

DECODING PAKISTAN'S BUDGET DYNAMICS

FY10 to FY25



ECONOMIC POLICY
& BUSINESS
DEVELOPMENT

DECODING PAKISTAN'S BUDGET DYNAMICS

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Executive Summary

Dire fiscal imbalance has emerged over 15 years, with the current-to-development expenditure ratio deteriorating dramatically from 2.2:1 in FY10 to 10.3:1 by FY25, indicating a severe consumption bias that threatens long-term economic sustainability.

Critical development underfunding is evident as development expenditure grew at merely 5.4% annually compared to current expenditure's 16.7%, with its share of the budget contracting from 31% to just 8.9%.

Dramatic social safety net expansion has occurred, with social protection expenditures increasing by an extraordinary 15,489% (38.7% CAGR), transforming from a peripheral concern to a central budget priority.

Emerging policy priorities in climate change and digital economy show substantial growth, with climate financing increasing from negligible amounts to PKR 260 billion by FY25.

Stagnant revenue mobilization persists despite tax revenues growing by 768% (15.5% CAGR), as the tax-to-GDP ratio remained largely unchanged around 10- 11%.

Accelerating fiscal risk is evident as bank borrowing increased by 3,471% (28.4% CAGR), while external resources grew by just 30.6% (1.8% CAGR), indicating a dramatic shift toward potentially unsustainable domestic financing.

Crushing debt burden has become the dominant fiscal constraint, with debt servicing growing by 1,411% over the period (19.8% CAGR), significantly outpacing GDP growth (15.3% CAGR) and consuming 56.8% of current expenditure by FY25.

Persistent power sector challenges remain unresolved despite repeated reform attempts, with power subsidies growing by 1,676% (21.3% CAGR), reflecting structural issues in the energy sector.

Concerning human capital underinvestment continues as health and education witnessed the lowest growth rates among major sectors (10.3% and 8.3% CAGR respectively), significantly below overall budget growth (14.7% CAGR).

Fundamental fiscal federalism shift has occurred following the 7th NFC Award, with provincial share of resources increasing by 1,036% (17.7% CAGR) and Provincial PSDP growing at twice the rate of Federal PSDP.

Dangerous reliance on central bank financing has developed with SBP profits increasing by 1,567% (20.7% CAGR), indicating dependence on monetary financing rather than sustainable tax measures.

Introduction

The 15-year period from FY10 to FY25 represents a critical era in Pakistan's fiscal management, marked by significant economic challenges, policy shifts, and structural transformations. This budget comparison tracks the evolution of Pakistan's public finances during this period, highlighting key trends in revenue mobilization, expenditure priorities, debt management, and development focus.

The analysis reveals a complex fiscal landscape characterized by persistent structural challenges alongside emerging priority areas. Throughout this period, Pakistan's budget framework has evolved in response to changing economic realities, development imperatives, and governance priorities. The implementation of the 7th NFC Award in 2010 fundamentally altered federal-provincial fiscal relations, while successive economic stabilization programs have shaped expenditure patterns and fiscal space.

A notable feature of this 15-year journey has been the increasing burden of debt servicing, which has grown to consume a significant portion of current expenditure. Simultaneously, the budget shows a gradual shift in development priorities, with emerging focus areas like climate change, digital economy, and social protection gaining prominence, while the overall development-to-current expenditure ratio has deteriorated.

The revenue picture reflects ongoing challenges in tax mobilization, with modest improvements in the tax-to-GDP ratio through FY20 followed by a decline in FY25, despite numerous reform efforts. Non-tax revenues, particularly central bank profits, have emerged as increasingly important financing sources.

This comparative analysis provides a data-driven foundation for understanding Pakistan's fiscal trajectory over a period of significant economic and governance transition¹. By examining trends across consistent parameters, it offers insights into the sustainability of current fiscal approaches and highlights areas requiring structural reforms to establish a more resilient fiscal framework.

¹ All growth rates are calculated using Compound Annual Growth Rate (CAGR) methodology, measuring the smoothed annual growth between FY10 and FY25.

Total percentage changes represent the cumulative growth over the entire 15-year period

² All the numbers are taken for Budgetary Estimates

Macroeconomic context

The 15-year period shows a significant increase in nominal GDP, with the most dramatic acceleration occurring in the FY20-FY25 period. The tax-to-GDP ratio shows a modest improvement through FY20 but declined by FY25, highlighting persistent challenges in revenue mobilization despite repeated reform efforts.

Table 1 Comparison of macroeconomic indicators

Economic Indicator	FY 10	FY 15	FY 20	FY 25	FY 10 - FY 25	
					Total % change	CAGR (%)
Nominal GDP (PKR Billion)	14,824	29,078	44,003	124,150	737.5%	15.3%
Nominal GDP (PKR Billion)	9.5%	8%	8.3%	-	-	-
Tax to GDP ratio	10.1%	10.8%	11.6%	10.4%	-	-

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

Budget size & resource position

The budget size grew nearly eightfold over the 15-year period, with an average annual growth rate of 14.7%. As a percentage of GDP, the budget contracted from FY10 to FY15, expanded significantly by FY20, and then moderated again by FY25. The resource gap shows an interesting pattern, increasing from FY10 to FY20.

