



Medium-Term Budget Strategy Paper

FY2025-26 to FY2027-28

10th June, 2025
Government of Pakistan
Finance Division

Foreword

Medium-Term Budget Strategy Paper for FY2025-26 to FY2027-28 lays down the macroeconomic and fiscal policies and goals of the Government over the medium term. Progress on the economic front has been steady in recent years as the country now gears towards an era of sustained and inclusive growth with reforms across all sectors of the economy. Fiscal discipline and right sizing, reducing the footprint of the government through privatization, stimulating investments, reorienting the productive sector towards exports, optimal revenue mobilization with a broader tax base, correcting energy sector imbalances and a better targeted welfare system are some of the areas where the Government is determined to keep its focus going forward. This document presents a comprehensive strategy, covering resource allocations and expenditures, to achieve these objectives.

I extend my commendations to Mr. Imdad Ullah Bosal, Finance Secretary, and his team for their hard work in preparing this document.

Senator Muhammad Aurangzeb
Minister for Finance and Revenue

Preface

The approval of Medium-Term Budget Strategy Paper by the Federal Government is mandated under Section 3 of the Public Finance Management Act, 2019. This document lays out macroeconomic and fiscal projections on a three-year basis with FY2025-26 as base year, highlighting priorities of the Government for revenue mobilization, tax and non-tax, and indicative spending policies and levels over medium-term.

The paper evidences the Government's commitment to fiscal discipline, responsive budgeting, transparency and accountability, and I extend my appreciation to all officers of Finance Division for its preparation.

Imdad Ullah Bosal
Finance Secretary

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Medium-Term Macroeconomic Outlook

1. Global Economic Performance & Outlook

After a prolonged period of unprecedented shock, major economic indicators started to improve as a sign of stability in 2024. However, major policy shifts are resetting the global trade system which is building uncertainty and is testing the resilience of the global economy. The degree of the surge in uncertainty varies across countries, depending on exposures to protectionist measures through trade and financial linkages and broader geopolitical relationships. These developments come against an already-cooling economic momentum. Global growth is projected to fall from an estimated 3.3% in 2024 to 2.8% in 2025, before recovering to 3.0% in 2026. While global headline inflation is expected to decline to 4.3% in 2025 from 5.7% in 2024 and further to 3.6% in 2026.

The GDP growth outlook of Pakistan's major trading partners is encouraging. Saudi Arabia's economic growth is projected from 1.3% in 2024 to 3.0% in 2025 and 3.7% in 2026, United Arab Emirates (UAE) from 3.8% to 4.0% and 5.0%, UK from 1.1% to 1.1% and 1.4%, the EA from 0.9% to 0.8% and 1.2%. However, there will be minor downward adjustments in the US & China, which may improve after the trade dispute settlement. The global economic outlook holds considerable implications for Pakistan's economy. The receding global inflationary pressures are likely to promote stability in domestic prices for food and energy, while improved growth prospects in Pakistan's major trading partners is likely to boost export demand. Furthermore, the strong growth prospects in countries like Saudi Arabia and the UAE will help in improving remittances, further boosting economic stability and growth prospects.

2. Pakistan Economic Performance

Building upon stabilization in FY2024, Pakistan's economy has shown a continued improvement in FY2025. After witnessing a contraction of 0.2% in FY2023, the GDP growth recovered to 2.5% in FY2024 and stabilized in FY2025 at 2.7%. Based on growth recovery and economic stabilization, there are much better growth prospects in FY2026 and the medium term, as indicated by the latest trend in key economic indicators.

- Inflationary pressures are receding as YoY CPI inflation declined from 11.8% in May 2024 to 3.5% in May 2025. During July-May FY2025, inflation was recorded at 4.6% against 24.5% during the same period last year. Economic recovery, together with receding inflationary pressures, allowed for a shift in monetary policy direction. The policy rate has been reduced by a cumulative 1100 basis points from 22% to 11 % by May 2025.
- External sector showed stability on the back of significant growth in exports (6.8%) and workers' remittances (30.9%). Current account balance during July-April FY2025 posted a

surplus of \$1.9 billion against the deficit of \$1.3 billion last year.

