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Budgeting the Unbudgeted!

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In the federal budget 2026-27, the government has imbedded fiscal and procedural incentives for businesses in the hope of stimulating growth and investment, which is good, positive and spot on. Can this fiscal stability be achieved under the tutelage of International Monetary Fund (IMF), or can this stability be made sustainable without the Fund's intervention? These are the bigger questions ahead.

In fact, real issue is the tectonic proportion. Out of the total proposed outlay of Rs18,771 billion budget approved by parliament, Rs 12,223 billion is allocated to cover only the three liabilities, i.e. Interest payment, Pensions, and Defence.

This is 67.1 per cent of total resources and total expenditure. For the rest of national needs, Rs 6548 billion has been allocated, which is 32.9 per cent. Against the total spending requirement of Rs 18,771, the Federal Board of Revenue (FBR) will collect only Rs 11,752 billion, as net revenue for the fiscal year 2026-27, leaving a huge gap of Rs 7,019 billion. The federal government during the year will avail a debt of Rs 4,012 billion from commercial banks, for which the State Bank will issue T-bills, Pakistan Investment Bonds (PIBs) and Sukuk. It means the federal government will come under a further debt burden for which it has to pay more interest at market rate, as is tied to the policy rates agreed in the monitory policy. With inflation expectation projected above 11 per cent, Rs 2,034 will be borrowed from other non-banking entities.

Above all, the elephant in the room is the international debt settlement. Pakistan falls among the countries that are paying for the debt whose principal amount has already been paid off. This is the debt creation of money, which is not tenable. Clearly, Pakistan may be seeking another

IMF programme unless a major policy change is not incorporated. The ongoing facility is set to expire in October 2027.

This is just the tip of the iceberg, as three-fourths of the iceberg is under the frozen waters, across the Atlantic Ocean in global North-west.

Debt creation of money

What will happen after three years is a question Pakistan needs to answer at this moment. Without investment, budget can be balanced for growth and sustainability. Pakistan's fiscal situation has reached a climax, but it did not happen overnight. It is a direct result of debt creation of money over the decades, which has now gained dangerous momentum.

The Debt Jinni

From the fiscal years 2022-23 to 2026-27, Pakistan has received more debt. So much so, the volume of federal budget has shown nominal increase by 105.53 per cent in rupee terms. Considering inflation, and in dollar terms too, the increase is about 23.33 per cent only. On the other side, Pakistan's total public debt, which was Rs. 44 trillion at the start of fiscal year 2021-22, has approximately doubled, i.e. Rs 81 trillion. The volume of public debt during that period has increased by 84 per cent. During these five years, Pakistan has never defaulted on its loan repayments to lenders, with the principle on some debt items that have been paid back.

Between 35 to 40 per cent of this debt has been funnelled in for the repayment of the carry forward or recurring debt ever increasing under the interest payment liability, which was around Rs 500 billion, but now swelled up to staggering Rs 9,780 billion. If so, much has been paid to the creditors, why has the debt stocked risen by 84 per cent during these five fiscal years alone.

Certainly, Pakistan will have to go for another Fund Facility from the IMF, if watershed reforms and governance package are not implemented as compulsion. If inflation is likely to hover around 11 per cent, the central bank needs a tighter monetary policy, which means the interest payment of bank borrowing will be sizable. Proceeds of the privatization have been budgeted under Rs 161 billion.

Federal accounts also include Rs1.035 trillion new receipt from provinces under Article 164 of the Constitution that allows the federal and provincial governments to grant each other funds for any purpose, including those outside their normal areas of responsibility. This is provincial contribution to defence requirements. This is the three-year understanding with provinces, as some bargain under duress. Provinces are not paying a labelled relief bill. They are being asked to carry part of the defence and external shock burden. Once that burden is partly taken, the federal government will obtain room to finance concessions elsewhere. This is a medium-term fiscal arrangement with provinces outside the National Finance Commission (NFC) Award.

Provinces may take it in lieu of duress and neglect governance as a reflex and in some cases to compensate for liquidity also. The development of human resources, health and education is made convenient through development of enabling and matching infrastructure, which they might put on hold. This human resource, if developed, will be the future revenue. So, the vertical mobilization and now, after development in West Asia, it might become difficult to export human resources to work outside the country and get remittances. This year's record remittances were sent due to fear of an unknown future and uncertain outcome of war.

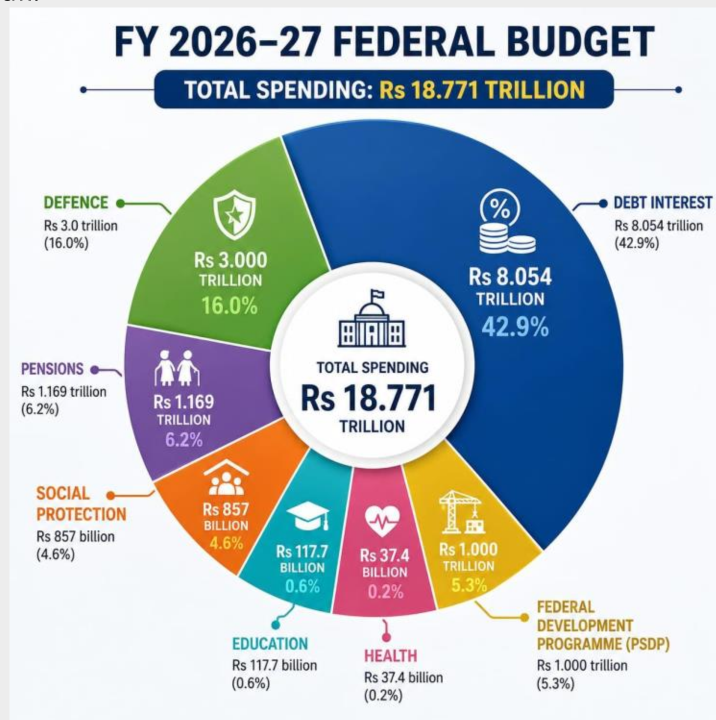
What does it mean? The activation of Article 164 of the Constitution is clear evidence that fiscal space has already been saturated.

What needs to be done?

There are two options available: 1) Pakistan should improve and resurrect economic structures internally and attract the investment that banks on productivity, and 2) Pakistan should talk to the creditors for the cancellation or reprofiling of its bilateral and multilateral debt at least where more than the principal amount, or close to it has already been paid back.

In case of first option, investment needs trust, about which political scientist and economist, Francis Fukuyama, in his landmark book 'Trust: The Social Virtues and the Creation of Prosperity,' writes that nation's economic prosperity and global competitiveness are deeply tied to its levels of cultural and social trust. In Pakistan's case, it means two things: i) guarantee the given policy and policy environment promised at the time of initial investment will not change under any influence, and ii) in case of dispute regarding the terms of contract or the definition of the environment under which the contract was awarded, dispute resolution mechanism in the form of legal provision and independent courts are available and functional. The argument says what if the contract was signed as mala fide by at least one of the parties; the answer should be left to the prudence of independent judiciary to define it, which is jurisprudence.