Table 2 From FY10 to FY25 total resources have shown an increase of 721%,
(All figures are in PKR Billion unless stated otherwise)

Parameter	FY 10	FY 15	FY 20	FY 25	FY 10 - FY 25	
					Total % change	CAGR (%)
Total Budget Outlay	2,462	4,302	8,238	18,877	666.7%	14.7%
Budget as % of GDP	16.6%	14.8%	18.7%	15.2%	-	-
Total resources	2,299	4,074	7,899	18,877	721%	15.5%
Resource gap	163	228	339	-	-	-

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

Revenue Analysis

Revenue composition

The revenue composition shows differential growth rates across the 15-year period. Tax revenues grew steadily through FY10-FY20 and accelerated in the FY20-FY25 period. Direct taxes grew faster than indirect taxes over the full period, indicating a gradual shift toward income-based taxation. Non-tax revenue grew modestly from FY10 to FY20 but surged dramatically in the following five years, growing at an implied annual rate of over 40% between FY20 and FY25.

*Table 3 Tax revenues have increased by 768% from FY10 to FY25,
(All figures are in PKR Billion unless stated otherwise)*

Parameter	FY 10	FY 15	FY 20	FY 25	FY 10 - FY 25	
					Total % change	CAGR (%)
Tax Revenue	1,494	3,129	5,822	12,970	768%	15.5%
-Direct taxes	566	1,180	2,082	5,512	874%	16.2%
-Indirect taxes	928	1,949	3,473	7,458	704%	14.7%
Non-tax revenue	514	816	894	4,845	842.6%	16%
Gross revenue receipts	2,007	3,946	6,717	17,815	787.6%	15.6%
Tax-to-GDP ratio (%)	10.1%	10.8%	13.2%	10.4%	-	-
Non-Tax revenue-to-GDP ratio (%)	3.5%	2.8%	2%	3.9%	-	-

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

Major Tax components

Tax component analysis reveals that all major tax heads grew significantly over the 15-year period. Customs duties saw particularly rapid growth from FY15 to FY20, growing from PKR 281 billion to PKR 1,000 billion. The petroleum levy, while growing modestly in the earlier periods, accelerated extraordinarily in the FY20-FY25 period, becoming a major revenue source by FY25.

*Table 4 Income tax is the largest contributor to tax revenues, amounting to PKR 5,454 billion
(All figures are in PKR Billion)*

Tax component	FY 10	FY 15	FY 20	FY 25	FY 10 - FY 25	
					Total % change	CAGR (%)
Income tax	545	1,164	2,073	5,454	901%	16.6%
Sales tax	499	1,171	2,108	4,919	886%	16.3%
Federal Excise	153	178	365	948	519.6%	13%
Customs Duty	162	281	1,000	1,591	882%	16.4%
Carbon surcharge/Petroleum levy	112	123	216	1,281	1044%	17.6%

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

Major Non-tax revenue sources

The most striking feature in non-tax revenue is the extraordinary growth in State Bank of Pakistan profits, particularly in the FY20-FY25 period, where they grew at an implied annualized rate of over 40%. **SBP profits increased from PKR 150 billion in FY10 to PKR 2,500 billion by FY25**, indicating growing reliance on central bank profits to finance government operations.

*Table 5 Increasing reliance on SBP profits, marked by a dramatic 1567% increase
(All figures are in PKR Billion)*

Non-tax source	FY 10	FY 15	FY 20	FY 25	FY 10 - FY 25	
					Total % change	CAGR (%)
SBP Profits	150	270	406	2,500	1567%	20.7%
Defence receipts	128	140	124	42.4	(67%)	(7.3%)
Dividends	75	56	-	138.9	85.2%	4.2%
Passport & other fees	9	1.6	7	75	733%	15.3%

*Source: Budget briefs of different fiscal years, Ministry of Finance
Numbers in Brackets () represent negative values*

Provincial Resource Distribution

Federal Transfers to Provinces

Provincial share in federal revenues increased substantially over the 15-year period, growing at an average annual rate of 17.7%, exceeding the growth rate of the overall budget. As a percentage of gross revenue, provincial share increased from 32.6% in FY10 to a peak of 48.5% in FY20, before moderating to 41.8% by FY25. The increase from FY10 to FY15 reflects the impact of the 7th NFC Award, which raised the provincial share of the divisible pool from 43.75% to 57.5%.

