

A Perpetual Fiscal Debacle



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Fiscal discipline is not just an accounting exercise. It shapes macroeconomic stability, influences investment decisions, and determines how far the state can finance its obligations without repeatedly shifting the burden onto the same documented segments of the economy.

A credible fiscal framework rests on balance: the state must raise enough revenue to finance essential services and development, but it must do so without punishing productive activity or deepening distortions in the economy.

Pakistan has long lived with fiscal imbalances, often severe enough to affect the primary balance as well. FY 2023–24 did show some consolidation: the fiscal deficit fell to 6.9% of GDP, down from 7.8% in FY 2022–23 and 7.9% in FY 2021–22. The primary balance also moved into surplus and improved further in FY 2024–25. These numbers matter, but they should not be mistaken for a structural transformation.

The primary balance may have improved, yet the overall fiscal deficit remains large. That gap tells its own story: the present consolidation is being achieved more through compression, deferral and temporary adjustments than through durable reform.

It is tempting to describe Pakistan's fiscal deficit as a simple revenue problem. It is not. The deeper causes lie in the continuing losses of state-owned enterprises, chronic inefficiencies in the energy sector, large tax expenditures, weak institutional coordination, and the repeated failure to undertake sustained structural reform.

Table 1: Fiscal Balance and Primary Balance (PKR million)

Fiscal Year	Fiscal Balance	Primary Balance
2018-19	(3,444,916)	(1,353,790)
2019-20	(3,376,320)	(756,581)
2020-21	(3,403,321)	(653,592)
2021-22	(5,259,892)	(2,077,460)
2022-23	(6,521,445)	(825,529)
2023-24	(7,206,908)	952,918
2024-25	(6,168,015)	2,719,402

Source: Pakistan Economic Surveys

Table 2: Tax Collection vs Net Financing (PKR million)

Fiscal Year	Tax Collection	Net Financing
2018-19	4,231,272	3,444,916
2019 20	4,411,538	3,376,320
2020-21	5,272,699	3,403,321
2021-22	6,755,168	5,259,892
2022-23	7,818,699	6,521,445
2023-24	10,085,201	7,205,570
2024-25	12,722,909	6,168,015

Source: Pakistan Economic Surveys

None of these core weaknesses has been tackled with the seriousness they require. Instead, policy has largely defaulted to one familiar response: extract more from those who are already in the tax net.

A more credible strategy would begin with expenditure rationalization, improvements in institutional efficiency and restructuring of persistently loss-making sectors. Instead, the state continues to raise direct and indirect taxes while resorting to borrowing to fill the remaining gap.

The relationship between tax collection and financing needs makes this imbalance evident.

Tax collection has risen sharply in recent years, with average annual growth exceeding 20 percent, yet borrowing remains heavy. That is the central point: higher collections, by themselves, have not produced fiscal stability. They have merely coexisted with a continuing dependence on debt.

The consequences are serious. Development spending is squeezed, investor confidence weakens, and social expenditure remains constrained. Fiscal risk management, therefore, cannot remain a matter of routine budgeting; it must become a long-term exercise grounded in transparency, risk anticipation and sustainability. One of the clearest expressions of this stress is the mounting cost of debt servicing.

Table 3: Tax Collection vs Debt Servicing (PKR million)

Fiscal Year	Tax Collection	Debt Servicing
2018-19	4,231,272	3,065,127
2019-20	4,411,538	3,982,092
2020-21	5,272,699	3,690,007
2021-22	6,755,168	4,863,520
2022-23	7,818,699	8,783,361
2023-24	10,085,201	10,598,006
2024-25	12,722,909	8,887,000

Source : Pakistan Economic Survey

An ever-larger share of tax revenue is being consumed by debt servicing, leaving little fiscal space for development and welfare. In some years, debt servicing has approached — and even exceeded — total tax collection. That is not a temporary strain; it is evidence of a deeply distorted fiscal structure.

Pakistan's repeated return to the International Monetary Fund (IMF) is another sign of this fragility. Since its first Standby Arrangement in 1958[2], Pakistan has entered more than two dozen IMF programmes. After so many programmes, financial self-reliance should have been within reach. It has not been. IMF arrangements have instead become recurring stabilization anchors whenever the system nears crisis.

The latest Extended Fund Facility (EFF), approved in 2024, is meant to address familiar structural weaknesses: a narrow tax base, losses in the energy sector, and sizeable tax expenditures. It has helped improve inflation, external balances, and reserves, but these gains remain conditional on reforms that Pakistan has repeatedly committed to but failed to deliver.

Of all the weaknesses in the system, the energy sector remains the most damaging. More than a decade of circular debt is not merely a financial backlog; it is proof of failures in pricing, governance, cost recovery, and policy discipline.

According to IMF assessments, the combined circular debt of the power and gas sectors had reached about Rs 4.7 trillion by December 2025[3]. That burden does not stay confined to the sector. It spills into the wider fiscal system through subsidies, guarantees, and payment arrears, making every claim of consolidation inherently fragile.

The tax system compounds these distortions. Pakistan relies excessively on withholding taxes and on revenue drawn from organized, visible segments of the economy. The result is a narrow and unequal burden carried largely by salaried persons, documented businesses, and other captive taxpayers.