This is restructuring the political structure, and not restructuring the economy alone, which is termed as 'elite capture' by the Nobel prize-winning economists Daron Acemoglu and James A. Robinson, in their book, 'Why Nations Fail.'



The second option of negotiating debt globally is a political question for two reasons. For such a negotiation, the incumbent needs full support of the citizens and the country has to depend on productivity rather than support from external financers, like the IMF, which always work under its own mandate to help avoid a sovereign structural default on international debt repayment, including interest for a smooth international trade.

The only way out is to improve governance and put fiscal resources to fund the future, which is funding social sector. The youth bulge needs to be transformed into an efficient human resource pool by giving them health, education and livelihood to the nuclear families for sustainability of the progress across and through generations.

Jackpot Corollary

If Iran-Pakistan-India (IPI)gas pipeline, which in its first phase terminates at Multan, is resurrected, it can change the equation. If it is revived, it can buy time for another five-year plan to enforce the required structural adjustments (read our next bulletin on energy).

Ultimately, it is the people of Pakistan, who can change their fate and future of the country, if allowed.

Ends.

Budget 2026-27 meets popular demands but leaves structural reforms for some other time

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A relief for salaried class, business, exporters and real estate sector

Despite overall fiscal tightening, the budget offers targeted relief measures designed to ease financial strain on key vocal lobbies. For the middle-income salaried class, the government restructured income tax slabs to reduce effective rates by three to six percentage points across various income bands while raising the threshold for the maximum 35% tax bracket to 7 million rupees. Public sector employees and pensioners received a 7% increase in salaries and pensions, paired with a nominal 10% raise in the federal minimum wage to 40,700 rupees.

Further, the budget abolished the super tax for non-specified businesses earning up to 500 million rupees, extended the concessionary 0.25% final tax regime for IT exporters and freelancers up to 2029, and lowered tax collection on standard export proceeds from 2% to 1.25%. Furthermore, to stimulate real estate and the construction sector, advance tax rates on property transactions were slashed into lower flat rates, with withholding taxes cut to 1.5% for buyers and 2.75% for sellers, while the tax on deemed income from immovable property (Section 7E) was completely omitted.

Significant relief was also extended to the diaspora and frequent travellers, highlighted by the abolition of the capital value tax on foreign assets and a sharp reduction in the bank card international transaction tax from 5% down to 0.5%. Finally, the safety net for vulnerable segments was expanded via a 17% increase in the Benazir Income Support Programme allocation to 838 billion rupees, alongside an earmarking of 71 billion rupees for low-interest mortgage loans under the PM Apna Ghar scheme.

A look into budget targets for 2026-27

The official growth target is fixed at 4%, yet this expansion is heavily reliant on speculative real estate investments, such as plots and files, rather than job-creating construction, manufacturing, or heavy industry. This reliance on non-productive sectors will lead to a phenomenon of jobless growth. Meanwhile, the state has set a CPI inflation target of 8.2%, which appears highly underestimated. Driven by a massive Petroleum Development Levy target of 1.67 trillion rupees on top of high international petroleum prices, real inflation is projected to remain elevated between 11% and 13% for the next two to three quarters.

The tax revenue target is set at 15.264 trillion rupees, representing an 18% increase over the revised targets of the prior year. While this target is mathematically achievable due to 11% baseline inflation, 4% GDP growth, the underlying structure relies heavily on regressive indirect taxes like the General Sales Tax, which reduces consumer purchasing power. Furthermore, little revenue generation is expected from the current retailer taxation schemes. Non-tax revenue is projected at 5.336 trillion rupees, and remarkably, nearly one-third (32%) of this entire collection relies on a single source: the 1.67 trillion rupees Petroleum Development Levy.

On the trade front, the export target of $32.8 billion is achievable but represents a nominal recovery of ground lost during the outgoing fiscal year rather than a genuine structural expansion. In contrast, the import target of $70.0 billion is highly likely to exceed official budgetary estimates due to the higher baseline growth target, elevated global oil prices, and a marginal uptick in industrial raw input demand.

Inflation, Poverty, and unemployment outcomes are likely to continue to deteriorate

When these budgetary metrics intersect, they form a difficult macroeconomic environment for vulnerable segments of the population. With inflation persisting above double digits, the central bank policy rate is expected to remain high, potentially fluctuating around 12% to 13% depending on global oil shocks, which will continue to crowd out private enterprise credit.

Reflecting these pressures, national poverty is expected to rise from its current baseline of 28.9% to a staggering 31% to 32%. Rural regions will continue to bear the brunt of this strain, where poverty previously hovered at 36.2%. Due to the lack of structural support for manufacturing and formal construction, the national unemployment rate is projected to cross the 7% threshold, worsening the situation for the estimated 5.9 million citizens currently without work.

Some comments on structure of budget

The fiscal plan attempts to meet popular demands by offering nominal relief to exporters, the salaried class, real estate, and select business lobbies. However, this relief is funded by cutting federal development transfers to the provinces rather than creating new revenue streams or expanding productive economic activity.

The budget shies away from long-term institutional overhauls, leaving major systemic vulnerabilities unaddressed. These include a dominant informal cash economy, high energy tariffs that strain small businesses, a narrow tax base, and low tax yields from wealthy sectors like agriculture, tobacco, and sugary beverages.

The document also offers few remedies to reverse the drop in Foreign Direct Investment, which fell from $1.9 billion to $1.4 billion, or the $465 million capital outflow seen in the telecom sector. This investment decline, paired with low export-to-GDP levels of 5.7%, has widened the national Gini coefficient to 32.7, reflecting worsening income disparity.

Some proposal for further consideration during budget debate

To transform this revenue-focused budget into a development-oriented framework, several structural adjustments should be considered during the ongoing legislative debates. First, increasing the basic income tax exemption threshold for salaried individuals to 1.2 million rupees annually would protect real wages from inflation. Second, providing targeted fiscal incentives directly to the construction sector would help spur blue-collar employment and stimulate domestic industrial manufacturing.

Third, capping the maximum personal income tax rate at 30% would encourage formal tax compliance and prevent further brain drain among high-earning professionals. Fourth, eliminating the artificial tiering between filers and non-filers is necessary, as it has inadvertently formalized non-compliance through transactional fee arrangements. Fifth, all personal and corporate income, irrespective of the source of wealth, must be placed under the standard income tax regime of the Federal Board of Revenue to ensure vertical and horizontal equity.

Finally, the tax policy office, structurally separating revenue collection mandates of the FBR and tax policy design must provide broad-based guidance on long-term economic strategies, ensuring that taxation policy serves national development goals going far beyond simple revenue targets.

