

BUDGETING FOR ECONOMIC DECLINE

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Pakistan's budget structure has fundamentally transformed between FY10 and FY25, creating severe fiscal constraints that threaten economic stability. After fifteen years of fiscal choices, Pakistan stands at the edge of economic disaster. A rigorous analysis of budget documents from FY10 through FY25 reveals not merely mismanagement, but a fundamental betrayal of the country's development path. Pakistan has effectively abandoned investment in its future to finance consumption today.

THE TRIPLE CRISIS: DEBT, DEVELOPMENT, AND TAXATION

The heart of Pakistan's fiscal crisis lies in three interconnected failures that have significantly worsened between FY10 and FY25.

First is the crushing debt trap that now dominates Pakistan's budget. Debt servicing has exploded by an astonishing 1,411% over fifteen years, from PKR 647 billion to PKR 9,775 billion. This single item now consumes 56.8% of all current expendi-

ture and 7.9% of GDP (table I). For comparison, the entire defense budget consumes just 12.4% of current expenditure. The debt service burden has reached levels that make meaningful economic policy nearly impossible.



Table I: Social protection saw a staggering increase of 15,489% over the course of fifteen years, marking the highest growth in the budget. (All figures are in PKR Billion)

Sector	FY10	FY15	FY20	FY25	Total % Change FY10-FY25
General Public Services	1,189	2,543	5,607	13,640	1047%
-Debt servicing	647	1,440	2,892	9,775	1411%
-Pensions	70	175	421	1,014	1348.6%
Defence affairs	343	700	1,153	2,129	521%
Public order & safety	35	86	153	283	708.6%
Economic Affairs	85	48	84	358	321.2%
Environment Protection	0.4	0.9	0.5	7.3	1725%
Housing & Community Amenities	1.5	2.0	2.3	27.9	1760%
Health Affairs	6.5	10	11.1	28	331%
Recreation, Culture & Religion	3.7	7.1	9.8	18.5	400%
Education Affairs	31.6	64	77.3	104	229%
Social Protection	3.9	1.7	190.6	608	15489%

Source: Budget briefs of different fiscal years, Ministry of Finance

Second is the virtual abandonment of development spending that has occurred over this period. In FY10, the ratio between current and development expenditures was 2.2:1. By FY25, this ratio had catastrophically deteriorated to 10.3:1 (table 2). While current expenditure grew by 913%, development expenditure limped forward at just 119%. Even more telling, development's share of the total budget collapsed from 31% to a mere 8.9%. Pakistan is effectively consuming its seed corn rather than planting for the future.



Table 2 The share of development in the budget has dropped from 31% to just 8.9% over the past fifteen years. (All figures are in PKR Billion)

Expenditure type	FY10	FY15	FY20	FY25	Total % Change FY10-FY25
Current expenditure	1,699	3,463	7,288	17,203	912.5%
Development Expenditure	763	839	950	1,674	119.4%
Current to Development Ratio	2.2:1	4.1:1	7.7:1	10.3:1	-
Development expenditure (% of budget)	31%	19.5%	11.5%	8.9%	-
Current expenditure (% of budget)	69%	80.5%	88.5%	91.1%	-
Current expenditure (% of GDP)	11.5%	11.9%	16.6%	13.9%	-
Development expenditure (% of GDP)	5.1%	2.9%	2.2%	1.3%	-

Source: Budget briefs of different fiscal years, Ministry of Finance

Meanwhile, the Public Sector Development Programme (PSDP) withered from 4.4% of GDP in FY10 to just 2.8% by FY25. This retreat from investment in infrastructure, energy capacity, and public services ensures Pakistan's growth potential remains permanently depressed.

Third is the persistent failure to expand the tax base. Despite fifteen years of promised reforms and an economy that grew by 737% in nominal terms, tax revenues increased by just 768% – barely keeping pace. The tax-to-GDP ratio remains stuck at around 10-11%, among the lowest in comparable economies.

This tax failure has forced increasingly desperate financing measures. State Bank of Pakistan profits (effectively printing money) increased by a staggering 1,567% over fifteen years. Bank borrowing – essentially pushing today's expenses onto future generations – grew by an even more alarming 3,471%. Meanwhile, external resources grew by just 31%, reflecting Pakistan's diminishing standing in international capital markets.