Table 6 Significant fiscal empowerment of provinces, with over 1000% increase after the 7th NFC award
(All figures are in PKR Billion unless stated otherwise)

Parameter	FY 10	FY 15	FY 20	FY 25	FY 10 - FY 25	
					Total % change	CAGR (%)
Divisible Pool Share (%)	43.75%	57.5%	57.5%	57.5%	-	-
Provincial Share	655	1,720	3,255	7,438	1035.6%	17.7%
% of gross revenue	32.6%	43.6%	48.5%	41.8%	-	-

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

Expenditure Overview

Current vs Development Expenditure

One of the most significant trends is the dramatic deterioration in the balance between current and development expenditures. The current-to-development ratio worsened from 2.2:1 in FY10 to 4.1:1 in FY15, 7.7:1 in FY20, and further to 10.3:1 by FY25. Development spending, which drives future economic growth, declined steadily as a percentage of both the budget (from 31.0% to 8.9%) and GDP (from 5.1% to 1.3%) across the 15-year period. This trend indicates a growing consumption bias in public expenditure, with serious implications for long-term economic sustainability.

Table 7 Deteriorating current-to-development ratio from 2.2:1 to 10.3:1, indicating severe consumption bias
(All figures are in PKR Billion unless stated otherwise)

Expenditure type	FY 10	FY 15	FY 20	FY 25		
Current expenditure	1,699	3,463	7,288	17,203	912.5%	16.7%
Development Expenditure	763	839	950	1,674	119.4%	5.4%
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

Sectoral Allocations (Current Expenditures)

Table 8 Social protection and debt servicing dominate growth while health and education lag behind
(All figures are in PKR Billion)

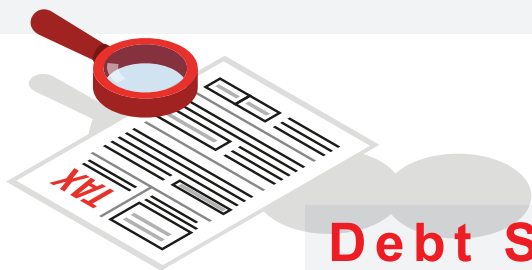
Sector	FY 10	FY 15	FY 20	FY 25	FY 10 - FY 25	
					Total % change	CAGR (%)
General Public Services	1,189	2,543	5,607	13,640	1047%	17.7%
-Debt servicing	647	1,440	2,892	9,775	1411%	19.8%
-Pensions	70	175	421	1,014	1348.6%	19.5%
Defence affairs	343	700	1,153	2,129	521%	13%
Public order & safety	35	86	153	283	708.6%	15.2%
Economic Affairs	85	48	84	358	321.2%	10%
Environment Protection	0.4	0.9	0.5	7.3	1725%	21.5%
Housing & Community Amenities	1.5	2.0	2.3	27.9	1760%	21.7%
Health Affairs	6.5	10	11.1	28	331%	10.3%
Recreation, Culture & Religion	3.7	7.1	9.8	18.5	400%	11.4%
Education Affairs	31.6	64	77.3	104	229%	8.3%
Social Protection	3.9	1.7	190.6	608	15489%	38.7%

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

The sectoral allocation analysis reveals several important trends:

Pensions

Pension expenditures grew at a compound annual rate of 19.5% over the 15-year period, reflecting demographic pressures & government employment patterns.



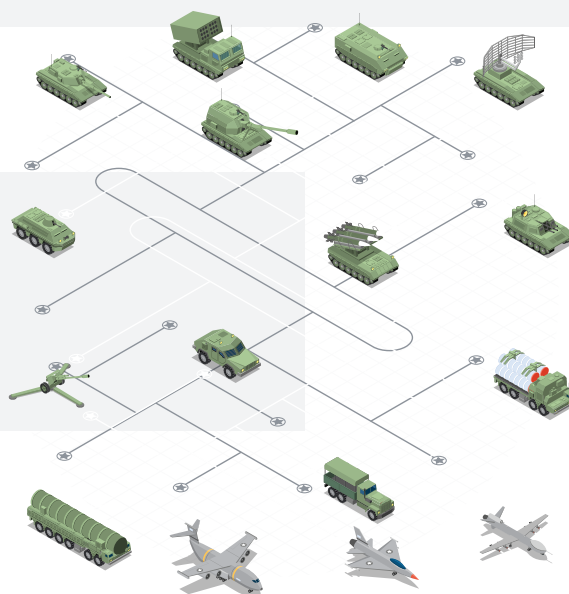
Debt Servicing

Debt servicing grew steadily from PKR 647 billion in FY10 to PKR 1,440 billion in FY15 and PKR 2,892 billion in FY20, before accelerating dramatically to PKR 9,775 billion by FY25.

The debt servicing burden increased from 38.1% of current expenditure in FY10 to 56.8% by FY25.

Defence Affairs

Defence spending grew from PKR 343 billion in FY10 to PKR 2,129 billion by FY25, but its share of current expenditure declined from 20.2% in FY10 to 12.4% in FY25.



Social Protection

After declining between FY10 and FY15, social protection spending surged dramatically to PKR 190.6 billion in FY20 and PKR 608 billion by FY25, reflecting a major policy shift toward social safety nets.



