial banks, with retail individual participation remaining low due to limited financial literacy and lack of direct access to government securities.

FRDLA breach: The Federal Government has been in perpetual breach of the FRDLA, with the debt-to-GDP ratio reaching over 70% in FY 2026, well above the 60% legal limit. This situation has remained uncontrolled even during IMF programs and requires deliberation at the Council of Common Interests (CCI).

Policy Failures: The EPBD has concluded that Finance Division, EAD, their debt management offices, and SBP have not taken prudent decisions or framed effective long-term policies to manage deficit financing. Crucial measures are now required to control interest payments over the medium to long term.

Proposals

- **Medium-Term Debt Management Strategy:** Finance Division, Debt Office, and SBP must prioritize implementation of the Medium-Term Debt Management Strategy (MTDS) FY 2026-28, with focus on issuing medium-to-long-term instruments like Pakistan Investment Bonds (PIBs) to reduce frequency of debt rollovers. Liability Management Operations (LMOs) should be used to buy back expensive high-interest debt ahead of schedule using surplus cash.
- **Diversification of borrowing instruments:** Sukuk structures should be launched to attract Shariah-compliant liquidity and develop a Shariah-compliant yield curve. Long-dated zero-coupon bonds should be introduced to attract institutional investors such as pension and insurance funds. The Pakistan Stock Exchange channel should also be explored by the Debt Office.

- **Retail investor participation:** The Debt Office should launch and expand platforms like Invest Pak and Central Directorate of National Savings (CDNS) to allow retail investors to buy government securities directly, reducing reliance on commercial banks. CDNS Centers should be revamped and upgraded to further attract low-cost public borrowings.
- **Reforming government borrowing:** SBP should develop a mechanism for people to invest in government securities through commercial banks with only 1% intermediary charge. Commercial bank lending rates to the government should not be based on commercial/KIBOR+ rates but determined on the basis of declared cost of funds plus 1% profit, on the pattern of National Savings Schemes.
- **Primary surplus and SBP debt retirement:** The Federal Government must maintain a primary surplus to ensure it is not borrowing for daily operational expenses. SBP profits and available fiscal space should be used to retire debt held by the Central Bank to reduce maturity concentration in 2029.
- **Treasury Single Account:** The Federal Government and SBP must ensure full implementation of the Treasury Single Account (TSA) system across all government organizations and SOEs, resolving issues of cash buffer maintenance with the SBP.

Federal Pension

Federal and Provincial Governments and SOEs have not improved processes and procedures for grant of pensions to retired employees. Federal pension 'demand for grant' rests with Finance Division, covering military and civil retired federal employees, excluding Railways and PPOD (Pakistan Post Office Department). Pension is distributed by AGPR, provincial AGs, MAG, PPOD, and others. Pakistan continues to maintain a legacy pension system that has resulted in a buildup of unfunded liability for both Federal and Provincial Governments.

Analysis

Unsustainable growth trajectory: The Federal Government pays pensions directly from revenues as part of current expenditures, a practice inherently unsustainable given pension expenditures growing at around 20% annually, doubling every four to five years. Total pension allocation grew from Rs. 440 billion in FY 2020-21 to Rs. 910 billion in FY 2024-25, reaching approximately Rs. 1 trillion in FY 2025-26. It is estimated that by FY 2050, federal pensions will account for about 50% of current expenditure.

Military pension dominance: Approximately 75% of the federal pension budget is allocated to the armed forces, driven by early retirement ages that lead to longer payout periods, further straining long-term fiscal viability.

Pension burden relative to development spending: In FY 2018-19, federal pension expenditures were almost 70% of PSDP expenditures, rising to ~90% in FY 2019-20, reflecting a direct trade-off between pension obligations and development spending.

Systemic misuse: Some retirees draw multiple pensions from different departments or simultaneously draw salary and pension. Extended liability through lifelong pensions for unmarried daughters and multiple successors has created perpetual debt obligations with no defined end point.

Proposals

- **Shift to Defined Contribution Scheme:** The Federal Government must shift to a Defined Contribution (DC) Scheme for all new hires, with employees contributing 10% and the government contributing 15%, replacing the unsustainable legacy defined benefit system.
- **Elimination of multiple pensions:** Drawing of multiple pensions from different departments or simultaneous salary and pension must be stopped forthwith.
- **Digitalization of pension payments:** Mandatory Direct Credit System (DCS) for digital pension payments should be enforced across all organizations. There should be no cash pension payments through PPOD. The CGA office and its subordinate organizations must digitalize all such payments urgently.
- **Successor eligibility reform:** A 10-year limit for successors after the spouse should be enforced. Children's eligibility should be capped at age 21 or 10 years, whichever is later, except for disabled children, to eliminate perpetual pension obligations.
- **PFM Act compliance:** All organizations must fully comply with provisions of the PFM Act 2019 relating to the Pension Act, Pension Funds, and related instructions issued by Finance Division.

Defence Services Budget

Meeting defence and security challenges has remained the foremost national interest of Pakistan. The security and defence challenges faced by Pakistan are grave in nature, and in order to effectively address border situations and internal security issues, adequate budgetary funds must be arranged.

Analysis

Budget growth: Annual defence allocations have increased from Rs. 1,316 billion in FY 2020-21 to Rs. 2,194 billion in FY 2024-25, reflecting a sustained increase over the last 5 years to meet evolving security demands.

Proposals

- **Provincial sharing of defence expenditures:** The NFC should take decisions on provincial sharing of expenditures during war and emergencies for the next financial year and medium term.
- **Armed Forces Development Plans:** There should be increased allocation of funds for the Armed Forces Development Plans to address long-term capability requirements.
- **Salary revisions linked to Pay Commission:** Increases in salaries of the Armed Forces should be linked to the recommendations of the Pay and Pension Commission, reviewed after every three years.

- **Austerity measures:** Austerity measures notified by the Federal Government should be fully implemented by all organizations under the Ministries of Defence and Defence Production.
- **Treasury Single Account extension:** The TSA system should be extended to all institutions under the defence sector.

Running of Federal Civil Government

The expenses of the Federal Government on account of Running of Civil Government (ROCG) have been increasing consistently over the years, rising from Rs. 505 billion in FY 2020-21 to Rs. 891 billion in FY 2024-25.

Analysis

Expenditure growth without reform: Despite repeated austerity measures notified by the Cabinet Division, implementation has remained a significant challenge. The incremental budgeting framework continues to drive year-on-year expenditure growth without adequate performance justification. Non-development expenses remain uncontrolled across Federal Government organizations, SOEs, and Civil Armed Forces under Interior Division.