THE HUMAN COST: EDUCATION, HEALTH, AND FUTURE GROWTH

The most tragic aspect of Pakistan's budget evolution is the systematic underinvestment in its people. Despite rhetorical commitments to human development, the budget numbers reveal a stark truth: Pakistan has effectively chosen to sacrifice its future human capital to finance immediate consumption.

Education spending grew by just 229% over fifteen years from PKR 31.6 billion in FY10 to PKR 104 billion in FY25 – less than one-third the rate of overall budget growth. Health allocations increased by 331%, better but still less than half the budget's growth rate. Combined, these two critical sectors receive a paltry 2.7% of current expenditure.

This underinvestment is not merely a moral failure but an economic one. Countries that have achieved sustained economic growth have invariably invested heavily in education and health. Pakistan's choice to neglect these sectors virtually guarantees continued economic underperformance and declining competitiveness in the global knowledge economy.

The contrast with other sectors is telling. While education and health were starved, pensions grew by 1,349%, defense by 521%, and subsidies by 933%. Most dramatically, social protection expenditures increased by an unprecedented 15,489% – from PKR 3.9 billion to PKR 608 billion.

This is not to suggest social safety nets are unnecessary, but rather that Pakistan has prioritized alleviating symptoms of poverty over addressing its root causes through education, healthcare, and productive infrastructure development.

THE ENERGY DRAIN: FIFTEEN YEARS OF FAILED REFORMS

No discussion of Pakistan's fiscal crisis would be complete without examining the energy sector's role. Despite at least five major reform programs across these fifteen years, power subsidies have grown by an extraordinary 1,676% – from PKR 67 billion to PKR 1,190 billion. This growth rate exceeds even the explosion in debt servicing.

These subsidies now consume 6.9% of current expenditure and represent a major failure of governance. Fifteen years of promised reforms have produced exactly one result: higher costs with little improvement in service. The power sector has become a financial black hole that diverts resources from productive investments while still failing to deliver reliable energy.

The contrast with food subsidies is instructive. Food subsidies decreased by 60% over the same period, from PKR 30 billion to PKR 12 billion, demonstrating that subsidy rationalization is possible when political will exists. The power sector's continued drain on public finances reflects not economic necessity but governance failure.

THE PROVINCIAL PARADOX AND CHANGING PRIORITIES

The implementation of the 7th NFC Award fundamentally altered Pakistan's fiscal landscape. Provincial share of federal resources increased by 1,036% over fifteen years, far outpacing the overall budget growth of 721%. Provincial governments now receive 41.8% of gross federal revenue, up from 32.6% in FY10.

This fiscal decentralization has produced mixed results. Provincial Public Sector Development Programmes grew at twice the rate of the Federal PSDP, indicating some potential for localized development planning. However, this shift has also created coordination challenges for national priorities and diluted accountability for development outcomes.

New budget priorities have emerged during this period. Climate change initiatives grew from negligible amounts to PKR 260 billion by FY25, reflecting both global commitments and recognition of Pakistan's extreme environmental vulnerability. Gender-responsive budgeting reached PKR 168 billion, and digital economy allocations increased substantially.

However, these emerging priorities remain dwarfed by the triumvirate of debt servicing, subsidies, and inefficient current expenditures. Their impact is further diminished by the overall collapse in development spending.

THE PATH FORWARD: DIFFICULT BUT NECESSARY CHOICES

Pakistan's budget trajectory over fifteen years points to an inescapable conclusion: the current fiscal framework is fundamentally unsustainable. Without significant structural reforms, Pakistan faces a future of perpetual economic crisis, stunted development, and diminished sovereignty as debt obligations consume an ever-larger share of public resources.

The budget data suggests five essential reforms:

1. Comprehensive debt restructuring to reduce the crushing burden of debt servicing that now dominates the budget. This will likely require difficult negotiations with both external and domestic creditors.
2. Dramatic expansion of the tax base, particularly bringing undertaxed sectors like retail, real estate, and agriculture into the tax net. The tax-to-GDP ratio must increase significantly to create fiscal space for development.
3. Fundamental power sector reforms that address governance and efficiency issues rather than merely adjusting tariffs. After fifteen years of failed half-measures, only structural solutions remain viable.
4. Rebalancing toward development expenditure, particularly in education and health. This will require difficult choices about reducing current consumption to finance future growth.
5. Rationalization of the current expenditure structure, including defense, pensions, and the bloated administrative apparatus that consumes resources without delivering services.

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