INTERNATIONAL THE NEWS

A budget for growth

Dr. Nasir Iqbal | 05th April 2025

Pakistan can't afford another status quo budget so it must be budget of imagination, risk-taking and system-level thinking

As Pakistan prepares for its upcoming Budget 2025-26, it finds itself once again caught between the stringent demands of an International Monetary Fund (IMF) programme and the aspirations of a weary but resilient population.

For far too long, our national budgets have been shaped by the logic of austerity, compliance and fiscal firefighting. They have focused on satisfying external lenders rather than igniting internal engines of growth. But 2025 offers a chance to shift this paradigm — if only we choose to be bold.

Earlier, I proposed that Pakistan declare 2025 the ‘The year of a business revolution’ a national commitment to dismantle the bureaucratic gridlock that has strangled entrepreneurial ambition for decades. That call was rooted in the understanding that without private sector dynamism, no amount of aid, debt relief, or multilateral programme can rescue the economy. The upcoming budget is the moment to act on that vision.

Let’s be clear: continuing to chase growth by taxing an already overburdened formal sector or cutting essential development spending is neither sustainable nor wise. If anything, the heavy reliance on indirect taxes, regressive levies and cosmetic subsidies has hollowed out the state’s economic capacity while suppressing consumption and investment.

Instead, the government must shift from a ‘compliance-first’ mindset to a ‘growth-first’ budget philosophy. This does not mean abandoning fiscal discipline. Rather, it means creating a budget that unlocks the country’s vast economic potential by reducing friction, incentivising enterprise, and directing spending toward high-multiplier sectors. Here are three key pillars this new budget should adopt:

Rather than relying on coercive tax measures, Pakistan needs to grow its tax base by creating incentives for businesses to enter the formal economy. That means moving away from complex and punitive withholding taxes and adopting a simplified, flat and fair tax system for small and medium enterprises. Universal digital invoicing, linked with mobile-based tax filing, can increase compliance while reducing harassment. Let tax policy be a catalyst for formalisation, not a punishment for it.

The government should allocate funds for the development of 'Village Economic Zones' (VEZs) — a concept I have argued for in another policy note — as part of a national strategy for inclusive growth. These zones, built around existing underused infrastructure like public schools or health units, can become hubs for microenterprises, rural e-commerce and digital education. Targeted budget allocations to support VEZs, e-commerce logistics and rural broadband would not only create jobs but also democratise economic opportunity.

It's time to stop pretending that defence and administrative overheads can remain untouched while education, healthcare, and innovation are starved. A growth-oriented budget must reallocate spending toward human capital development. We must empower our youth — not with token programmes but with genuine investments in skill-building apprenticeships, and entrepreneurship incubators. The return on such investments will be exponential, both socially and economically.

Global literature supports the effectiveness of this kind of growth-centric budgeting. Research from the OECD and World Bank has consistently shown that public investment in infrastructure and digital access generates up to 2.5 times more economic output per dollar spent compared to other spending. In Rwanda, for example, the expansion of rural digital infrastructure was linked to a 13 per cent increase in household incomes over five years.

Simplified tax regimes for small businesses in Georgia and Vietnam led to increased formalisation, revenue mobilisation and private sector growth. Meanwhile, targeted local enterprise zones in Turkey and China significantly reduced regional inequalities and boosted export performance.

Investing in human capital has similarly shown outsized returns: a study estimated that every dollar invested in quality education systems in low- and middle-income countries generates $10 in long-term GDP growth.

Pakistan is sitting on a youth bulge — it can either become a demographic dividend or a ticking social time bomb.

Crucially, this budget must not be drafted behind closed doors. It must be open to stakeholders — industry leaders, academia, civil society, and youth representatives — to co-create a document of national intent, not a bureaucratic routine. Just as we called for human-free processes in business registration during the Year of Business campaign, we must now call for human-centred policymaking in budget formulation.

Moreover, aligning the budget with the broader goals of the URAAN Pakistan framework — particularly its pillars on exports, equity and e-governance — will give it coherence. But it must go further than previous vision documents like Vision 2025 or 2047. This budget must not be a document of wishful thinking, but a roadmap grounded in execution.

The temptation will be to tinker and make small adjustments that satisfy the IMF without upsetting the status quo. But Pakistan cannot afford another status quo budget. It must be a budget of imagination, risk-taking and system-level thinking. This budget must reflect the soul of a nation that is ready to stop surviving and start thriving.

The writer is associate professor at the Pakistan Institute of Development Economics (PIDE). He can be reached at: dr.iqbaln@gmail.com

Website Link

Newspaper Link