DRM Governance Reforms Sans Anticipatory Financing

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The Finance Bill reveals that the government is increasingly moving from new taxes approach toward better tax administration and compliance for recovering additional resources. The government's strategy appears to be: i) reduce leakages through faceless assessments and digitisation, ii) expand documentation through retail and trader integration, iii) use AI and third-party data for risk-based audits, and iv) rationalise tax expenditures rather than imposing only new taxes. This is fiscally sensible but politically difficult as political economy has its own importance in public finance management (PFM).

Sector-Wise Overall Brief Assessment of the Budget

Sector	Assessment
Macroeconomy	Stabilisation budget under IMF constraints
Salaried Class	Some relief but burden remains high
Social Protection	Strongest positive feature; despite BISP expansion, it is not linked to disaster and risks triggers (heatwave, floods, drought, etc.)
Education	Protected but not transformative
Health	Moderate increase, still below needs
Agriculture	Supportive measures but climate resilience weak
Industry	Documentation and compliance focus
Energy	Revenue generation still central
Climate Change	Governance reforms strong; financing weak
Disaster Management	Budget tagging breakthrough; preparedness funding insufficient
Anticipatory Action	Largely absent
Local Governments	Limited fiscal empowerment
Tax Reform	Major emphasis on digitisation and faceless systems

Post-Budget 2026-27 reflections continue to show fiscal stabilisation, making slight strides towards institutional reforms in some sectors, with the integration of climate and disaster considerations into public financial management (PFM) systems through budget tagging and technology-enabled tracking.

We have progressed in measuring climate and disaster spending, yet we need to make adequate investments in resilience, anticipatory action and disaster risk reduction, with anticipatory financing as the next step. The target for future budgets should be to move from tracking climate risks and hazards to financing resilience through foresight and anticipatory

action tools. This will help consolidate the reforms introduced in the budget by increasing investment in resilience, disaster risk management (DRM), and anticipatory action.

It is good that Pakistan has realised the need for and introduced some governance reforms for DRM allocations. However, by continuing in a reactive mode, the country risks missing the opportunity to adopt a more proactive approach to future budget allocations.

The Anticipatory Action (AA) system in Pakistan is largely forecast-driven and hazard-specific, whereas emerging risks are becoming increasingly systemic, compound, cascading, and uncertain. As a result, there appears to be a gap between 'what we can forecast' and 'what we can foresee'.

As an anticipatory action and foresight professional, I propose that, to fill this gap, anticipatory action be embedded within strategic foresight, horizon scanning, and anticipatory governance approaches through an enhanced concept of 'Anticipatory Action Plus (AA+)' in future budgets. By integrating forecast-based early action with strategic foresight, anticipatory governance, and systemic risk intelligence, Pakistan can better address compound, cascading and long-horizon climate risks and disasters.

Existing anticipatory action helps societies act before a forecast disaster occurs, based on triggers. Anticipatory Action Plus (AA+) enables governments and communities to prepare for emerging, compound, and systemic risks by integrating foresight, future thinking and anticipatory governance. AA+ expands the horizon of anticipation from days and weeks to years and decades, creating a bridge between disaster risk reduction, climate adaptation, and long-term resilience building. Both anticipatory action and foresight approaches are already being used in parallel by institutions, including SDPI and various UN agencies. There is a need to bring the two together for a more resilient Pakistan.

The importance here lies not in the size of budgetary allocations for climate and disaster hazards, but in the institutionalisation of climate and disaster budgeting within Pakistan's PFM system. The federal government has institutionalised disaster-responsive budgeting, mapped more than 5,000 cost centres, introduced disaster budget tagging, classified expenditures under preparedness, response, recovery and reconstruction, integrated climate budget tagging, and developed AI-enabled climate budget tracking and reporting systems.

This means climate and DRM spending is no longer treated as an ad hoc development activity but is gradually being embedded in treasury systems and budget classification frameworks. Integrated into the Medium-Term Performance-Based Budgeting framework, these reforms aim to enhance fiscal transparency and support a transition to risk-based financial management.

By taking these actions, Pakistan can now answer the question, 'How much are we spending on climate resilience and disaster risk reduction?' in the public finance context and in line with the practices of leading global financial institutions. As humanitarian advocates, we have long argued that disaster and climate resilience should not be viewed as stand-alone projects but as budgetary and governance issues. The new measures move Pakistan towards Disaster Budget Tagging (DBT), enabling tracking of expenditures related to preparedness, response, recovery and reconstruction, as well as evidence-based fiscal planning. This will improve the efficiency of disaster spending, resilience outcomes, and the identification of funding gaps in the future.

The following table shows budget classification of disaster risk reduction (DRR) heads.

Classification	2023-2024	2024-2025	2025-2026	2026-2027	Variance last 2 years	Percentage
Preparedness	37,278	47,434	33,163	42,844	9681	29.2%
Response	11,394	12,999	15,876	32,774	16,898	106.4%
Recovery & Rehabilitation	1541	444	1,142	21,485	20,343	1782%
Reconstruction				19,135	19,135	
					66,057	131.637%

The following Table (Emergencies and Natural Disasters) shows further allocations.

S. No:	Classification	2025-2026 PKR Million	2025-2026 (Revised) Mn	2026-2027 PKR Million
VII	Provision for emergency and others (of which Rs20 Billion for natural disasters triggered by natural hazards 2026-2027	389,000	275,888	430,000

The following table shows NDMA's Budget

No	Ministry/Division	Allocation	Budget Estimated 2026-2027
9.	National Disaster Management Authority (NDMA)	1048	1048

In addition to the federal waallocations as explained above, the provinces have their own allocations under disaster-related heads. Similarly, BISP funding has been increased substantially, but there is no clear budget architecture linking BISP with drought, flood and heatwave triggers, and anticipatory cash transfers.

The challenge is that the allocations appear modest, as governance is improving faster than the financing architecture. This suggests that the federal government is now attempting to identify DRM-related expenditures across sectors rather than only through the disaster management architecture. The provinces must work through local governments and

administrations to build resilience in local communities. One would still like to see allocations for Forecast-Based Financing, dedicated trigger-based funding, Early Action Protocols, financing linked to forecast triggers, and Shock-Responsive Social Protection in future budgets. Governments should also introduce dedicated AA+ allocations in their future budgets.

Pakistan is strengthening its disaster-risk financing architecture through disaster-budget tagging, climate-budget tagging, AI-enabled tracking and the classification of expenditures across preparedness, response, recovery and reconstruction. Institutions such as NDMA, PDMAs, DDMAs at the district level, SDMA, and GBDMA should be adequately funded for anticipatory action to cope with forthcoming monsoons and other forecast-based disasters. At the same time, strategic funds should be allocated to AA+, including foresight work.