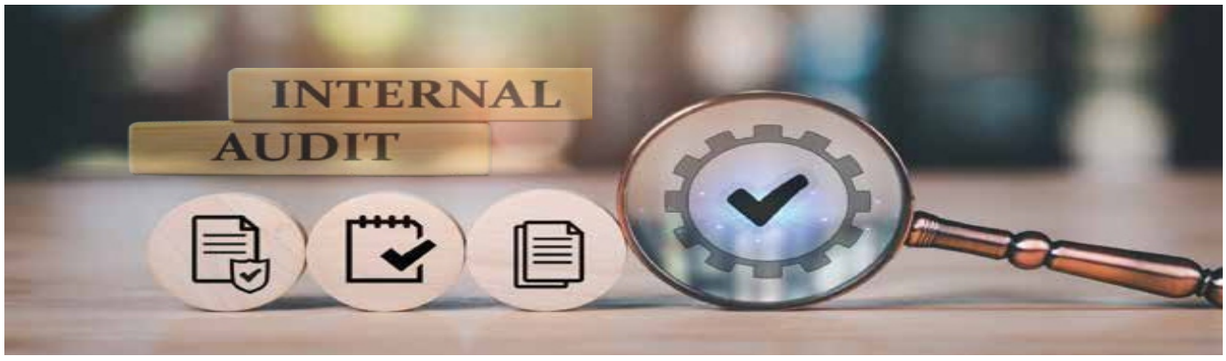
FBR data for FY 2024–25[4] shows that a large share of direct taxes was collected through withholding.

Once indirect collections through petroleum products and electricity are added, the dependence on captive bases becomes even starker. This is not a sign of administrative strength. It is a sign that the tax machinery still struggles to reach sectors where real untaxed capacity lies.

Table 4: Tax Expenditures (PKR million)

Fiscal Year	FBR Tax Collection	Tax Expenditure	Tax Exp/Collection
2019-20	3,997,921	1,314,270	32.9%
2020-21	4,764,302	1,482,300	31.1%
2021-22	6,142,802	2,239,630	36.5%
2022-23	7,169,140	3,879,200	54.1%
2023-24	9,311,007	2,434,730	26.1%

Source: Tax Expenditure Reports by FBR



The position of salaried individuals is especially telling. Tax collection under section 149 rose sharply to around Rs 605 billion, marking a steep year-on-year increase.

With marginal rates reaching 35%, in addition to surcharges, salaried taxpayers continue to shoulder a burden that is difficult to justify on grounds of either equity or sustainability.

FBR's total collection rose to Rs 11.7 trillion in FY 2024–25, pushing the tax-to-GDP ratio above 10% for the first time in many years. Even so, the underlying questions of fairness, breadth, and durability remain unanswered.

Another major weakness lies in tax expenditures.

Tax expenditures remain extraordinarily high. In recent years, they have averaged more than one-third of total collection, and in FY 2022–23 they exceeded 50% of revenue. Even after some reduction, they continue to erode the tax base significantly. This is not a side issue. A system that grants extensive exemptions and preferences while raising rates on compliant taxpayers cannot claim either equity or efficiency.

The scale of these exemptions and preferences is not accidental. It lies at the heart of the state's weak revenue capacity and undermines both fairness and efficiency in the tax system.

Pakistan cannot keep relying on higher statutory rates and ad hoc levies. Beyond a point, heavier taxation discourages investment, depresses economic activity, and weakens future revenue — the logic commonly associated with the Laffer Curve remains relevant here.

A further complication emerged after the 18th Constitutional Amendment. Provincial autonomy was strengthened, but fiscal asymmetry also deepened. Provinces continue to depend heavily on federal transfers under the NFC Award, while the federation is left with shrinking fiscal space after these transfers and therefore continues to borrow.

That imbalance has revived calls for a deeper restructuring of fiscal federalism. The proposed National Fiscal Pact (NFP) is presented as an effort to redefine responsibilities, improve coordination, and encourage provincial revenue mobilization.

Under the IMF-backed framework, the federation and provinces have agreed to reassign certain expenditure responsibilities and strengthen provincial taxation in areas such as services, property, and agriculture. The NFP, signed in September 2024, aims to improve governance and fiscal discipline.

Whether it does so will depend entirely on implementation, institutional alignment, and political will. Without those, it will remain another well-worded commitment with little fiscal consequence.

Pakistan's fiscal crisis persists not because the country taxes too little in the abstract, but because it has avoided structural correction. Raising rates without fixing expenditure waste, energy-sector distortions, tax expenditures, and intergovernmental fiscal imbalances only delays the next crisis.

Lasting stability will come only from combining revenue reform with institutional restructuring and serious expenditure rationalization. Without that shift, Pakistan will remain trapped in the same cycle of deficits, borrowing, and periodic external rescue.

Endnotes:

1. Government of Pakistan, Pakistan Economic Surveys, Chapters on Fiscal Development.
2. International Monetary Fund, Pakistan: History of Lending Arrangements.
3. IMF, Pakistan Second Review under Extended Fund Facility, December 2025.
4. Federal Board of Revenue, Tax Expenditure Reports.

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