Health and Education

These critical human development sectors showed relatively modest growth compared to other areas, with health growing at 10.3% annually and education at just 8.3% annually over the 15-year period, both substantially below the overall expenditure growth rates.



Development Program (PSDP)

The Public Sector Development Programme (PSDP) shows a concerning trend. While there was steady growth in the absolute size of the Federal PSDP from FY10 to FY25, the total PSDP as a percentage of GDP declined consistently from 4.4% in FY10 to 4.0% in FY15, 3.7% in FY20, and approximately 2.8 % by FY25. This declining trend indicates reduced public investment in development activities that could constrain future economic growth potential.

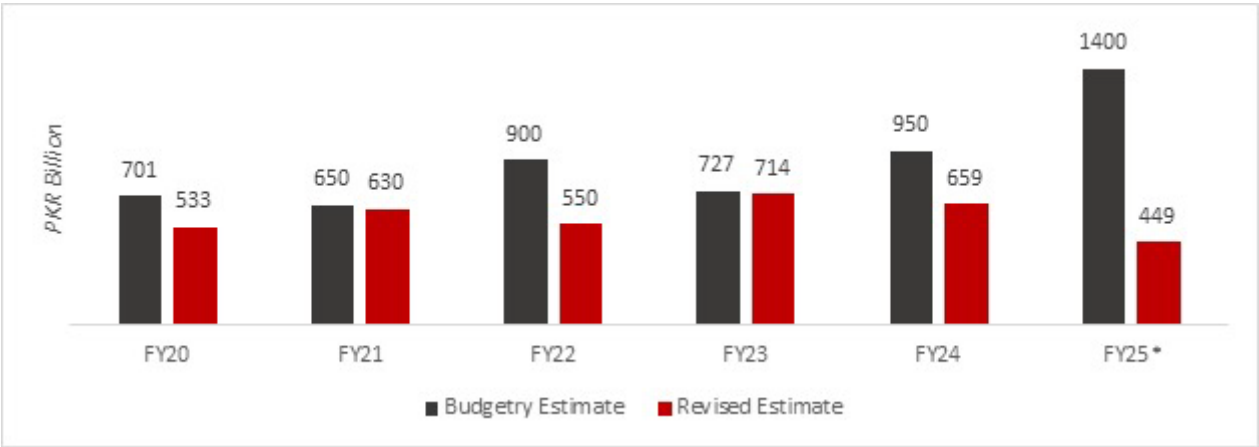
Table 9 Shifting development responsibility to provinces with provincial PSDP growing 2.1 times faster than federal PSDP (All figures are in PKR Billion unless stated otherwise)

Parameter	FY 10	FY 15	FY 20	FY 25	FY 10 -FY 25	
					Total % change	CAGR (%)
Federal PSDP	446	525	701	1,400	214%	8%
Provincial PSDP	200	650	912	2,095	947.5%	16.9%
Total PSDP	646	1,175	1,613	3,495	441%	12%
PSDP as % of GDP	4.4%	4%	3.7%	2.8%	-	-

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

The comparison between Budgetary Estimates and Revised Estimates from FY20 to FY25 substantiates the pattern of systematic overestimation in development budget allocations. Significant downward revisions are evident in FY20 (24%), FY22 (39%), and FY24 (31%), while FY21 and FY23 exhibit minimal adjustments.

Figure 1 PSDP budget surges 47% to historic PKR 1,400 billion in FY25, but 9-month allocation is only PKR 449 billion - highlighting the widening chasm between development promises and fiscal realities



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

Note: Budgetary Estimates consistently exceed Revised Estimates by 2-39%, with FY22 (39%) and FY24 (31%) showing the largest downward revisions. *FY25 shows 9-month allocation of PKR 449 billion against BE of PKR 1,400 billion.

FY25 presents a particularly revealing case: while the Budgetary Estimate reached an unprecedented PKR 1,400 billion (representing a 47% increase from FY24), only PKR 449 billion has been allocated in the first nine months. Extrapolating this figure suggests a full-year RE of approximately PKR 600-650 billion, indicating a potential 57% reduction from the initial allocation. This pronounced gap between announced allocations and revised figures supports the assessment that development budget announcements often serve political objectives rather than reflecting genuine fiscal planning or available financial resources

PSDP Sectoral Allocation

Table 10 (All figures are in PKR Billion unless stated otherwise)