Through AA+, we can improve actual resilience by anticipating the challenges of the next two decades as Pakistan approaches its centenary. This will depend on the volume of tagged expenditures and how much is allocated to AA+ for risk reduction rather than post-disaster response. This approach will yield dividends from the current institutionalised disaster-budget tagging system across more than 5,000 cost centres, ensuring adequate future allocations.

In the absence of a dedicated AA and AA+ financing window, we risk becoming better at tracking disaster spending than at financing prevention, preparedness and anticipatory and foresight-based actions.

Budget 2026–27: Between Stabilisation and the Politics of Public Finance

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Pakistan's Budget 2026–27 has been presented as a budget of stability, recovery and reform. The government's central message is clear: macroeconomic stability has been restored, inflation has come down, external balances have improved, investor confidence is returning, and the next phase must be growth. This is a politically understandable message. Citizens cannot be asked to celebrate stabilisation forever. They want jobs, incomes, cheaper energy, better services and visible development.

Yet behind the headline numbers lies a deeper governance story. Budget 2026–27 is not merely an annual statement of receipts and expenditures. It is a test of Pakistan's public finance management system, its federal compact, and its ability to convert fiscal consolidation into development outcomes. Seen from this perspective, the budget reveals both progress and unfinished business.

The first important point is that the budget has been made within a much stronger legal and institutional framework than in the past. The Public Finance Management Act, 2019 requires a Budget Strategy Paper, plan-based expenditure, disclosure of fiscal risks, reporting of tax expenditures, performance-based budgeting, better control over supplementary grants, and discipline in development project approval. In principle, this means that budget-making should no longer be a one-off annual bargaining exercise. It should be anchored in a medium-term fiscal strategy, credible macroeconomic assumptions, and clear spending priorities.

The Medium-Term Budget Strategy Paper for FY2025–26 to FY2027–28 reflects this ambition. It projects growth rising over the medium term, inflation moderating, the fiscal deficit declining, and the primary surplus remaining positive. It also identifies major fiscal risks, including lower growth, tax underperformance, lower petroleum levy, lower SBP profit, higher interest rates, SOE liabilities, natural disasters and climate shocks. This is an important improvement in transparency. Pakistan's fiscal risks are no longer invisible. They are now being acknowledged in the budget process.

However, the real question is whether the annual budget remains faithful to this medium-term framework during execution. Pakistan's budget problem has never been only about presentation. It has been about credibility. Budgets are announced with ambitious targets and priorities, but in-year adjustments, supplementary grants, development cuts, delayed releases and shifting political bargains often change the actual fiscal story.

This is where the IMF's Governance and Corruption Diagnostic is particularly relevant. Its PFM assessment points to weak budget credibility, excessive reliance on supplementary grants in the past, weaknesses in public investment management, an incomplete Treasury Single Account framework, overlapping debt management responsibilities, and weak internal and external audit. These are not merely technocratic concerns. They are at the heart of Pakistan's political economy. Weak budget credibility creates room for discretion. Discretion creates room for bargaining. Bargaining often weakens policy priorities.

Budget 2026–27 shows some movement in the right direction. The Annual Budget Statement is more comprehensive, includes fiscal risk disclosures, and reflects a formal medium-term

approach. The federal government has also moved ahead on Treasury Single Account reforms, notifying 221 entities for TSA coverage. If implemented properly, this can improve visibility over public cash balances, reduce idle money in commercial bank accounts, strengthen cash forecasting, and improve expenditure control. For a country with large borrowing needs, even cash management is macroeconomic policy.

But the budget also exposes the hard limits of fiscal space. Total federal expenditure is dominated by current spending. Debt servicing remains the largest claim on the budget. Defence, pensions, subsidies, grants and running of government absorb much of the remaining space. Development spending, though politically visible, is modest relative to the overall budget. This is not a new problem, but Budget 2026–27 makes it sharper: Pakistan wants growth, but the fiscal room for growth-enhancing public investment is narrow.

The political economy of the development budget makes this even clearer. The National Economic Council's decision to sharply reduce the national development outlay before the budget tells an important story. Provincial development plans were cut, with Punjab facing the largest reduction, while Balochistan remained protected. The federal PSDP was also reduced to provide political balance. This was not simply a technical adjustment. It reflected coalition management, provincial bargaining, IMF-linked fiscal discipline, and the need to create room for strategic priorities, including defence, water and security.

This is precisely how fiscal federalism works in practice. The Constitution provides a framework for revenue sharing, provincial entitlements, natural resource revenues and grants. But the annual budget is where constitutional design meets political negotiation. Provinces receive large transfers through the NFC, but the federal government remains responsible for debt servicing, defence, national infrastructure, social protection, and macroeconomic stabilisation. The result is a recurring tension: the federation needs provincial surpluses for fiscal consolidation, while provinces need development spending for political legitimacy and service delivery.

Budget 2026–27 assumes a sizeable provincial cash surplus. This is central to the overall fiscal consolidation path. But relying on provincial surpluses is politically fragile. Provinces may agree at the NEC table, but their own political incentives are shaped by roads, schools, hospitals, local schemes, and regional expectations. If provincial revenues underperform or political pressures rise, the promised surplus may become difficult to sustain. Fiscal consolidation therefore depends not only on federal discipline but also on intergovernmental trust.

The PSDP also deserves closer scrutiny. Its preface rightly acknowledges a resource-constrained environment and a large throw-forward liability. It promises strict control on new schemes and prioritisation of ongoing, high-impact projects. This is exactly what good public investment management requires. Yet the PSDP still includes new and unapproved schemes. Some may be justified on strategic or urgent grounds, but the governance issue remains: if unapproved schemes enter the development budget, the credibility of the project approval system is weakened.

This matters because Pakistan's development problem is not only that it spends too little. It is also that it spreads too little money across too many projects. The result is delayed completion, cost escalation, stranded assets and low development returns. A smaller but better-prioritised PSDP would be more useful than a politically inflated one. The IMF recommendation to enforce the 10 percent cap on new projects, rationalise the portfolio, protect capital spending from mid-year cuts, and integrate parliamentarians' schemes into the PSDP process should be taken seriously.

The budget also highlights the continuing dependence on ambitious revenue mobilisation. FBR taxes are projected to rise substantially, with direct taxes and indirect taxes both carrying heavy expectations. Non-tax revenue remains significant, including petroleum levy, SBP profit and other receipts. This raises two concerns. First, if FBR falls short, expenditure control will again come under pressure. Second, reliance on petroleum levy and other non-tax receipts can be fiscally useful but politically and economically sensitive, especially when global oil prices move unexpectedly.

The establishment of a Tax Policy Office is therefore an important reform. Pakistan needs tax policy to be separated from day-to-day revenue administration. A credible tax system requires fewer exemptions, fewer ad hoc measures, fewer withholding distortions, and a broader, more equitable base. Without this, every budget becomes a search for administratively convenient revenue rather than economically sound taxation.

