Pre-Budget Brief

Federal Budget 2025-26

In Light of Uraan Pakistan and Pak-India Tensions

The incumbent federal government is scheduled to present its second annual budget for the fiscal year 2025-26 on June 10, 2025. Over the past two years, significant changes have taken place in the economic and political landscape, both within Pakistan and globally, with mixed implications for the country. However, economic indicators have shown improvement over this two-year period (see Table 1).

Table 1: Macroeconomic Indicators for Fiscal Years 2023, 2024, and 2025				
Indicators		**2022-23**	**2023-24**	**2024-25**
Real GDP Growth (%)		-0.21	2.51	2.68
Inflation (%) (July-May)		29.2	24.5	4.6
Current Account Balance ($ Million)		-3275* (July-Jun)	-2072* (July-Jun)	1880* (July-Apr)
FDI Inflow ($ Million)		1627 (July-Jun)	2316 (July-Jun)	1785 (July-Apr)
Tax Revenue, Federal (PKR Billion)		7169 (July-Jun)	9285 (July-Jun)	8453 (July-Mar)
Expenditures (Budget targets)	Current (PKR Billion)	8708	13344	17203
	Development (PKR Billion)	727	950	1400
Primary Balance (% of GDP)		+0.6%* (July-Mar)	+0.9%* (July-Mar)	+2.8%* (July-Mar)
Fiscal Balance (% of GDP)		-4.6%* (July-Apr)	-3.7%* (July-Mar)	-2.4%* (July-Mar)
Remittances ($ Billion)		20.5 (July-Apr)	18.08 (July-Feb)	23.96 (July-Feb)

****A positive sign means a surplus and a negative sign means a deficit.***

Sources: Pakistan Bureau of Statistics, State Bank of Pakistan, FBR, Finance Division.

Inflation was having a severe impact, reaching 38% (YOY) in May 2023; however, current figures show a significant improvement. Similarly, positive trends can be observed in the current account balance, GDP growth, revenue collection, and remittances, which collectively depict an overall sustained economic condition of the country. However, the perseverance of upward trends in economic numbers remained short-term (cycle of 2-3 years only) in the past decades, and no contrary status is expected from the current economic figures as well. Moreover, Pakistan is currently under the 37-month IMF Extended Fund Facility (EFF) program of $7 billion, approved in September 2024, which has given much-needed stability to the country. Another factor that helped is the prevalence of lower oil and commodity prices, which provided much-needed space on external account. The long-term sustenance of these numbers remains a question once Pakistan concludes the current IMF program, the 25th since 1958.

Additionally, two key factors will shape the upcoming budget and influence long-term economic planning over the next five to ten years.

The first aspect is the launch of Pakistan’s 13th Five-Year Economic Plan in 2024, aimed at the economic betterment of the nation. The focus of the plan is on five significant areas of the economy and presents targets to be achieved over the next five years. The focused areas of the plan are termed as the 5Es and include:

1. Exports
2. E-Pakistan
3. Environment and Climate Change
4. Energy and Infrastructure
5. Equity, Ethics, and Empowerment

The five broader areas are divided into sub-targets that address most parts of the national economy. It is an ambitious plan but seems to be a guide toward the right path.

The second important aspect is the four-day war between Pakistan and India, in which technology and media warfare tactics were extensively used. The war ended with a ceasefire between the countries after a heavy loss incurred by India. This has enhanced the overall morale of Pakistan, but at the same time, it has also highlighted the need for increased attention to our economic and political planning in this regard.

To achieve the targets outlined in the five-year plan, annual goals are of critical importance. Therefore, the upcoming federal budget carries greater significance and cannot be seen as just a routine annual exercise. Moreover, the war between Pakistan and India has further underscored the importance of the budget, as it has prompted policymakers to assess their strengths and weaknesses. The direction of public expenditures, therefore, becomes vital to remove the weaknesses.