- External sector stability helped to increase foreign exchange reserves by \$2.9 billion to \$16.6 billion as of 27th May 2025 (\$13.7 billion last year) with SBP: \$ 11.5 billion & Banks \$ 5.1 billion, resulting in stabilized exchange rate.
- Due to prudent expenditure management and optimal revenue collection, the fiscal deficit reduced to 2.4% of GDP during Jul-Mar FY2025 against 3.7% of GDP last year. While Primary balance surplus improved to Rs 3,468.7 billion (2.8 % of GDP) against the surplus of Rs 1,615.4 billion (1.5 % of GDP).
- IMF approved a 37-month EFF program for Pakistan on September 25, 2024, amounting to \$7 billion. After the completion of the first review, Pakistan has received the second tranche, bringing total disbursements to about \$2.1 billion (SDR 1.52 billion). In addition, Pakistan has secured the Resilience and Sustainability Facility (RSF), with access to around \$1.4 billion.
- Reflecting growing confidence in Pakistan's economic stability and reform path, Fitch upgraded Pakistan's credit rating to 'B-' with a Stable Outlook, while Moody's raised it from Caa3 to Caa2 with a Positive Outlook.

Overall, Pakistan's economy is demonstrating sustained improvement throughout FY2025, driven by sound macroeconomic management, strengthening fiscal and external sector stability, and effective inflation control measures. These developments have laid the foundation for strong growth in FY2026 and further expansion over the medium term.

Medium-Term Macroeconomic Framework

The government is cognizant of macroeconomic developments and remains fully committed to ensuring sustainable economic growth over the medium term. For this purpose, both federal and provincial governments are collaborating to achieve medium-term growth targets with price stability through various sector-specific measures in agriculture, industries, and services, along with the energy sector, SOEs, and governance reforms.

For FY2026, a favorable global economic environment marked by better growth prospects in major trading partners, and declining global inflation and energy prices will further strengthen the economic prospects with ease, fiscal and external pressures.

Domestically, agricultural productivity will improve with better access to quality input, mechanization and productivity enhancement initiatives. Industrial growth is expected to improve

further due to lower policy rates, credit expansion, regulatory reforms, SMEs support, and export facilitation. While the Services sector will benefit from growth in commodity-producing sectors, with positive impacts on Wholesale & Retail Trade and Transport & Storage, and the Information & Communication sector will thrive due to government initiatives for the IT sector.

Resultantly, for FY2026, GDP is projected to grow by 4.2% on the back of 4.5%, 4.3%, and 4.0% growth in the agriculture, industrial, and services sectors, respectively.

Medium-Term Macroeconomic Framework						
	Final	Revised	Baseline	Projected		
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Economic Growth						
Real GDP Growth (%)	-0.2	2.5	2.7	4.2	5.1	5.7
Inflation (Average) (%)	29.2	23.4	5.0	7.5	6.8	6.5
Nominal GDP at Market Prices (Rs bn)	83,651	105,143	114,692	129,567	144,913	162,513
Nominal GDP Growth (%)	25.5	25.7	9.1	13.0	11.8	12.1
External Sector (\$ million)						
Current Account Balance	-3,275	-2,072	1,525	-2,116	-2,420	-4,410
as % of GDP	-1.0	-0.6	0.5	-0.5	-0.5	-0.8
Exports (Goods)	27,876	30,980	32,851	35,282	38,634	42,690
Imports (Goods)	52,695	53,157	58,303	65,211	71,207	79,712
Exports (Services)	7,596	7,691	8,287	9,550	11,081	12,244
Imports (Services)	8,638	10,801	11,488	14,015	16,041	17,324
Workers Remittances	27,333	30,251	37,452	39,437	41,974	44,824

Source: Economic Adviser's Wing

In the medium term, the growth is projected to improve further, aligned with the objectives of URAAN Pakistan with a focus on export promotion, SMEs development, green energy transition, affordable infrastructure, and digital transformation. With sustained policy and implementation of reforms, growth is expected to reach 5.7 percent in the medium term.

Medium-Term Fiscal Framework

The Medium-Term Fiscal Framework (MTFF) for FY2026 to FY2028 describes a disciplined and credible fiscal strategy to support macroeconomic stability, accelerate sustainable growth, and enhance fiscal resilience. Anchored in improved revenue mobilization and prudent expenditure control, the framework reflects a gradual fiscal recovery following recent macro-fiscal pressures. Federal Board of Revenue (FBR) collections are projected to rise from Rs. 14,131 billion in FY2026 to Rs.17,974 billion by FY2028, driven by continued tax policy reforms, enhanced administrative measures, and expanded digitization of the tax system. Non-tax revenues (NTR) are expected to remain stable, rising modestly from Rs. 5,147 billion in FY2026 to Rs. 5,118 billion in FY2028. As a result, total federal gross revenues are projected to grow from Rs. 19,278 billion in FY2026 to Rs. 23,092 billion by FY2028. Transfers to provinces under the NFC Award are set to increase from Rs. 8,206 billion in FY2026 to Rs.10,204 billion in FY2028, enabling greater fiscal space at the subnational level for service delivery and development spending. Consequently, net federal revenue receipts are expected to increase from Rs. 11,072 billion in FY2026 to Rs. 12,888 billion by FY2028.