Sector	FY 10	FY 15	FY 20	FY 25
Water & Power	47 <i>10.5%</i>	43.4 <i>8.3%</i>	Part of energy allocation	260 <i>18.6%</i>
Higher Education	22.5 <i>5%</i>	19.1 <i>3.6%</i>	29 <i>1.6%</i>	66.3 <i>4.7%</i>
Health	23.2 <i>5.2%</i>	10 <i>1.9%</i>	11.1 <i>1.6%</i>	2 <i>1.9%</i>
National Highway Authority (NHA)	39.9 <i>8.9%</i>	111.6 <i>21.3%</i>	156 <i>22.3%</i>	180.3 <i>12.9%</i>
Special Areas (AJK, GB, FATA)	38.4 <i>8.6%</i>	36 <i>6.9%</i>	24.5 <i>3.5%</i>	74.5 <i>5.3%</i>
Climate change	-	0.4 <i>0.1%</i>	7.6 <i>1.1%</i>	260 <i>18.6%</i>
IT & Telecom	1.1 <i>0.2%</i>	1.9 <i>0.4%</i>	8 <i>1.1%</i>	28.9 <i>2.1%</i>

Source: Budget briefs of different fiscal years, Ministry of Finance, the numbers in italics represent share as % of PSDP

The PSDP sectoral allocation reveals shifting priorities across the 15-year period:

- **Infrastructure Evolution:** National Highway Authority's share increased from 8.9% in FY10 to 21.3% in FY15 and 22.3% in FY20, reflecting a growing focus on transportation infrastructure.
- **Health Sector Decline:** Health's share of PSDP declined from 5.2% in FY10 to 1.9% in FY15 and 1.6% in FY20, despite the growing importance of healthcare.
- **Climate Change Emergence:** Climate change funding grew from negligible amounts to PKR 260 billion by FY25, reflecting growing focus on environmental sustainability.
- **Digital Transformation:** IT & Telecom saw its share increase from 0.2% in FY10 to 1.1% of the PSDP by FY20, reflecting the growing importance of the digital economy.

Debt Profile and Servicing

Table 11 Accelerating debt burden outpacing GDP growth by 4.5 percentage points annually
(All figures are in PKR Billion unless stated otherwise)

Parameter	FY 10	FY 15	FY 20	FY 25	FY10-FY25	
					Total % change	CAGR (%)
Domestic Debt Servicing	577	1,225	2,532	8,736	1414%	20.6%
Foreign Debt servicing	70	215	360	1,039	1384.3%	19.7%
Total Debt servicing	647	1,440	2,892	9,775	1411%	19.8%
Debt servicing as % of Current Expenditure	38.1%	41.6%	39.7%	56.8%	-	-
Debt servicing as % of GDP	4.4%	5%	6.6%	7.9%	-	-
Public debt-to-GDP ratio (%)	-	62%	77.6%	-	-	-

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

The debt profile shows a rapidly growing burden on public finances:

- Debt servicing grew at 19.8% annually over the 15-year period, significantly outpacing both GDP growth and revenue growth.
- Debt servicing as a percentage of current expenditure increased from 38.1% in FY10 to 41.6% in FY15, improved slightly to 39.7% in FY20, before deteriorating significantly to 56.8% by FY25.

- Debt servicing as a percentage of GDP increased steadily across the 15-year period, rising from 4.4% in FY10 to 5.0% in FY15, 6.6% in FY20, and 7.9% by FY25.
- The public debt-to-GDP ratio increased from 62.0% in FY15 to 77.6% in FY20, indicating an increasing debt burden.

Subsidies Analysis

Table 12 Nearly tenfold increase in subsidy burden with rising share of GDP
(All figures are in PKR Billion unless stated otherwise)

Parameter	FY 10	FY 15	FY 20	FY 25	FY10-FY25	
					Total % change	CAGR (%)
Total subsidies	132	203	272	1,363	932.6%	16.9%
Subsidies as % of GDP	0.9%	0.7%	0.6%	1.1%	-	-
Subsidies as % of Current expenditure	7.8%	5.9%	3.7%	7.9%	-	-

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

Sectoral Breakdown of Subsidies

Table 13 Power sector dominates with 17-fold increase while food subsidies contract
(All figures are in PKR Billion)

Sector	FY 10	FY 15	FY 20	FY 25	FY10-FY25	
					Total % change	CAGR (%)
Power	67	156	191	1,190	1676%	21.3%
Food/PASSCO	30	7	5.5	12	(60%)	(6.1%)
Petroleum/Oil	15	29	-	18	20%	1.2%
Industries & Production	-	3	-	68	-	-

Source: Budget briefs of different fiscal years, Ministry of Finance
Numbers in Brackets () represent negative values

The subsidy analysis reveals significant shifts in both magnitude and composition:

- Total Subsidies:** Total subsidies grew from PKR 132 billion in FY10 to PKR 1,363 billion by FY25, with a particularly dramatic acceleration after FY20.
- Power Sector Dominance:** The power sector remained the largest recipient of subsidies throughout the 15-year period, growing from PKR 67 billion in FY10 to PKR 1,190 billion by FY25, at an average annual rate of 21.3%.
- Food Subsidies:** Food subsidies decreased from PKR 30 billion in FY10 to PKR 7 billion in FY15 and PKR 5.5 billion in FY20, before rebounding slightly to PKR 12 billion by FY25.
- Relative Burden:** Subsidies as a percentage of current expenditure declined from 7.8% in FY10 to 5.9% in FY15 and 3.7% in FY20 but increased again to 7.9% by FY25.