Structural inefficiencies: There is lack of direction, capacity, and coordination between Ministries, Divisions, PAOs, and Finance Division. Overlapping and duplication of functions across Federal Government organizations remain unaddressed. Ministries and Departments dealing with devolved subjects continue to operate at the Federal level despite the 18th Amendment. Cash-based accounting further limits transparency and accountability in public expenditure management.

Proposals

- **Budgeting framework reform:** The Federal Government must fully shift from incremental budgeting to performance-based and zero-based budgeting during the medium term. Indicative Budget Ceilings (IBCs) should be issued to PAOs for a 3-year period. No supplementary grant proposals should be considered by Finance Division or approved by ECC/Cabinet during a financial year.
- **Budgeting Calendar reform:** The annual budget calendar will be restructured to provide a minimum of two months for public and parliamentary deliberation on draft budget proposals prior to approval. The reformed calendar will commence with pre-budget consultation papers in mid-April, followed by stakeholder consultations and parliamentary committee hearings through April–May, with the Federal Budget presented in mid-May and subjected to full parliamentary scrutiny before final passage of the Finance and Appropriation Bills by 30 June.
- **Rightsizing of cabinet and political offices:** The Cabinet should be reduced, including Federal Ministers, Ministers of State, Advisers, Special Assistants, Coordinators, Parliamentary Secretaries, and Chairmen of Parliament Standing Committees. Additional allowances and honorariums for National Assembly and Senate employees and Standing Committees should be rationalized and controlled.

- **Institutional and administrative reforms:** No new division, department, authority, or entity should be created in the next three years. Tiers in Departments and SOEs should be reduced, and redundant Divisions and Departments including potential merger of Finance Division and EAD should be wound up or merged. Ministries and Divisions dealing with devolved subjects should be transferred to relevant provinces or closed within one year.

- **Salary and pension discipline:** Increases in salaries and pensions should only be made after every three years, following recommendations of the Pay and Pension Commission.

- **Expenditure controls:** Strict control should be enforced over utility bills, official vehicles, and fuel grants across all offices, given that monthly funds are already released to senior officers through the Monetization Policy. Late sitting charges should be eliminated, office timings strictly observed, and summer dress enforced to reduce operational costs. Grant-in-aid releases on a recurring basis to various organizations by PAOs and Heads of Offices should be firmly checked and controlled.

- **SOE expenditure oversight:** Salaries, allowances, and use of vehicles in SOEs should be monitored and controlled by PAOs and the SOEs Cabinet Committee.

- **Accounting and audit reforms:** Cash-based accounting should be replaced by accrual-based accounting. Public expenditure auditing should be strengthened by the Auditor General and the Public Accounts Committee of the National Assembly.

- **Coordination mechanism:** The Secretaries Committee should meet regularly to overcome lack of direction and coordination between Ministries, Divisions, PAOs, and Finance Division.

TABLE - 6
SUBSIDIES

Table 6 presents details of subsidies

(Rs in Million)

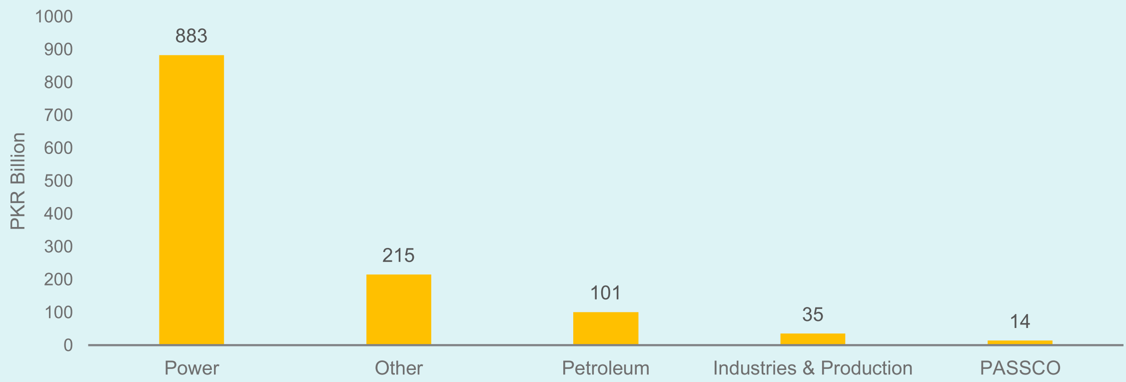
Classification	Govt Estimates B.E 2025-26	EPBD Projections R.E 2025-26	B.E 2026-27	B.E 2027-28	B.E 2028-29
Subsidy to Power Sector (WAPDA/PEPCO/KESC)	**1,036,136**	**1,149,000**	**883,000**	**700,000**	**497,000**
1 Subsidies for Tariff Differential to Agri Tube Wells in Balochistan (PEPCO)	4,000	4,000	4,000	4,000	4,000
2 Subsidies for Inter-DISCO Tariff Differential	249,136	249,000	210,000	180,000	150,000
3 Subsidies for Merged District of KP erstwhile FATA	40,000	40,000	20,000	15,000	10,000
4 Subsidies for Tariff Differential to AJK	74,000	74,000	60,000	50,000	30,000
5 Pakistan Energy Revolving Fund (PERA)	48,000	48,000	48,000	40,000	32,000
6 Subsidies to K-Electric for Tariff Differential	125,000	125,000	100,000	80,000	50,000
7 Subsidies to KESC for Tariff for Agriculture Tubes Wells in Balochistan	1,000	1,000	1,000	1,000	1,000
8 Payment to IPPs	95,000	95,000	90,000	80,000	70,000
9 Lump Provision for Power Subsidy	400,000	513,000	350,000	250,000	150,000
Subsidy to Petroleum:	**1,200**	**201,200**	**101,200**	**1,200**	**1,200**
10 Shortfall in Guaranteed Throughout of PEPCO	1,200	1,200	1,200	1,200	1,200
11 Payment of Shortfall to ASIA Petroleum	-				
12 Domestic Consumers through SNGPL (RLNG)	-				
Lump Provision for Petroleum Subsidy	-	200,000	100,000	-	-
Subsidy to Food (PASSCO):	**20,000**	**20,000**	**14,000**	**0**	**0**
13 Subsidy to PASSCO for Wheat Reserve Stock	14,000	14,000	10,000	-	-
14 Subsidy to PASSCO on Account of Cost Differential for Sale of Wheat	6,000	6,000	4,000	-	-
Subsidy to Industries & Production:	**24,000**	**24,000**	**35,000**	**15,000**	**0**
15 Production & Supply of Urea Fertilizer (Fertilizer Plants)	-				
16 Subsidy-Incentive on Electric Vehicle Scheme	9,000	9,000	10,000	5,000	-
17 Ramzan Package	-				
18 USC PM Package & Arrears	-				
19 USC Sugar Subsidy Arrears	15,000	15,000	25,000	10,000	-
Others Subsidies:	**104,700**	**104,400**	**215,000**	**170,000**	**160,000**
20 Wheat Subsidy to GB	20,000	20,000	15,000	-	-
21 Subsidy on Import of Urea Fertilizer	15,000	15,000	15,000	-	-
22 Subsidy to Naya Pakistan Housing Authority	1,000	1,000	-	-	-
23 Mark-up Subsidy and Risk Sharing Scheme for Farm Mechanization/Kissan Package Refinance and Credit Guarantee Scheme	7,000	7,000	-	-	-
24 (SME Asaan Finance) Subsidy for enhancing financing to SME	1,000	1,000	-	-	-
25 Sector Markup Subsidy to Support Phasing out	5,400	5,400	-	-	-
26 SBP refinancing facilities	30,000	30,000	25,000	10,000	-
27 Provision for 5km radius gas schemes	3,000	3,000	-	-	-
28 EFS Enhanced Plan-Exim and Related Scheme	5,000	5,000	-	-	-
29 Mark-up subsidy for Low Cost Housing & Housing Sector/Mortgage Finance Subsidy	10,000	10,000	150,000	150,000	150,000
30 Metro Bus Subsidy	7,300	7,000	10,000	10,000	10,000
TOTAL SUBSIDIES:	**1,186,036**	**1,498,600**	**1,248,200**	**886,200**	**658,200**