Budget 2026–27 also contains important positive signals: fiscal risk reporting, climate and gender budgeting, disaster budget statements, TSA expansion, tax policy institutionalisation, and continued emphasis on digitisation. These are not cosmetic reforms. If implemented, they can change how public money is planned, tracked and evaluated.

But implementation is the decisive word. Pakistan has often been better at announcing reform architecture than enforcing it. The PFM Act already provides a strong foundation. The question is whether the state will follow its own rules: prepare realistic budgets, avoid excessive supplementary grants, approve only properly appraised projects, disclose risks honestly, monitor performance, and hold spending authorities accountable.

The real test of Budget 2026–27 will not be passed on budget day. It will be passed during the fiscal year: when revenue pressures emerge, when provinces negotiate releases, when development schemes compete for scarce funds, when supplementary demands arise, when subsidies come under pressure, and when political priorities test fiscal discipline.

Pakistan has moved from crisis stabilisation to a more difficult phase: governing the recovery. That requires more than numbers. It requires rules, credibility, coordination and restraint. Budget 2026–27 has the language of reform. Its success will depend on whether Pakistan’s political economy allows the discipline of public finance management to prevail over the habits of discretion.

Energy and the Federal Budget

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"The Arithmetic Still Has an Old Accent"

Energy and the Federal Budget: The Arithmetic Still Has an Old Accent

Pakistan's Federal Budget 2026-27 tells a familiar energy story in new vocabulary. The state is collecting heavily from energy, tagging revenues as green, shifting subsidy lines into new instruments, and speaking the language of transition. Yet the structure remains old: capacity first, efficiency later, retirement almost nowhere.

Energy is now a fiscal instrument, macroeconomic stabiliser, subsidy sink and political shock absorber. The Petroleum Levy alone is budgeted at Rs 1,677 billion. With gas royalty, gas development surcharge, crude oil royalty, captive power levy, windfall levy, crude discount and Climate Support Levy, energy and climate-linked receipts form the quiet revenue spine of the budget. Green revenues stand at roughly Rs 2,026 billion, against Rs 476 billion in green subsidies. The ratio is about 4.3 to 1. The state is more comfortable collecting under the green label than recycling under a green compact.

That is the first policy problem. A Climate Support Levy of Rs 50 billion is not insignificant. But a carbon-like charge without a transparent recycling framework is ordinary taxation with a green visiting card. If climate-linked revenues are collected from fuel and energy use, the budget must show where they go: vulnerable households, clean mobility, grid modernisation, storage, industrial decarbonisation and climate resilience. Otherwise, the revenue disappears into the consolidated fiscal well.

The macro constraint is real. Interest payments are budgeted at Rs 8,054 billion, against a federal PSDP of Rs 1,000 billion and total subsidies of Rs 1,091 billion. Pakistan cannot design an energy transition as if fiscal space is unlimited. But fiscal constraint cannot justify poor prioritisation.

Power subsidy is Rs 830 billion, around 76 per cent of total subsidies. This is not a marginal relief line. It is the centre of the subsidy architecture. Much of this subsidy does not reach consumers as a direct, portable welfare transfer. It moves through DISCOs, IPPs, tariff differential claims, revolving funds and circular-debt containment instruments. The consumer provides the moral justification; the payment often clears institutional arrears.

A subsidy that compensates losses, delayed recoveries, tariff gaps, capacity payments and circular debt is not clean household relief. It is system financing. It may prevent tariff shocks in the short run, but it also hides the cost of an unreformed power market. The poor consumer appears in the policy narrative, while the cheque frequently travels to DISCOs, IPPs and the circular-debt chain.

The Rs 252 billion Circular Debt Containment Allocation is the clearest example. Containment is not cure. It may slow visible liabilities, but it does not remove expensive contracts, high capacity payments, weak demand, low plant utilisation, transmission constraints, DISCO losses, theft, poor recovery and delayed tariff adjustments. A containment allocation is a bucket under a leaking roof: useful for the night, dangerous as housing policy.

The proposed direct subsidy mechanism through BISP, expected by January 2027, is important but risky. In principle, subsidy should follow the household, not the kilowatt-hour. But if targeting becomes a narrow fiscal filter rather than a welfare instrument, it can hurt the masses. Millions of households live above formal poverty thresholds but remain vulnerable to electricity price shocks. They are not poor enough to qualify easily, not rich enough to absorb higher tariffs, and not organised enough to shape tariff design. If protected consumer categories are narrowed while electricity remains structurally expensive, the burden will shift to lower-middle and middle-income households. The state may call it targeting. The household will call it exclusion.

The correct sequence is clear: reduce the structural cost of power through capacity optimisation, contract renegotiation, retirement or conversion of expensive plants, least-cost dispatch, loss reduction and recovery improvement; convert opaque institutional subsidies into direct support for vulnerable households; protect near-poor consumers through lifeline design and tariff smoothing; and disclose how much of every subsidy goes to consumers, DISCOs, IPPs and circular-debt settlement. Pakistan's power subsidy remains an energy-sector bailout with a welfare caption.

This is the budget's larger contradiction. Pakistan operates a power system where high capacity payments, low utilisation, weak demand, expensive generation, losses and delayed recoveries produce tariffs that suppress consumption. The system then punishes itself for unused capacity. The budget recognises circular debt, but it does not provide a plant-by-plant capacity optimisation plan. It speaks of hydropower, grid investments, STATCOM and battery storage. The harder question remains: which expensive thermal plants should be retired, converted, reserved, refinanced or bought out?

Pakistan has confused capacity addition with energy security. Energy security is not installed megawatts on paper. It is affordable, reliable and flexible energy delivered without bankrupting the state. A megawatt that adds capacity payments without improving dispatch economics is not security. It is a future invoice. Planning must shift from "build more" to "use better, retire wisely, dispatch cheaply and price honestly."

The climate budget sends another warning. Climate allocations excluding subsidies fall from Rs 716.8 billion to Rs 214 billion; mitigation falls from Rs 603 billion to Rs 124.1 billion; disaster allocations rise to Rs 116.2 billion. Pakistan still budgets more easily for damage after it occurs than for losses avoided before they materialise. Green tagging also needs scrutiny: a subsidy can be climate-tagged and still preserve inefficient capacity, distort price signals or keep loss-making structures alive.

Pakistan needs a tighter reform compact: revenue recycling for climate charges; capacity optimisation before new generation; disclosure of green subsidies by project, consumer class and outcome; protection for the near-poor under BISP-based targeting; grid spending tied to renewable integration and loss reduction; EV support focused on two- and three-wheelers, buses and fleets; and climate-budget reporting based on outcomes.