Fiscal Indicators and Financing

Table 14 Fiscal deficit has grown by 5099% since FY10
(All figures are in PKR Billion unless stated otherwise)

Indicator	FY 10	FY 15	FY 20	FY 25	FY10-FY25	
					Total % change	CAGR (%)
Fiscal deficit	163.5	1,422	3,137	8,500	5099%	29.1%
Fiscal deficit as % of GDP	1.1%	4.9%	7.1%	5.9%	-	-
Primary surplus/deficit	(483.6)	(18)	(245)	2,492	-	-
Primary surplus /deficit as % of GDP	(3.3)	(0.1)	(0.6)	2.0	-	-

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

Deficit Financing

Table 15 Dramatic shift to domestic financing with bank borrowing increasing by 3471% from FY10-FY25 (All figures are in PKR Billion)

Financing source	FY 10	FY 15	FY 20	FY 25	FY10-FY25	
					Total % change	CAGR (%)
Bank borrowing	144	228	339	5,142	3471%	28.4%
Non-Bank borrowing	191	686	819	2,662	1294%	19.1%
External resources	510	508	1,829	666	30.6%	1.8%
Privatization proceeds	19	0	150	30	58%	3.1%

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

The fiscal indicators reveal a challenging trajectory:

- **Fiscal Deficit:** The fiscal deficit grew from PKR 1,422 billion in FY15 to PKR 3,137 billion in FY20 and PKR 8,500 billion by FY25. As a percentage of GDP, it peaked in FY20 at 7.1% before declining to 5.9% by FY25.
- **Primary Balance:** The primary deficit worsened from FY15 to FY20 but reportedly turned into a substantial surplus by FY25, suggesting a major fiscal adjustment in the later period.
- **Financing Mix:** Bank borrowing grew at the fastest rate (28.4% annually) over the 15-year period, with a dramatic acceleration after FY20. External resources fluctuated significantly, peaking in FY20 before declining sharply.

Special Programs and Initiatives

Table 16 The growing allocation for climate and gender-related budgets is a positive development
(All figures are in PKR Billion)

Program/Initiative	FY 10	FY 15	FY 20	FY 25	FY10-FY25	
					Total % change	CAGR (%)
BISP	-	97.2	180	592	-	-
Earthquake reconstruction	25	25	5	-	-	-
Climate change initiatives	-	0.4	7.6	260	-	-
Gender-responsive programs	-	-	-	168	-	-
Digitization/IT initiatives	1.1	1.9	8	Priority focus	627.3%	14%
Special Areas development	38.4	36	24.5	173+	350.5%	10.7%

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

Special programs show varying trajectories:

• **Social Safety Nets:**

The Benazir Income Support Program, introduced after FY10, saw significant and accelerating growth throughout the following periods.

• **Climate Change:**

Funding for climate initiatives grew from negligible amounts to PKR 260 billion by FY25, reflecting the growing importance of environmental concerns.

• **Gender Focus:**

Gender responsive programs emerged as a significant budget category by FY25.

• **Digitization:**

IT initiatives saw substantial growth over the 15-year period, becoming a policy priority by FY25.

Key Shifts Between FY10, FY15, FY20 & FY25

Structural Budget Changes

The 15-year period witnessed fundamental transformations in Pakistan's fiscal architecture..

Deteriorating Current-Development Balance:

The current-to-development expenditure ratio worsened significantly from 2.2:1 in FY10 to 10.3:1 by FY25. Current expenditure grew by 912.5% (16.7% CAGR) compared to development expenditure's modest 119.4% (5.4% CAGR). Development's share of the budget contracted from 31.0% to just 8.9%, indicating a severe consumption bias

2.2:1 — 10.3:1
FY10 FY25

CURRENT-TO-DEVELOPMENT
EXPENDITURE RATIO

Growing Debt Burden:

Debt servicing increased by 1,411% (19.8% CAGR), substantially outpacing GDP growth (737.5%; 15.3% CAGR). Its share of current expenditure rose from 38.1% to 56.8%. By FY25, debt servicing consumed 7.9% of GDP, creating significant fiscal constraints.

 **1,411%**
19.8% CAGR

DEBT SERVICING INCREASED

Diminished Development Capacity:

PSDP as a percentage of GDP declined from 4.4% in FY10 to approximately 2.8% in FY25. While total PSDP grew by 441% (12% CAGR), Provincial PSDP increased by 947.5% (16.9% CAGR) compared to Federal PSDP's 214% (8% CAGR), indicating major decentralization of development responsibilities.

PSDP as % OF GDP
FY10: 4.4% → FY25: 2.8%

DECLINE IN DEVELOPMENT
SPENDING SHARE

Revenue Challenges:

Despite tax revenues growing by 768% (15.5% CAGR), the tax-to-GDP ratio remained stagnant around 10-11%. SBP profits increased by 1,567% (20.7% CAGR), raising concerns about monetary financing of fiscal deficits.