Provisions of the federal budget must align closely with the long-term objectives set out in the Uraan Pakistan transformation plan. The budget must reflect well-considered strategies and ensure inclusive and equitable economic development. Since the launch of the five-year plan, there has been little buzz about its practical initiatives; therefore, the budget should include the targets of Uraan Pakistan. In this regard, the budget's focus should reflect the following aspects:

- Uraan Pakistan has set an ambitious target of reaching $60 billion in annual exports by 2029, whereas the current figure stands at $30 billion. The budget should, therefore, be conducive to developing an export-friendly environment, which is challenging given that large-scale manufacturing is still in a contractionary mode. In this regard, political stability and cost reduction measures are inevitable to encourage the business community to tap into existing and new global markets. The assurances of lowering the power tariff have not had a significant impact on industrial output or production costs.

- The country's investment-to-GDP ratio currently stands at 13.1%, which is targeted to increase to 17% by 2029. Private sector investment has stagnated in 2024-25. In this regard, political stability, ease of doing business, and reduction in policy rate are important determinants that require serious attention. An investment-friendly environment will ultimately help attract investors. The IT sector, a potential source of increasing exports, requires serious policy focus. Its importance has enhanced manifolds after recent cyber warfare tactics deployed by Pakistan that exposed Indian IT vulnerabilities.

- One of the country's chronic problems is revenue generation and unfriendly measures that further erode trust in people in authority. To increase the tax-to-GDP ratio to 13.5% by 2029 (currently at around 9%), a persistent but friendly approach to revenue collection is required. In this regard, equity, certainty, convenience, and efficiency should be taken into consideration while developing taxation policy. An increase in the tax base should be the focus rather than ad-hoc measures for generating easy revenues. Moreover, structural changes in revenue collection need to be initiated rather than relying on an ad-hoc approach persistently.

- One of the sectors that requires the utmost attention of economic policymakers is food security. In this regard, a strong and viable agriculture sector is inevitable. The reduction in cultivated land, increased input costs, and diminishing governmental support are all adversely influencing the agricultural sector, resulting in a persistent decline in the yield of major crops. For example, the wheat production target for the year 2024-25 was 33.58 million tons, but only 28.42 million tons were produced, representing a 10% decline in production compared to the previous year.

- Unemployment and poverty are two of the main socio-economic issues in the country, as the Multidimensional Poverty Index (MPI) in Pakistan is 38.3%, and unemployment stands at 8%. To address these issues, an expansionary budget with an enhanced emphasis on development expenditure is unavoidable.

- Water management at the national level is a significant issue, and its intensity may increase in the future due to India's unilateral suspension of the Indus Waters Treaty, reduced rainfall, and a lack of water conservation measures. Given this, the upcoming budget should allocate increased spending on water storage measures. Table 2 below outlines the government's development priorities.

Table 2: Sector Wise PSDP 2024-25 and Proposed PSDP 2025-26 (PKR Billion)

Sector/Sub-sector		PSDP 2024-25	Proposed PSDP 2025-26
A.	**Infrastructure**	**661**	**644**
i.	Energy	169	144
ii.	Transport & Communications	268	332
iii.	Water	135	109
iv.	Physical Planning & Housing	89	59
B.	**Social**	**200**	**150**
i.	Health	35	22
ii.	Education including HEC	83	63
iii.	SDGs Achievement Programme	50	50
iv.	Other Social Sectors	32	15
C.	**Special Areas (AJ&K, GB)**	**75**	**63**
D.	**Merged Districts**	**70**	**70**
E.	**Science & IT**	**62**	**53**
F.	**Governance**	**17**	**9**
G.	**Production Sectors**	**15**	**11**
i.	Food & Agriculture	8	3
ii.	Industries	7	8
Total (A to G)		**1100**	**1000**

Primarily, Pakistan's actual problem is more closely related to its political economy rather than its economy. Therefore, political stability remains essential not only for sustainable economic growth but also for building investor confidence and striving for structural reforms. Moreover, governance issues also require serious attention across the board to enhance efficiency and transparency in overall governmental and relevant quarters operations. The IMF will remain a major concern for implementing the budget as it will quarterly monitor the progress. However, various issues are indigenous and should be resolved within the national boundaries.

This discourse emphasizes the efficiency and efficacy of the budget exercise, as well as the fundamental aspects the upcoming budget should incorporate to complement the longer-term economic planning and agenda.

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