Subsidies

Federal subsidies are financial aid provided by the government to support specific industries, businesses, or individuals. While intended to achieve social or economic goals, they face significant structural challenges that have made them fiscally unsustainable and economically distortionary. Federal subsidies have grown from Rs. 425 billion in FY 2020-21 to Rs. 1,297 billion in FY 2024-25, with Rs. 1,186 billion allocated for FY 2025-26.

The proposed subsidy allocations for FY2026-27 are dominated by the Power sector at Rs. 883 billion, reflecting the heavy fiscal cost of Tariff Differential Subsidies and circular debt obligations. Other sectors follow at Rs. 215 billion, Petroleum at Rs. 101 billion, with the remaining allocations across PASSCO and Industries & Production totaling Rs 49 billion (figure 7).

Figure 7 Projected BE 2026-27 for subsidies



Source: EPBD

Analysis

Fiscal burden and inefficiency: Large-scale subsidies create massive budgetary burdens, contributing to higher national debt and increased taxation. Generalized subsidies consistently fail to reach the most vulnerable populations, high-income households frequently benefit more from energy and fuel subsidies as they consume greater volumes of these resources. Distribution systems suffer from mismanagement and nepotism, with significant portions of funds failing to reach intended recipients.

Market distortions: By artificially lowering prices, subsidies distort market signals, leading to overproduction, inefficient resource allocation, and unfair competition for non-subsidized businesses. Cross-subsidization, charging industries higher rates to subsidize domestic users has made Pakistani exports uncompetitive.

Energy sector crisis: Inefficient energy subsidies have contributed to a circular debt stock of Rs. 1.8 trillion as of early 2026. Power sector challenges including massive line losses, electricity theft, and rising costs of imported fuel have made current tariffs unsustainable. Tariff Differential Subsidies (TDS) continue to shield consumers from actual cost of production, perpetuating the problem.

Agriculture and fuel subsidies: Agriculture subsidies on fertilizers often fail to reach small farmers and encourage wasteful water and chemical use. Fixed-price fuel subsidies remain a massive drain on foreign exchange reserves given global price volatility.

IMF transition: The government is currently transitioning from broad blanket subsidies to targeted, data-driven relief as part of its commitments under the IMF Extended Fund Facility (EFF) 2024–27.

Proposals

- **Overhaul of subsidy framework:** The entire scheme of federal subsidies to power, petroleum, and food-related sectors must be totally revamped during the medium term. The Federal Government is no longer in a position to sustain these expenses in their current form.

- **Elimination of Tariff Differential Subsidies:** TDS should be eliminated or significantly reduced, requiring all consumers to pay the actual cost of production. Vulnerable segments may be compensated through BISP by respective provinces, shifting the burden from a blanket federal subsidy to targeted provincial relief.

- **Power sector structural reforms:** Federal and Provincial Governments and the CCI must evolve a robust and sustainable strategy to address power and electricity sector issues comprehensively, moving beyond price caps to structural reforms including reduction of line losses and electricity theft.

- **Targeted agricultural support:** Agriculture subsidies should be restructured to ensure they reach small farmers directly rather than being absorbed by larger agricultural interests, while discouraging wasteful use of water and chemical inputs.

- **Provincial responsibility for social subsidies:** Provinces should take on greater responsibility for targeted social subsidies, with the Federal Government's role limited to coordination and oversight through the CCI framework.

TABLE - 7
GRANTS AND TRANSFERS

Table 7 presents details of grants

(Rs in Million)

Classification	Govt Estimates	EPBD Projections			
	B.E 2025-26	**R.E 2025-26**	**B.E 2026-27**	**B.E 2027-28**	**B.E 2028-29**
I. GRANTS IN AID & MISCELLANEOUS ADJUSTMENTS	**150,000**	**150,000**	**90,000**	**0**	**0**
SPECIAL GRANTS	**150,000**	**150,000**	**90,000**	**-**	**-**
1 **Sindh** (OZT)	52,000	52,000	30,000	-	-
2 **Khyber Pakhtunkhwa** (KP Merged Districts and Khasadars)	80,000	80,000	50,000	-	-
3 **Balochistan** (Socio-Economic Challenges & Strengthening of CTD)	18,000	18,000	10,000	-	-
II. GRANTS TO OTHERS	**1,777,895**	**1,777,895**	**1,391,990**	**1,039,950**	**1,003,000**
- Contingent Liabilities	300,000	300,000	320,000	335,000	345,000
- Miscellaneous Expenditure	144,000	144,000	155,000	162,000	170,000
- Pakistan Railways	70,000	70,000	50,000	40,000	30,000
- Provision for Relief etc.	13,000	13,000	13,000	15,000	15,000
- Competition Commission of Pakistan	150	150	150	-	-
- Reimbursement of TT Charges, Home Remittances and Other Initiatives	-	-	20,000	10,000	-
- Audit Oversight Board	80	80	40	-	-
- AJK Government	140,000	140,000	70,000	-	-
- Gilgit Baltistan Government	80,000	80,000	40,000	-	-
- Bait-ul-Mal	10,000	10,000	5,000	-	-
- Benazir Income Support Programme	716,000	716,000	358,000	200,000	200,000
- TDRP	3,400	3,400	3,400	1,700	-
- National Poverty Graduation Program (NPGP)	230	230	0	-	-
- Poverty Graduation of extremely poor and flood affected household (PGEP)	9,700	9,700	9,700	-	-
- ASPIRE W.B	2,900	2,900	2,900	-	-
- National Disaster Risk Management Fund (NDRMF)	1,100	1,100	1,100	-	-
- EPI (Rupee Cover)	2,000	2,000	2,000	-	-
- Provision for anticipated forex inflows (RAM Project)	-	-	20,000	10,000	10,000
- Provision for SRC	3,000	3,000	3,000	-	-
- Pakistan Machine Tools Factory	500	500	500	-	-
- Higher Education Commission (HEC)	65,000	65,000	32,500	20,000	10,000
- Security Enhancement	50,000	50,000	50,000	50,000	50,000
- Financial Monitoring Unit (FMU)	1,200	1,200	0	-	-
- Supervisory Board (CDNS)	10	10	0	-	-