Verdict: this budget collects like an energy state, subsidises like a crisis state and transitions like a cautious state. Until Pakistan moves from capacity addition to capacity optimisation, from green tagging to green performance, from institutional subsidies to citizen support, and from fossil revenue collection to transparent climate recycling, it will remain an accounting document searching for transition strategy

Beyond Fiscal Arithmetic: Reimagining Inclusive Budgeting and Social Protection in Pakistan.

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Tagline: Pakistan's budgetary transition is no longer just about balancing - it is increasingly about complementing macroeconomic steadiness with social resilience, where social protection, gender-responsive financing, and human development are becoming essential to economic recovery."

As Pakistan enters the FY 2026–27 budget cycle at a decisive economic and social stage where overall development and macroeconomic stabilization can no longer pursued as isolated policy agendas, the significance of inclusive budgeting and social protection has been more vivid. In the changing global context, particularly due to geopolitical tensions and its implication on global markets, the budget discussions cannot remain limited around the taxation, petroleum levies or fiscal consolidation alone should likewise be seen through the broader lens of human development and resilience. A budget projects a vision for the future of its people; its decisions and allocations thus have a strong impact on the socio-economic outlook of society.

In a country where inflation, unemployment, climate shocks and income inequality make wider socio-economic discrepancies, a robust social protection system must move beyond the margins of policy discourse to the point of economic planning. While keeping the fiscal discipline within the IMF supported reforms and scaling the debt circle, stabilization of the economy without social precautions can risk the economy of Pakistan towards more extended poverty, inflation and social fragmentation as growth cannot be sustained if the economic regulations keep on burdening the low-income households through high multi-dimensional poverty estimates approximately around 38-40% , increased energy cost and shrinkage of individual purchasing power. In such context, inclusive budgeting should ensure resources are distributed equitably among the vulnerable segment of society which includes women, youth, informal laborers, individuals with disabilities and geographically excluded communities, it should bridge the gap, shield the resources from elite capture and redesign the provincial capacity for social safety net financing following the 18th Amendment and 7th NFC award .

The key pillar for societal unity and inclusive budgeting is Social Protection, which has evolved over the past few decades through programs like BISP – Benazir Income Support Program as one of the topmost recognizable social safety net programs by international bodies like IMF and World Bank. It is the largest targeted Cash Transfer initiatives among the South Asian countries. The government's continuous expansion of BISP signals the mounting importance of social protection as a fiscal requirement. With program allocation increased significantly from PKR 598 billion in FY2024-25 to PKR 716 billion in FY2025-26, marking an increase of nearly 20 percent — with expectations of further expansion in the upcoming FY2026–27 budget. The program currently supports nearly 10 million vulnerable households to mitigate poverty and improve consumption during the time of economic distress through the expansion of cash transfers, digitalized payment systems and social registries. Yet, the scale of Pakistan's current socio-economic challenges demands an improved and more integrated social protection structure viewed beyond the numbers where such a large amount of allocation truly represents that the vulnerable ones are better off or not. We should understand

the real welfare impact through the lens of real purchasing power, per capita support and inflation. In real world picture, the high rate of inflation only marginally improves the purchasing power. The real question to be answered in upcoming budget should be the Rs. 13,500 as quarterly stipend covers the burden of basic food basket, utilities and needs.

Regardless of incremental increase in the allocation of social sector, Pakistan is not able to effectively invest in human development sectors like health and education. The cumulative education expenditures by the federal and provincial governments were estimated at 0.8pc of the GDP in FY 2025 compared to 0.9pc in the health sector. These numbers depict the failure of structure rigidity over the existing fiscal concern and point out the alarming development deficits which could be reshaped by integrating gender perspectives into public finance. The analysis of the Federal Budget FY2025-26 generates evidence to support the implementation of gender perspective budgeting. The findings show that 6.9% of the total Public Sector Development Programme was allocated in FY 2025-26 whereas the government of Pakistan has tagged PKR 291 billion as the spending in the pool of gender sensitive budgeting which was supposed to directly benefit the women, girls and gender-diverse persons in different gender sensitive projects. This gender tagging was applied across 5000+ cost centres but tagging alone is not enough without the actual investment and accountability.

In due course, inclusive budgeting needs to surpass the limited margin of technocratic fiscal alignment with transformative tools of accountability, justice and social inclusion as Pakistan's upcoming imperative is no longer restricted to balancing the financing sheet but to balance protection and human dignity across the grassroot level of the society which requires the firm coordination between federal and provincial administration through expanding and investing in resilient social protection mechanism where low income households can feel more secure , women unpaid care work is been recognized , children are in schools and vulnerable ones are safeguarded against inflation , unemployment and shocks.

Water Security Amid Fiscal Constraints

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Pakistan's water sector suffers from multifarious ailments. Inadequate and poorly maintained infrastructure, bad governance, Transboundary hydro-politics, weak institutions, unfair distribution of water from river to distributary levels and colossal system losses are only a few among them.

Critical infrastructure projects are not only delayed but have also drained scarce financial resources due to cost overrun. Allocations are made every year but releases and spending often remain sub-optimal.

For the financial year 2026-27, federal government has earmarked Rs.75 billion for water sector projects under the Public Sector Development Programme (PSDP). These projects include storage dams, drinking water supply for Karachi metropolitan, flood management and augmenting the national grid through cheaper and cleaner hydro-power. Amid a financial squeeze, this allocation may appear paltry yet very critical for these projects.

Water security is intrinsically linked to food security and livelihoods for millions of people associated with agriculture sector, including those employed in the supply chain. Water sector projects are becoming even more pivotal with rapid melting of glaciers and India's unilateral suspension of Indus Water Treaty. India is also embarking upon the diversion of water from a tributary of Chenab river to Beas basin, thereby triggering exasperation in Pakistan. Pakistan's water planners react by emphasizing the construction of more dams -a conventional engineering approach - to offset the impact of diversion by India.

Mega infrastructure projects entail multi-dimensional challenges that are often overlooked at the planning stage. Dams, barrages and canals require critical consensus among riparians and due to financial constraints take several years-decades in some cases-before becoming a reality. However, Pakistan has other options to increase water-use efficiency and productivity of water. This requires focused investment in improving irrigation infrastructure, on-farm practices and revisiting cropping pattern. Compared with large scale projects, these investments are free from political conflicts, procedural delays, environmental and social complications, tedious land procurement, cumbersome contract management etc. This track offers significant impact in a shorter time span and with lesser money.

Pakistan's conveyance losses are enormously high i.e. up to 60pc in the irrigation system. About 20 percent of these losses are unavoidable evaporation losses and part of the remaining 40pc seepage losses is recoverable through groundwater pumping. Nonetheless, even if 10pc of the lost water is conserved, the quantum of saved water will exceed the storage of any large dam of Pakistan. This objective could be achieved through lining of water channels, proper desilting of channels, reducing pilferage, laser levelling, climate-sensitive cropping, installing drip and pivot systems on small- scale farms etc. Moreover, recurring cost of such projects is insignificantly small compared with mega infrastructure projects.