TAX REVENUES
+768%
(15.5% CAGR)

TAX-TO-GDP
RATIO

10-11%

Stagnant level
despite growth

SBP PROFITS

+1,567%
(20.7% CAGR)



Raising concerns about
monetary financing of fiscal
deficits

Key Shifts Between FY10, FY15, FY20 & FY25

Sector-wise growth analysis and spending priorities

The budget components exhibited widely divergent growth trajectories, reflecting shifting priorities:

Debt and Pensions:

Debt servicing (1,411%; 19.8% CAGR) and pensions (1,349%; 19.5% CAGR) grew faster than any core government function, consuming an increasing share of resources.

Energy Sector:

Power subsidies grew by 1,676% (21.3% CAGR) despite multiple reform attempts, representing a persistent fiscal challenge. Simultaneously, the petroleum levy increased by 1,044% (17.6% CAGR).

Human Development:

Health (331%; 10.3% CAGR) and education (229%; 8.3% CAGR) saw the lowest growth rates among major sectors, significantly below overall budget growth.

Social Welfare:

Social protection witnessed the most dramatic growth (15,489%; 38.7% CAGR), transforming from PKR 3.9 billion to PKR 608 billion. Environmental protection (1,725%) and housing (1,760%) also saw significant increases, reflecting new policy priorities.

Core Governance:

Defence expenditure (521%; 13% CAGR) and public order (709%; 15.2% CAGR) grew more slowly than overall expenditure, reducing their relative budget share.

Emerging Priorities and Policy Shifts

The 15 year period revealed important shifts in budget priorities:

Social Safety Nets

Social protection transformed from peripheral (PKR 3.9 billion) to central (PKR 608 billion), with BISP becoming a flagship program. By FY25, gender-responsive budgeting (PKR 168 billion) emerged as a significant component.

Climate Financing:

Climate change initiatives increased from negligible amounts to PKR 260 billion by FY25, reflecting growing environmental concerns and access to climate finance.

Digital Economy:

IT & Telecom allocations grew from Rs 1.1 billion to PKR 28.9 billion, with their PSDP share increasing from 0.2% to 2.1%, indicating strategic prioritization of digital transformation.

Subsidy Patterns:

Food subsidies declined by 60% while power subsidies grew by 1,676%, showing mixed results in subsidy rationalization efforts.

Key Shifts Between FY10, FY15, FY20 & FY25

Fiscal Management Approach

The period shows evolving approaches to fiscal management:

Financing Mix:

Bank borrowing increased by 3,471% (28.4% CAGR), while external resources grew by just 30.6% (1.8% CAGR), indicating a dramatic shift toward domestic financing.

Fiscal Space Compression:

By FY25, debt servicing, subsidies, and social protection consumed approximately 68% of current expenditure, severely constraining resources for other functions.

Primary Balance:

The primary balance improved from a deficit in FY20 (PKR 245 billion) to a reported surplus in FY25 (PKR 2,492 billion), suggesting fiscal consolidation efforts.

Federal-Provincial Relations:

The 7th NFC Award fundamentally altered fiscal federalism, with provincial share of revenues increasing by 1,036% (17.7% CAGR) and reaching 41.8% of gross revenue by FY25.

Conclusion

The 15-year comparison of Pakistan's federal budgets from FY10 to FY25 reveals profound transformations in the country's fiscal framework and priorities:

Deepening Debt Dependency: Debt servicing emerged as the dominant fiscal constraint, growing by 1,411% (19.8% CAGR) over the period—significantly outpacing GDP growth (15.3% CAGR) and total budget growth (14.7% CAGR). By FY25, it consumed 56.8% of current expenditure and 7.9% of GDP, creating a debt trap that severely limits fiscal flexibility.

Development Deprioritization: The alarming deterioration in current-to-development expenditure ratio from 2.2:1 to 10.3:1 represents a fundamental shift away from growth-enhancing investments. Development expenditure grew at merely 5.4% annually compared to current expenditure's 16.7%, with its share of the budget contracting from 31% to just 8.9%—a structural shift that threatens long-term economic sustainability.

Subsidy Reform Failures: Despite repeated reform attempts, power subsidies grew by 1,676% (21.3% CAGR), reflecting persistent structural issues in the energy sector. This contrasts with the relative success in rationalizing food subsidies, which declined by 60% over the same period.

Social Safety Net Expansion: Social protection expenditures increased by an extraordinary 15,489% (38.7% CAGR), transforming from a peripheral concern to a central budget priority. This shift reflects growing recognition of poverty challenges and the institutionalization of programs like BISP.

Human Capital Underinvestment: Health and education witnessed the lowest growth rates among major sectors (10.3% and 8.3% CAGR respectively), significantly below overall budget growth (14.7% CAGR). This underinvestment poses serious risks to Pakistan's long-term development prospects.