Contd.....

(Rs in Million)

	Govt Estimates	EPBD Projections			
Classification	**B.E 2025-26**	**R.E 2025-26**	**B.E 2026-27**	**B.E 2027-28**	**B.E 2028-29**
- Association for Welfare of Retired Pensioners	5	5	0	-	-
- Crops Loan Insurance Schemes (CLIS)	1,000	1,000	0	-	-
- Livestock Insurance Schemes (LIS)	700	700	0	-	-
- PLIC	3,000	3,000	3,000	2,000	-
- PM Youth Business & Agriculture Loan Scheme	16,000	16,000	8,000	-	-
- PM Kamyab Jawan/ YES Program	6,000	6,000	3,000	-	-
- Kamyab Pakistan Program	800	800	400	-	-
- PM Youth Business Loan	400	400	200	-	-
- PM Ramzan Package	19,000	19,000	-	-	-
- Relief to widow borrowers of HBFCL (Widows Welfare)	100	100	100	-	-
- GIDC for ISGS	4,000	4,000	4,000	6,000	8,000
- CAPEX obligation of GOB for Reko Diq Project/Equity Contribution	40,000	40,000	40,000	25,000	10,000
- Reko Diq 3rd Party Guarantee Fee	1,500	1,500	0	-	-
- GHPL Loan Facility	20,500	20,500	20,500	10,000	5,000
- Arbitration/ Court Cases & Others	1,000	1,000	0	-	-
- Provision for Green Initiatives	155	155	0	-	-
- Provision for Gender Initiatives	155	155	0	-	-
- Provision for E-Fans	2,000	2,000	0	-	-
- Pakistan Foundation Fighting Blindness	12	12	-	-	-
- Nazriya e Pakistan Council Trust Islamabad	8	8	-	-	-
- Provision for Grant to Hassan Abdal Cadet College	250	250	-	-	-
- Climate Change Conferences & Forums	150	150	-	-	-
- Grant to Estab. Div. for Balochistan Package	1,000	1,000	-	-	-
- Digitization of FBR/IT upgradation and restructuring etc.	2,000	2,000	-	-	-

Contd…..

(Rs in Million)

Classification	Govt Estimates B.E 2025-26	EPBD Projections R.E 2025-26	B.E 2026-27	B.E 2027-28	B.E 2028-29
- USF & R&D fund	6,000	6,000	6,000	3,000	-
- PSEB for IT Exports	500	500	500	250	-
- Duty Drawback of taxes (DLTL, LTLD, DDT)	15,000	15,000	150,000	150,000	150,000
- SMEDA Fund	2,000	2,000	-	-	-
- Provision for Media/Publicity and Advertisement	5,000	5,000	-	-	-
- Provision for TSA	1,000	1,000	-	-	-
- Credit Scoring Services - SMEDA	150	150	-	-	-
- SME Certification, Accreditation and Quality Improvement Program	150	150	-	-	-
- Grant to Overseas Pakistani Authority	100	100	-	-	-
- NAVTTC	200	200	-	-	-
- Autism Society of Pakistan	50	50	-	-	-
- Pakistan Maritime Security Agency (PMSA)	1,000	1,000	-	-	-
- Emergency, Relief and Repatriation	2,000	2,000	-	-	-
- Access to Justice Development Fund	2,000	2,000	-	-	-
- FGEIs	1,000	1,000	-	-	-
- Provision for Women Inclusive Finance (WIF)	8,000	8,000	-	-	-
- PM Initiatives for Enhancing SMEs Bankability and Sub-Contracting	950	950	-	-	-
- PM Directive for Revamping of SMEDA	370	370	-	-	-
- Center of Excellence - OPHRD	300	300	-	-	-
- Portal for Overseas Pakistanis-OPHRD	100	100	-	-	-
- Grant to Al-Shifa Eye Trust Rawalpindi	20	20	-	-	-
TOTAL GRANTS (I+II):	**1,927,895**	**1,927,895**	**1,481,990**	**1,039,950**	**1,003,000**

Grants

Federal grants and transfers encompass financial allocations directed toward social safety nets, regional development for special areas, and specific administrative requirements. Total grants grew from Rs. 911 billion in FY 2020-21 to Rs. 1,633 billion in FY 2024-25, with an estimated outlay of Rs. 1,928 billion in FY 2025-26.

Analysis

BISP dominance and sustainability: BISP accounts for a major portion of total grants and transfers, reflecting a shift toward direct cash transfers to mitigate inflation for the most vulnerable. While BISP supports over 5 million families, this level of federal expenditure is becoming unsustainable and increasingly difficult to justify as a permanent federal obligation. An end-game plan for support to individuals needs to be clearly spelt out.

Special areas and regional grants: AJK and GB receive substantial current grants from the Federal Government. Balochistan's direct grant from federal current expenditure is relatively small as it receives a large share through royalties and surcharges via the NFC. These allocations require rationalization through the upcoming NFC review.

Post-devolution overlaps: Despite the 18th Constitutional Amendment devolving health and education to provinces, significant federal spending continues in these sectors. HEC allocations extend beyond federal educational institutions, and federal health spending overlaps with provincial responsibilities, creating duplication and fiscal leakage.

Transparency gaps: Non-recurring grants to private and voluntary organizations lack adequate parliamentary oversight, with insufficient reporting on the specific purpose and utilization of funds.