Another critical target should be completion of long delayed projects such as Mohmand Dam, Tarbela 5th extension, Diamer-Bhasha dam, Dasu hydropower project and the K-IV Greater Karachi Bulk Water Supply scheme. These projects have missed several timelines and have cost several billion rupees to national exchequer. Institutions responsible for water

management have deteriorated over the recent decades. Neelum-Jhelum hydro-power project, Bhasha dam, Dasu dam and Nai Gaj dam and Tarbela Extension-5 are some of the examples.

The Auditor General of Pakistan, in its performance audit report for 2022-23 raised serious questions about the quality and design of the Neelum-Jhelum hydro-power project. The 969 megawatt project, costing over 500 billion rupees has been at a standstill after a major collapse in the tunnel of the powerhouse a few years after construction. According to the report, the project was delayed by almost eight years, raising its cost from Rs84.502bn (first revised PC-I) to Rs419.454bn, a cost overrun of Rs334.952bn. The AGP said the project was not executed efficiently as resources were poorly managed and timelines under PC-I were ignored.

A critical drinking water project K-IV to augment water supply to Karachi by 650 million gallons per day was approved in 2014 and still remains unfinished. The cost of the project has increased almost seven-fold, from Rs25 billion to Rs171bn. Diamer Bhasha dam was first inaugurated in 1998 with an initial estimated cost of Rs 479 billion. However, due to multiple delays, cost of the project has swollen to Rs. 1,049 billion and the project unfinished. Dasu hydropower, another large scale water sector project is under construction since 2014. Starting with an initial estimate of Rs 486 billion, it is delayed by four years and the project cost has increased by 257pc to Rs 1,737 billion. Tarbela 5th Extension (T5) is another embarrassing story. The project has been delayed for several years and its cost has spiralled up from Rs316.4bn against the original Rs82bn estimate. The technical team of the Planning Commission and minister for Planning and Development Mr. Ahsan Iqbal expressed serious concern over the non-submission of project feasibilities and revised cost estimates for more than six years, as well as attempts to hush up inquiries into alleged mismanagement and corruption. Nai Gaj dam project in Sindh has also suffered the same fate. Its delayed construction has escalated its cost by 405pc, increasing from Rs16.92 billion to Rs85.57bn and yet the project remains incomplete even after 13 years.

These experiences suggest that our institutions lack capacity and resources to construct and manage mega infrastructure projects in water sector. Funnelling efforts solely into engineering solutions will not yield the desired results. Pakistan ought to devise a different strategy to ensure water security amid fiscal constraints that is likely to persist in the foreseeable years.

When Climate Vulnerability Becomes a Revenue Stream

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For years, Pakistan has argued before the international community that climate finance remains insufficient despite the country's extreme vulnerability to climate change. The argument is justified. Pakistan continues to face floods, heatwaves, droughts, glacier melt, water scarcity and ecosystem degradation while contributing only a fraction of global emissions. However, the federal budget for FY2026-27 raises a difficult question: if climate finance from abroad is not reaching vulnerable communities, why is climate finance generated at home failing to do so as well?

The latest budget reveals a growing disconnect between climate revenue generation and climate resilience investments. Through measures such as the Petroleum Levy, Climate Support Levy and other green-linked fiscal instruments, the government expects to generate approximately Rs2 trillion in climate- and environment-related revenues. Yet climate-tagged expenditure has fallen dramatically to roughly Rs214 billion, a decline of around 70 percent from the previous fiscal year. In simple terms, Pakistan is collecting substantially more in the name of climate than it is spending on reducing climate risks.

This is where climate budget tagging, originally introduced as a transparency and accountability reform, begins to lose its purpose. The idea behind climate budget tagging was to identify public expenditures that contribute to adaptation, mitigation and resilience. However, climate budgeting was never meant to become a mechanism for generating revenue while climate vulnerabilities continue to deepen. When climate-linked revenues are absorbed into the general treasury rather than ring-fenced for resilience-building, climate vulnerability effectively becomes a fiscal resource instead of a development challenge requiring urgent action.

The contradiction becomes even more apparent when viewed alongside Pakistan's own Economic Survey. The survey estimates that climate-related flooding caused losses of approximately Rs822 billion and displaced more than four million people. At the same time, Pakistan continues to experience intensifying heatwaves, declining water availability, worsening air pollution and increasing stress on ecosystems that support livelihoods and economic activity. These are not isolated environmental concerns. They are economic shocks that affect agriculture, energy security, public health, labour productivity and long-term growth.

Moreover, Pakistan's climate risks are unfolding within an increasingly fragile geopolitical landscape. The country shares rivers, glaciers and ecological systems with neighbouring states, while regional tensions over water security continue to grow. The glaciers of the Hindu Kush-Himalayan region, which sustain the Indus Basin and millions of livelihoods downstream, are melting at accelerating rates partly because of emissions generated across the wider region. Climate change therefore represents not only an environmental challenge but also a strategic and security concern for countries dependent on shared natural resources.

Despite these realities, Pakistan's public spending remains heavily skewed towards responding to disasters after they occur rather than preventing losses before they happen. Budgetary priorities continue to focus on reconstruction, relief and recovery, while investments in adaptation, ecosystem restoration, water conservation, urban heat management and climate-resilient infrastructure remain comparatively limited. This reflects a broader policy gap in which climate risks are acknowledged in speeches, surveys and planning documents but are not consistently translated into fiscal decisions.

The problem is not a lack of climate policies because Pakistan has climate strategies, adaptation plans, climate budget tagging frameworks and even access to international climate-related financing facilities. The problem is that policy remains disconnected from implementation, science remains disconnected from budgeting and climate revenues remain disconnected from climate outcomes.

If Pakistan is serious about climate resilience, then climate-linked revenues must be linked to climate action. The long-awaited notification of the Pakistan Climate Change Fund could provide a mechanism for ring-fencing a portion of these revenues and directing them towards adaptation and resilience measures. Otherwise, climate budgeting risks becoming little more than an accounting exercise that generates revenue without reducing vulnerability.

Ultimately, the success of climate governance will not be measured by how much money is collected under climate-related levies. It will be measured by whether future floods displace fewer people, whether communities become more resilient to heat and water stress and whether climate vulnerability declines rather than grows. A country cannot tax its way out of climate risk rather it can only invest its way out of it

The Article 164 trade-off

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With NFC Award negotiations stalled and speculation swirling about a possible 28th Amendment, the provinces agreed to a voluntary transfer to the federation under Article 164.

Accordingly, the federal budget for 2026-27 records Rs1.035 trillion as grants or receipts from provinces: Rs555.7 billion from Punjab, Rs263.7 billion from Sindh, Rs157.0 billion from Khyber Pakhtunkhwa and Rs58.6 billion from Balochistan.