Emerging Policy Priorities: Climate change and digital economy initiatives saw substantial growth, with climate financing increasing from negligible amounts to PKR 260 billion by FY25. This reflects adaptation to emerging challenges and opportunities in environmental management and technology.

Provincial-Federal Rebalancing: The implementation of the 7th NFC Award fundamentally altered fiscal federalism, with provincial share of resources increasing by 1,036% (17.7% CAGR) and Provincial PSDP growing at twice the rate of Federal PSDP. This decentralization has created both opportunities for localized planning and challenges for coordinated national development.

Revenue Mobilization Challenges: Despite tax revenues growing by 768% (15.5% CAGR), the tax-to-GDP ratio remained largely stagnant around 10-11%. The increasing reliance on SBP profits (1,567% growth) indicates dangerous dependence on central bank financing rather than sustainable tax measures.

Revenue Mobilization Challenges: Despite tax revenues growing by 768% (15.5% CAGR), the tax-to-GDP ratio remained largely stagnant around 10-11%. The increasing reliance on SBP profits (1,567% growth) indicates dangerous dependence on central bank financing rather than sustainable tax measures.

These trends collectively indicate a fiscal framework under severe stress, with rigid expenditures (debt, pensions, subsidies) consuming an ever-larger share of resources at the expense of development investments and core public services. The acceleration of debt servicing and consumption expenditure presents significant challenges for sustainable economic growth, while the emergence of new priorities in climate change, digitization & social protection reflects evolving governance imperatives.

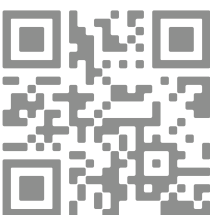
The analysis suggests urgent need for structural reforms to expand the tax base, rationalize subsidies, manage debt sustainability, and rebalance spending toward development priorities. Without addressing these fundamental challenges, Pakistan's fiscal framework risks perpetuating a cycle of debt dependency, underinvestment, and constrained growth potential.

Contact

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ANNEX- A

Table 17 Comprehensive budget component growth analysis (FY10-FY25)

Growth Category	Budget Component	Total % Change FY10–FY25	CAGR (%) FY10–25
Extraordinary Growth (over 1,000%)	Social Protection	15,489.7%	38.7%
	Fiscal deficit	5099%	29.1%
	Bank borrowing	3,470.8%	28.4%
	Housing & Community Amenities	1,760.0%	21.7%
	Environment Protection	1,725.0%	21.5%
	Power subsidies	1,676.1%	21.3%
	SBP Profits	1,566.7%	20.7%
	Domestic Debt Servicing	1,414.0%	20.6%
	Total Debt servicing	1,410.8%	19.8%
	Foreign Debt servicing	1,384.3%	19.7%
	Pensions	1,348.6%	19.5%
	Non-Bank borrowing	1,293.7%	19.1%
	Carbon Surcharge/Petroleum levy	1,043.8%	17.6%
	Provincial Share	1,035.6%	17.7%
High Growth (500–1000%)	Total subsidies	932.6%	16.9%
	Current expenditure	912.5%	16.7%
	Income tax	901.0%	16.6%
	Sales tax	885.8%	16.3%
	Customs Duty	882.1%	16.4%
	Non-Tax revenue	842.6%	16.0%
	Gross revenue receipts	787.6%	15.6%
	Tax Revenue	768.1%	15.5%
	Passport & other fees	733.3%	15.3%
	Public order & safety	708.6%	15.2%
	Indirect taxes	703.7%	14.7%
	Total Budget Outlay	666.7%	14.7%
	Digitization/IT initiatives	627.3%	14.0%
	Defence affairs	520.7%	13.0%
	Federal Excise	519.6%	13.0%
Moderate Growth (100–500%)	Provincial PSDP	947.5%	16.9%

	Total PSDP	441%	12%
	Recreation, Culture & Religion	400.0%	11.4%
	Special Areas development	350.5%	10.7%
	Health Affairs	330.8%	10.3%
	Economic Affairs	321.2%	10.0%
	Education Affairs	229.1%	8.3%
	Federal PSDP	213.9%	8.0%
	Development Expenditure	119.4%	5.4%
Lower Growth (0–100%)	Dividends	85.2%	4.2%
	Privatization proceeds	57.9%	3.1%
	External resources	30.6%	1.8%
	Petroleum/Oil subsidies	20.0%	1.2%
Negative Growth (decrease)	Food/PASSCO subsidies	-60.0%	-6.1%
	Defence receipts	-66.9%	-7.3%

Source: Budget briefs of different fiscal years, Ministry of Finance
Numbers in Brackets () represent negative values

Note: This table categorizes budget components by their total percentage change from FY10 to FY25, providing a clear visualization of Pakistan's shifting fiscal priorities over the 15-year period. Components are arranged in descending order of growth within each category.