Proposals

- **BISP transformation:** BISP must gradually shift focus from cash transfers to empowering beneficiaries toward self-reliance and poverty exit. The BISP Hunarmand program should be promoted and extended nationwide with technical support from national and international bodies. BISP expenditure should be shared between Federal and Provincial Governments over the next 3 years through the upcoming NFC review.
- **NFC-based rationalization of special area grants:** Funds for AJK, GB, and Balochistan grants should be rationalized and allocated through the upcoming NFC award review rather than maintained as ad hoc federal current expenditure.
- **Baitul Mall funding:** Baitul Mall should be funded through Zakat funds collected annually, removing it as a charge on general federal revenues.

- **HEC and health spending rationalization:** HEC allocations should be restricted to Federal Government educational institutions only. Federal health spending should strictly adhere to the 18th Constitutional Amendment, with the Federal Government ruling out funding for provincial health insurance schemes.
- **Removal of devolution overlaps:** Funds currently allocated to devolved sectors should be reallocated away from untargeted federal spending toward targeted programs that fall within the Federal Government's constitutional domain, reducing fiscal leakage.
- **Parliamentary oversight of grants:** Non-recurring grants to private and voluntary organizations must be reviewed and reported in detail to Parliament, including the specific purpose and utilization of funds.
- **Dedicated allocation for export incentivization and housing finance expansion:** A budgetary allocation of PKR 300 billion per annum should be committed, with PKR 150 billion annually earmarked for the Drawback of Local Taxes and Levies (DLTL) Scheme at 10 percent on incremental export growth, subject to a minimum 10 percent year-on-year export growth threshold to ensure the incentive remains performance-linked. Similarly, PKR 150 billion should be allocated annually to expand the housing mortgage finance limit to PKR 30 million from PKR 10 million, broadening access to formal housing credit.

Public Sector Development Programme (PSDP)

The Public Sector Development Programme (PSDP) is the main instrument for improving the socio-economic conditions in the country and achieving the macroeconomic & development objectives and targets set by the government.

TABLE - 8
PSDP 2026-27

It shows the details of PSDP for FY2026-27 in respect of Ministries / Divisions / Departments / Corporations and for Special Packages / Relief.

Table 8 presents details of PSDP for 2026-27

(Rs in Million)

	Govt Estimates	EPBD Projections			
Classification	**B.E 2025-26**	**R.E 2025-26**	**B.E 2026-27**	**B.E 2027-28**	**B.E 2028-29**
A. Federal Ministries/Divisions	**682,792**	**442,792**	**326,000**	**280,000**	**200,000**
1 Aviation Division	-	-			
2 Board of Investment	1,105	1,105	800	800	100
3 Cabinet Division	70,388	55,388	30,000	20,000	-
4 Climate Change Division	2,784	2,784	2,000	2,000	1,500
5 Commerce Division	50	50	50	50	50
6 Communications Division (other than NHA)	149	149	100	100	50
7 Defence Division	11,554	11,554	9,000	8,000	8,000
8 Defence Production Division	1,786	1,786	1,600	1,600	2,500
9 Establishment Division	495	495	400	400	100
10 Federal Education & Professional Training Division	18,580	13,580	8,000	5,000	5,000
11 Finance Division	852	852	500	500	500
12 Higher Education Commission	39,488	29,488	19,000	10,000	5,000
13 Housing & Works Division	15,006	10,506	10,000	5,000	3,000
14 Human Rights Division	23	23	20	20	10
15 Industries and Production Division	1,904	1,904	1,500	800	400
16 Information & Broadcasting Division	6,027	6,027	3,000	3,000	3,000
17 Information Tech. & Telecom Division	16,227	11,227	10,000	10,000	10,000
18 Inter Provincial Coordination Division	1,180	1,180	1,000	1,000	500
19 Interior Division	12,908	12,908	10,000	12,000	12,000

Contd….

(Rs in Million)

Classification	Govt Estimates	EPBD Projections			
	B.E 2025-26	R.E 2025-26	B.E 2026-27	B.E 2027-28	B.E 2028-29
20 Law and Justice Division	1,912	1,912	1,600	1,600	1,150
21 Maritime Affairs Division	3,465	3,465	3,200	3,500	4,000
22 Narcotics Control Division	-	-			
23 National Food Security & Research Division	4,254	4,254	3,000	2,000	1,000
24 National Health Services, Regulations & Coordination Division	14,344	9,344	7,000	5,000	3,850
25 National Heritage & Culture Division	1,676	1,676	1,200	1,200	1,000
26 Pakistan Atomic Energy Commission	761	761	700	700	700
27 Pakistan Nuclear Regulatory Authority	-	-			
28 Parliamentary Affairs Division	2,500	2,500	2,500	2,500	2,000
29 Petroleum Division	719	719	700	700	700
30 Planning, Development & Special Initiatives Division	23,270	18,270	15,000	12,000	12,000
31 Railways Division	22,415	17,415	15,000	12,000	12,000
32 Religious Affairs & Interfaith Harmony	650	650	650	650	500
33 Revenue Division	7,150	7,150	7,150	6,000	5,000
34 Science & Technology Research Division	4,793	4,793	4,727	4,327	4,000
35 Special Investment Facilitation Council Division	503	503	503	303	100
36 Kashmir Affairs, Gilgit Baltistan & SAFRON Division	1,800	1,800	1,100	1,100	290
37 Strategic Plans Division	-	-			
38 SUPARCO	5,419	5,419	5,000	5,000	5,000
39 Water Resources Division	133,424	80,424	70,000	88,150	95,000
40 Special Areas (AJK & GB)	82,000	50,000	40,000	30,000	-
41 Provincial Projects	105,786	30,286	15,000	10,000	-
42 Merged Districts of Khyber Pakhtunkhwa	65,444	40,445	25,000	13,000	-
B. **Corporations**	**317,208**	**257,208**	**229,000**	**220,000**	**230,000**
1 National Highway Authority (NHA)	226,982	186,982	159,000	150,000	160,000
2 Power Division (NTDC / PEPCO)	90,226	70,226	70,000	70,000	70,000
C. **Project Liabilities**	**-**	**-**	**-**		
TOTAL (FEDERAL PSDP):	**1,000,000**	**700,000**	**555,000**	**500,000**	**430,000**
D. **VGF for PPP Projects**	**-**	**-**	**45,000**	**50,000**	**70,000**
TOTAL (FEDERAL PSDP + D):	**1,000,000**	**700,000**	**600,000**	**550,000**	**500,000**

Public Sector Development Program

The Ministry of Planning, Development and Special Initiatives, along with the Planning Commission of Pakistan, is entrusted with the prime responsibility of public investment through the Public Sector Development Programme. Federal PSDP expenditure grew from Rs. 667 billion in FY 2020-21 to Rs. 1,048 billion in FY 2024-25, covering the full cycle from project approval to monitoring and execution.