Pakistan has valid defence financing needs. Defence affairs and services have risen from Rs2.558 trillion in the 2025-26 budget estimate to Rs3.011 trillion in 2026-27. The increase is about Rs453 billion, or roughly $1.6 billion. I have never argued for military adventurism. However, India's 2026-27 defence allocation of roughly $85.6 billion, including an increase of about $11 billion, places Pakistan's own increase – and the rationale for provincial contributions – in a broader strategic context.

The fiscal issue starts after the defence increase is separated from the total Article 164 entry. The Rs1.035 trillion provincial grant is Rs582 billion higher than the Rs453 billion increase in defence affairs and services. Punjab and Sindh together are booked at Rs819.4 billion, or about 1.8 times the defence increase.

A cursory look at the provincial budgets reveals that the provinces have cut their Annual Development Plans (ADPs), and/or are aiming to increase their own-source revenue.

For instance, Punjab's ADP falls from the outgoing fiscal year's Rs1.24 trillion to Rs752 billion, a cut of Rs488 billion. This cut equals about 88 per cent of Punjab's Article 164 grant to the federation. A closer look shows that school education development falls from Rs100 billion in 2025-26 to Rs25.3 billion. Specialised healthcare and medical education falls from Rs95 billion to Rs 43.1 billion. Health and population fall from Rs86 billion to Rs33.2 billion. Agriculture falls from Rs80 billion to Rs60 billion. Roads and public infrastructure also lose space with a cut in ADP. The only exception is 'environment and climate' where the budget is increased from Rs15 billion to Rs38.8 billion.

Punjab has raised its provincial tax target by Rs224 billion, from Rs524.7 billion to Rs748.7 billion. The additional target is about 40 per cent of the Article 164 amount.

Sindh has referred to about Rs260 billion as a constitutional grant to the federation for national defence in its provincial budget. Its development spending falls from Rs1.018 trillion in the outgoing fiscal year to Rs720 billion for 2026-27. The cut is about Rs298 billion, Rs38 billion higher than what it plans to grant to the federal government.

Sindh's district programme falls from Rs55 billion to Rs15 billion. Education affairs and services fall from Rs100.7 billion to Rs52.5 billion. Health falls from Rs45.4 billion to Rs38.9 billion. Environmental protection falls from Rs1.018 billion to Rs541 million. Economic affairs fall from Rs280 billion to Rs182.3 billion.

Sindh's Finance Bill uses a narrower revenue strategy than Punjab's. It broadens selected services taxation and tightens point-of-sale-based incentives in parts of the services economy. It also provides developers and promoters with fixed-charge treatment in

construction and real estate. The province is using development restraint more than broad new taxation to accommodate the grant.

Khyber Pakhtunkhwa is booked at Rs157 billion under Article 164 in federal documents. The KP government has said it did not agree to provide funds to the federation without political consultation and has questioned any unilateral federal deduction.

Its overall ADP rises from Rs500.78 billion in the outgoing fiscal year to Rs519.10 billion in 2026-27. Inside that total, roads fall from Rs104.89 billion to Rs94.15 billion and water falls from Rs35.12 billion to Rs23.98 billion. Elementary and secondary education rises from Rs18.81 billion to Rs21.94 billion. Higher education rises from Rs6.27 billion to Rs6.97 billion. Health stays almost flat at Rs47 billion. Agriculture rises from Rs12.86 billion to Rs13.89 billion – whereas urban development more than doubles, from Rs28.36 billion to Rs57.74 billion.

KP's Finance Bill and budget proposals rely on revenue administration. The provincial revenue target rises from Rs129 billion to Rs182.41 billion, an increase of 41.4 per cent. The Finance Bill proposes amendments in property tax, motor vehicle tax, sales tax on services, infrastructure development cess and public finance management laws. It also introduces e-invoicing and sales tax enforcement rules under KPRA.

Its ADP would have to be revised, especially education and urban development may take a cut if the Rs157 billion federal entry is later settled through cash payment, adjustment or deduction.

Balochistan is shown to contribute Rs58.6 billion in the federal budget. Against a total development expenditure of Rs336.58 billion and the provincial PSDP at Rs249.45 billion in 2025-26, its provincial PSDP is cut by Rs42.84 billion to Rs206.61 billion and total development envelope is reduced by about Rs45.03 billion to Rs291.55 billion for the FY2026-27. The Article 164 entry is larger than both the reductions and the province's projected surplus by about Rs13 billion.

Its sectoral cuts are visible in the development side. Communication and Works development falls from Rs54.71 billion in 2025-26 to Rs27 billion. Irrigation falls from Rs32.33 billion to Rs12.8 billion. School and higher education development fall from Rs19.27 billion to Rs12 billion for school education and roughly Rs2-3 billion for higher education. Health development falls from Rs16.15 billion to Rs6 billion, whereas agriculture falls from Rs10.17 billion to Rs4.4 billion.

Article 164 has thus produced four provincial responses: Punjab cuts ADP by Rs488 billion and seeks Rs224 billion more in provincial taxes. Sindh sets aside about Rs260 billion for the federation and reduces development by about Rs298 billion. KP contests the federal claim and raises provincial receipts to Rs182.4 billion. Balochistan, without mentioning any payment under Article 164, reduces total development spending by about Rs45 billion and presents a tax-free budget with a surplus of Rs45.66 billion.

Let us pause here to bring a non-fiscal angle into the discussion. I often argue that there are four interconnected, mutually non-exclusive layers of security: global, regional, national and individual or human. Weaken any one of them and the other three are eventually weakened as well. Pakistan's effective role in the US-Iran peace talks has positioned it as a key player for global and regional stability and security. Operation Bunyanum Marsoos showed Pakistan's capability to defend its national security during the May 2025 crisis.

However, human security remains Pakistan's weakest security layer. Pakistan ranks 168th out of 193 countries in UNDP's Human Development Report 2025. The 2025 Global Hunger Index ranks Pakistan 106th out of 123 countries. The 2025 Global Gender Gap Index places Pakistan 148th out of 148 countries. These rankings are shaped by the amount and outcomes of ADP

spending on human security enablers such as education, health, nutrition, drinking water, sanitation, and women's economic participation. The cut in ADP by three provinces to meet the Article 164 transfer could undermine human development.

To protect human development while honouring defence needs, the Finance Division should share the Article 164 statement before the first budget review with parliament, the four provincial assemblies and the Council of Common Interest (CCI).

That statement should separate the Rs1.035 trillion entry into three heads: defence financing, Gulf conflict buffer and protected provincial releases on human security enablers. The defence head should be mapped to the Rs453 billion increase in defence affairs and services. The remaining Rs582 billion should not disappear into a general federal cash line. It should be matched with protected provincial releases and adjusted accordingly.

Article 164 will strengthen national security only if the amount collected beyond the defence increment does not weaken the provincial services that sustain human security.

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