Analysis

Post-devolution non-compliance: Despite the 18th Constitutional Amendment, approximately 150 provincial projects worth Rs. 1 trillion continues to be funded through the Federal Development Budget, a direct violation of constitutional boundaries. Provinces and Special Areas projects included in PSDP 2025-26 (Revised, November 2025) at serial numbers 145 to 313 and 805, with a total cost of Rs. 1,267 billion, and HEC projects at serial numbers 314 to 454, with a total cost of Rs. 396 billion, remain in the federal portfolio despite being provincial responsibilities.

Throw forward liability: The federal PSDP carries an estimated throw forward liability of approximately Rs. 10 trillion, reflecting a massive accumulation of incomplete, underfunded, and politically motivated projects that continue to crowd out high-priority investments.

Project selection weaknesses: Project selection has been driven by political discretion rather than technical, need-based, or environmental merit. Low-impact schemes continue to consume resources that should be directed toward high socio-economic return investments. Projects started before 2015 with less than 50% completion continue to draw federal funding without accountability.

Proposals

- **Strict adherence to 18th Amendment:** Approximately 150 provincial projects worth Rs. 1 trillion must be dropped from the Federal Development Budget and their funding responsibility transferred entirely to respective provinces. Federal Government must completely halt funding for provincial or local level projects, including primary and secondary schools and rural health centers.

- **Transfer of provincial and HEC projects:** Provinces and Special Areas projects at serial numbers 145 to 313 and 805, and HEC projects at serial numbers 314 to 454, should be transferred to their respective provinces without further delay.

- **Rationalization of throw forward liability:** Portfolio rationalization should be initiated by reducing approximately Rs. 10 trillion throw forward liability. All politically motivated projects and SDG initiatives should be capped and transferred to respective provinces.

- **Project selection reform:** Project selection must shift from political discretion to need-based technical and environmental merits. Low-impact schemes should be discontinued, with focus redirected toward high socio-economic return sectors. Precedence should be given to high-priority, near-completion, and foreign-funded projects.

- **New project controls:** An annual cap and strict technical parameters should be imposed on new project starts. Overlapping and redundant criteria must be reduced. A 10-year sunset cap should be enforced on any project started before 2015 that has not reached 50% completion.

- **Restriction of federal funding to strategic projects:** Federal Government funding should be restricted exclusively to nationally strategic projects such as major water reservoirs, national highways, and inter-provincial energy transmission infrastructure.

- **PPP and green budgeting:** Commercially viable infrastructure projects such as motorways and IT parks should be shifted to the PPP Authority. Climate and green budgeting principles, along with vulnerability screening, should be adopted for all projects going forward.

- **PFM Act compliance:** The provisions of the PFM Act 2019 must be fully adhered to in order to ensure future federal public investment is carried out within the correct constitutional and fiscal framework. The role and responsibility of NEC and CCI should be enhanced as the constitutional umbrella for public investment oversight.

TABLE - 9, 10 & 11

Debt Management and Privatization

Table 9 presents total public debt as of September 2025, Rs. Billion

Total Public Debt	**Jun-24**	**Jun-25**	**Sep-25**
Domestic Debt	47,160	54,472	53,424
External Debt	24,086	26,047	25,723
Total Public Debt	**71,246**	**80,518**	**79,147**
Total Debt of Government1	**65,079**	**73,267**	**71,661**
Debt Ratios			
Total Public Debt as percentage of GDP	**67.6%**	**70.7%**	
Total Debt of Government as percentage of GDP	61.8%	64.3%	
Memorandum Items			
GDP (current market price)	**105,379**	**113,935**	
Government deposits with the banking system2	6,141	7,251	7,485
US Dollar, last day average exchange rates	278.4	278.4	

Source: Debt Policy Statement January 2026, Debt Office, MoF

1.*As per Fiscal Responsibility and Debt Limitation Act, 2005 as amended from time to time, "Total Debt of the Government" means the debt of the government (including the Federal Government and the Provincial Governments) serviced out of the consolidated fund and debts owed to the IMF less accumulated deposits of the Federal and Provincial Governments with the banking system.*

2.*Accumulated deposits of the Federal and Provincial Governments with the banking system*

Table 10 presents Government Guarantees Stock, Rs. Billion

Government Guarantees Stock	**Jun-24**	**Jun-25**	**Sep-25**
Outstanding Guarantees (Extended to PSEs)	**3,387**	**4,256**	**4,094**
-Domestic Currency	1,460	2,199	2,068
-Foreign Currency	1,927	2,057	2,026

Source: Debt Policy Statement January 2026, Debt Office, MoF

Table 11 presents reasons for Debt stock increase, Rs. Billion

Reasons for Debt Stock Increase	**Jun-23**	**Jun-24**	**Jun-25**
Total Public Debt	**62,881**	**71,246**	**80,518**
Increase/(Decrease) in Total Public Debt (I+II)	**13,638**	**8,365**	**9,272**
(I) Effect of Transactions	**6,392**	**7,898**	**6,889**
Federal Primary Deficit / (Surplus)	1,005	(435)	(1,798)
Interest Expense	5,671	8,160	8,887
Cash Balance Increase / (Decrease)	-284	173	(200)
(II) Effect of Exchange Rate Impact/Others	**7,246**	**467**	**2,383**
USD Last day average exchange rates	286.4	278.4	285.05

Note: Other include changes in IMF's BoP loans & effects of accounting policies

Source: Debt Policy Statement January 2026, Debt Office, MoF

Borrowing by the Federal Government is permitted under Article 166 of the Constitution and provisions of the Fiscal Responsibility and Debt Limitation Act (FRDLA) 2005. According to the Debt Policy Statement of January 2026, the Government remains committed to the objectives of the FRDLA 2005, aiming to reduce public debt to sustainable levels over the medium term through fiscal consolidation, generation of primary surpluses, and narrowing of the fiscal deficit to put debt on a downward path.

Analysis

Medium-Term Debt Strategy: The new Medium-Term Debt Management Strategy FY 2026-28 outlines a comprehensive approach including maturity lengthening through higher issuance of medium-to-long-term debt instruments including zero coupon bonds, increasing the share of fixed-rate debt to manage interest rate risk, deepening the domestic debt market, diversifying investors and instruments, and diversifying access to international markets through Panda bond issuance and frequent investor engagement.

Privatization failures: The process of privatization in Pakistan has not yielded meaningful results, with no substantial contribution from privatization proceeds toward retirement of public debt. Federal SOEs continue to run large losses, and the Cabinet Committees on Privatization and SOEs have not adequately enhanced their role and responsibilities. Over the last five years from FY 2020-21 to FY 2024-25, privatization proceeds have consistently fallen short of targets.

Proposals

- **Debt re-profiling:** The Federal Government should consider debt re-profiling to free up fiscal space over the next three to five years, prioritizing reduction of short-term rollover risk and interest rate exposure.
- **Innovative financing instruments:** To supplement traditional funding, the government should explore Green Sukuk, green, social, and sustainability-linked bonds, and debt-for-nature and climate swaps, while pursuing buybacks and exchanges when market conditions are favorable.
- **Privatization reform:** The Cabinet Committees on Privatization and SOEs must significantly enhance their role and responsibilities to accelerate the privatization of loss-making SOEs and ensure proceeds are directed toward public debt retirement.

TABLE - 12
PROJECTED FINANCING MODULE

Table 12 presents Projected Financing Module aligned with the Proposed Reforms for Growth

Indicator	FY26 (Base)	FY27	FY28	FY29	FY30	FY31
A. CURRENT ACCOUNT (USD Billion)						
Exports of Goods	30	39	46	55	65	78
Exports of Services	10	13.7	17	23	29	33
Imports of Goods	63	67	73	79	84	88
Imports of Services	12	14	15	18	21	23
Trade Balance (Goods & Services)	**-35**	**-28.3**	**-25**	**-19**	**-11**	**0**
Workers' Remittances (incl. Inflows from Amnesty)	40	44	48	52	56	60
Current Account Balance / GDP (%)	**-1%**	**0.1%**	**2%**	**3%**	**3.3%**	**5%**
B. EXTERNAL FINANCING SOURCES (USD Billion)						
Multilateral Dev. Banks (MDBs)	—	3.5	4.5	4.8	5	5
Bonds (Eurobonds / Capital Markets)	—	2.7	1.5	1	1.4	2
Bilateral Loans	—	0.6	0.5	0.5	0.5	0.5
Privatization Proceeds	—	0.36	0.38	0.4	0.42	0.5
Exports of Goods — Incremental BOP	—	4.6	4.6	4.6	4.6	4.6
Exports of Services — Incremental BOP	—	5	5.5	6.5	7.5	8.5
Workers' Remittances	—	3.5	3.5	4	4	5
Foreign Direct Investment (FDI)	—	2.5	2	2.5	2.5	3
TOTAL EXTERNAL FINANCING	**—**	**22.8**	**22.5**	**24.3**	**25.9**	**29.1**
C. FINANCING SURPLUS / (SHORTFALL) (USD Billion)						
Total Exports (Goods + Services)	40	52.7	63	78	94	111
Total Imports (Goods + Services)	75	81	88	97	105	111
Trade Balance (G&S)	-35	-28.3	-25	-19	-11	0
Add: Workers' Remittances (incl. Inflows from Amnesty)	40	44	48	52	56	60
Net Current Position (Trade Bal + Remittances)	**5**	**15.7**	**23**	**33**	**45**	**60**
Additional External Financing (MDBs+Bonds+Bilateral+Privatization+FDI)	—	9.66	8.88	9.2	9.82	11
i) TOTAL (Net Current + Additional Financing)	**—**	**25.4**	**31.8**	**42.2**	**54.8**	**71**
Avg. Repayments	—	25	25	25	25	25
ii) TOTAL SURPLUS / (SHORTFALL)	—	**0.4**	**6.8**	**17.2**	**29.9**	**46**
iii) FX Reserves	**17.5**	**18**	**24.3**	**34.7**	**47.4**	**63.5**
D. MACRO CONTEXT (Growth Transformation Path as per ESP & FYDP)						
Nominal GDP (USD Billion)	**452**	**491**	**535**	**582**	**632**	**688**
Overall Real GDP Growth Rate	**4.2%**	**5.5%**	**6.5%**	**7.0%**	**8.0%**	**8.5%**
Agriculture (22% of GDP)	3.6%	4.5%	5.2%	5.6%	6.3%	6.8%
Industry (20% of GDP)	4.3%	5.8%	7.0%	7.5%	8.6%	9.0%
Services (58% of GDP)	4.8%	6.2%	7.2%	7.9%	8.9%	9.6%

Source: EPBD

Projected Financing Module aligned with the Proposed Reforms for Growth

Pakistan's proposed growth transformation targeting real GDP growth rising from 5.5% in FY27 to 8.5% by FY31 is financeable. The current account deficit of 1% of GDP in FY26 turns to a +5% surplus by FY31, anchored by workers' remittances growing from $40 to $60 billion and export growth steadily outpacing imports. A conservative external financing mix of MDBs, Eurobonds, bilateral loans, privatization, and FDI contributes $22–29 billion annually, and after debt repayments of $22-25 billion on average per year, the net position moves from a minor surplus in FY27 to a $46 billion surplus by FY31. FX reserves, which are projected to hold at $17 billion in FY26, are on track to more than triple to $63.5 billion by FY31. Additional upsides: Diaspora and Growth Bonds, remittance formalization, and $14-15 billion stuck in MDBs' approved funds pipeline, are not reflected in these numbers. The binding constraints are not financial but of critical importance, for instance: full implementation of proposed reforms including energy and tax rates reductions, reducing cost of doing business (CoDB), ensuring ease of doing business (EoDB), and reducing government borrowing's share of domestic credit are what will determine whether the growth path is realized or we keep treading on the same vulnerable path.

CONCLUSION & POLICY RECOMMENDATIONS

After thorough analysis and fiscal review, it may be concluded that Pakistan's graduation from stabilization to sustainable growth is achievable with the untiring joint efforts of all the stakeholders. An enhanced national capacity should be built to meet future fiscal challenges and declare domestic fiscal discipline as the foremost priority of all the Governments during medium to long term. It requires strict implementation of 'Top to bottom' and 'whole of Government' approaches.

Federal Government comprising of Cabinet, ECC of Cabinet, various Cabinet Committees on Energy, Privatization, SOEs & others, Standing Committees of Senate & NA, Federal Ministers/Advisors/ Minister of States and relevant Ministries/ Divisions/ Departments/Entities & Regulatory Bodies have not been able to fully achieve the targets and reform the Oil, Gas and Power sectors of Pakistan. The issues related to these sectors are grave in nature and Federal Government alone may not be able to cope with the challenges. It is high time to trust the alternative constitutional & statutory mechanism.

Constitutional Bodies with membership of Federation & Provinces should be fully activated and operationalized to deal with the most critical challenges being faced by Federal & Provincial Governments.

- **National Economic Council;** Monthly meetings to review country's overall economic condition and advise Federal & Provincial Governments, formulate plans on financial, commercial, social and economic policies, & to ensure balanced development and regional equity (Article 156 of Constitution 1973)
- **National Finance Commission;** Urgent meetings to come out of stalemate on distribution of net proceeds of taxes between Federation & Provinces, Grants to Provinces by Federal Government, borrowing powers and Expenditure sharing & transfer of subjects'/projects/ entities (Articles 160-155 of Constitution 1973)
- **Council of Common Interests;** Monthly meetings to formulate and regulate policies on Federal List Part-II (Railways, Oil, Gas, Electricity, WAPDA, Regulatory Authorities, National Planning and economic Coordination, Supervision and management of public debt, inter-provincial matters) and exercise supervision & control over related institutions. Resolve complaints about water supplies and electricity generation & transmission lines. (Articles 153-155, 157, 161 and Fourth Schedule Federal Legislative List Part II of Constitution 1973)

Recommendations on Budgeting: Revenue and Expenditures

1. Budget Calendar

Amend the annual Budget Calendar to provide two months space for extensive public and parliamentary debate on draft budget proposals before approval, on the Indian model. A Reformed Budget Calendar should commence with pre-budget consultation papers in mid-April, followed by stakeholder consultations and parliamentary committee hearings through April-May, with the Federal Budget presented in mid-May and subject to full parliamentary scrutiny and public debate before final passage of the Finance and Appropriation Bills before 30 June.

Country	Discussion Period	Key Features
India	7–8 weeks	Committee scrutiny & public debate
United Kingdom	2–4 months	Finance legislation review
Canada	2–3 months	Committee hearings & fiscal office
Australia	2–4 months	Senate estimates process
United States	6+ months	Congressional appropriations scrutiny
Germany	Several months	Detailed committee examination
South Africa	Multiple months	Public participation mechanisms

International practice strongly supports extended pre-budget deliberation, with most mature democracies dedicating two to six-plus months to legislative scrutiny through mechanisms such as committee hearings, fiscal office reviews, and public participation channels — as reflected in the table above

2. Medium-Term Fiscal Framework

A national medium-term, performance-based fiscal framework — covering both revenues and expenditures — must be formulated, agreed upon, and enforced across all federal and provincial governments, in accordance with Section 7A of the FRDL Act 2005 and Sections 9 and 35 of the PFM Act 2019. This framework shall be approved for a rolling three-year period by the Federal and Provincial Governments, the NEC/CCI, and the National and Provincial Assemblies. The Federal Board of Revenue (FBR), in collaboration with the provinces, shall be responsible for its execution.

3. Federal-Provincial Fiscal Arrangements

The revision or addition of the Federal NFC share, and the finalization of an expenditure-sharing formula between the Federal and Provincial Governments — covering BISP, Bait-ul-Maal, HEC, and emergency/disaster/war situations — must be agreed upon without delay.

The privatization or transfer of all Power Sector DISCOs, Pakistan Steel Mills, and similar entities to their respective provincial governments should be completed within the medium term.

It is more prudent for provinces to share expenditures with the Federal Government than to generate provincial surpluses at the close of a Financial Year or to invest those surpluses in Federal Government securities.

4. Expenditure Rationalization and Deficit Reduction

All other current and development expenditures — including Defence, ROCG, Pensions, Subsidies, Grants, and PSDP — must be reduced and effectively controlled over the next three years in accordance with detailed sector-specific proposals.

The federal fiscal deficit must be reduced to zero percent of GDP within three years through a sustained reduction of Rs. 3–4 trillion in current and development expenditures. Similarly, the overall fiscal deficit can be substantially narrowed by rationalizing non-development provincial expenditures.

The Federal Primary Balance and the Overall Primary Balance must remain in surplus to fulfil the conditions of the ongoing IMF programme.

5. Taxation Policy Reforms

All taxation policies, rates, procedures, and processes must be approved and applied for a minimum of three years. The current practice of formulating and revising annual taxation policies, setting unrealistic annual and quarterly revenue targets, and making mid-year changes to procedures and processes must cease immediately.

A unified, fair, and simplified national revenue and taxation system should be established through a single Revenue and Taxation Board/Authority, with representation from all provinces. This body shall oversee reduced direct and indirect tax rates, simplified compliance procedures, and the gradual elimination of all exemptions, exclusions, and preferential rates across the country.

6. Budgetary Appropriation and Supplementary Grants

Annual approval of budgetary appropriations and allocation of public funds must be obtained from the Federal Cabinet and the National Assembly, along with the authorization of the Prime Minister, as mandated by the Constitution, the PFM Act, and relevant rules.

No Supplementary Budget, Finance Bill, or Regular Supplementary Grant shall be introduced during a Financial Year except under extraordinary circumstances — such as a national disaster or emergency — and any such exception must receive the approval of the National Assembly, not the ECC or Cabinet alone.

7. Non-Tax Revenue and Debt Management

Federal revenue mobilization through non-tax revenues must be significantly augmented through dedicated and coordinated efforts by the concerned Principal Accounting Officers (PAOs), Ministries/Departments/Agencies (MDAs), and State-Owned Enterprises (SOEs). The Petroleum Development Levy (PDL) should be capped at no more than Rs. 100 per liter.

Debt servicing and interest payment obligations require fundamental reforms through diversified borrowing strategies and complementary measures. The accumulation of domestic debt must be brought under strict control through disciplined debt management practices.

8. Public Financial Management and Governance

Accounting, auditing, accountability, payment, and public procurement systems must be comprehensively revamped, modernized, and digitalized to improve service delivery and ensure value for public money.

The budgeting methodology should shift from the current incremental approach to Performance-Based and Zero-Based Budgeting, supported by a robust Medium-Term Fiscal Framework.

The State Bank of Pakistan (SBP) should develop a mechanism enabling citizens to invest in government securities through commercial banks, with a ceiling of 1% intermediary charge. Furthermore, commercial bank lending rates to the government should not be pegged to commercial/KIBOR+ rates; instead, they should be determined on the basis of the declared cost of funds plus 1% profit, on the pattern of the National Savings Schemes.

The binding constraints to sustainable fiscal consolidation and economic growth are not primarily financial in nature, they are structural and political. What will ultimately determine whether Pakistan achieves its growth objectives, or continues on a path of chronic vulnerability, is the full and rigorous implementation of the proposed reforms: meaningful reductions in energy and tax rates, a significant reduction in the cost of doing business (CoDB), genuine improvements in the ease of doing business (EoDB), and a deliberate reduction in the government's share of domestic credit. Without these foundational shifts, fiscal targets will remain aspirational at best and the country will keep treading the same fragile and unsustainable path.

ECONOMIC POLICY
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National Bird of Pakistan

Tax Policy & Administration Reforms 2026	Shadow Economic Survey 2026-27	Shadow Five Year Development Plan 2026-31

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