On the expenditure side, total federal expenditure is projected to increase from Rs. 17,573 billion in FY2026 to Rs.19,176 billion in FY2028. This trajectory reflects a balanced approach, safeguarding priority investments for growth while exercising control over recurrent expenditures to ensure long-term fiscal sustainability. Fiscal consolidation path is reflected in a projected reduction of the overall fiscal deficit, from 3.9 percent of GDP in FY2026 to 2.9 percent in FY2028. Likewise, the federal fiscal deficit is projected to narrow from 5.0 percent to 3.9 percent of GDP over the same period, supported by revenue improvements and more efficient spending. Federal primary balance is expected to remain in surplus throughout the medium term, 1.3 percent of GDP in FY2026, 1.0 percent in both FY2027 and FY2028, indicating the government's commitment to responsible fiscal management. In parallel, provincial surpluses are projected to strengthen, from Rs. 1,464 billion in FY2026 to Rs. 1,625 billion in FY2028. Overall primary surplus is expected to be robust, maintaining a level of 2 percent of GDP through FY2026 to FY2028. This sustained surplus provides a strong foundation for a downward trajectory in public debt and contributes to investor confidence and fiscal sustainability. Resultantly, MTFF serves as a reliable fiscal anchor, aligning short-term consolidation efforts with long-term development goals. It strengthens the basis for macroeconomic stability, improved public service delivery, and resilient economic growth over the medium term.

Table 2: Medium Term Fiscal Framework (Rs. Billion)					
	FY2024-25		FY2025-26	FY2026-27	FY2027-28
	B.E	R.E	B.E	Projections	
Total Federal Revenues	17,815	16,802	19,278	20,807	23,092
FBR	12,970	11,900	14,131	16,078	17,974
NTR	4,845	4,902	5,147	4,729	5,118
Provincial transfers	7,438	6,997	8,206	9,112	10,204
Net Federal Revenue	10,377	9,805	11,072	11,695	12,888
Total Federal Expenditure	18,877	17,249	17,573	18,171	19,176
Federal Fiscal Deficit	-8,500	-7,444	-6,501	-6,476	-6,288
<i>% of GDP</i>	-6.8%	-6.5%	-5.0%	-4.5%	-3.9%
Federal Primary Balance	1,275	1,501	1,706	1,407	1,615
<i>% of GDP</i>	1.0%	1.3%	1.3%	1.0%	1.0%
Provincial Surplus	1,217	1,009	1,464	1,449	1,625
Overall Fiscal Deficit	-7,283	-6,435	-5,037	-5,027	-4,663
<i>% of GDP</i>	-5.9%	-5.6%	-3.9%	-3.5%	-2.9%
Primary Surplus	2,492	2,510	3,170	2,856	3,240
<i>% of GDP</i>	2%	2.2%	2.4%	2.0%	2.0%
GDP	124,150	114,692	129,567	144,913	162,513

FBR Revenue

Table 3: FBR Tax Collections (Rs. Billion)					
	Actual	B.E.		Projections	
	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Direct Taxes	4,530.7	5,512.0	6,902.0	7,897.9	9,064.7
Sales Tax	3,098.8	4,919.0	4,753.0	5,395.4	5,871.6
Custom Duty	1,104.1	1,591.0	1,588.0	1,750.4	1,878.8
Federal Excise duty	577.5	948.0	888.0	1,034.1	1,158.5
Total	9,311.0	12,970.0	14,131.0	16,077.8	17,973.5

The government's fiscal roadmap for FY2026 to FY2028 is anchored in a strategic vision to strengthen revenue mobilization, ensuring long-term macroeconomic stability. Central to this strategy is the substantial growth in direct tax revenues, which are projected to rise from Rs. 6,902.0 billion in FY2026 to Rs. 9,064.7 billion in FY2028. This robust upward trajectory reflects the government's unwavering commitment to expanding the tax base through innovative policy reforms, intensified compliance enforcement, and digital transformation of tax administration. Key initiatives include enhanced documentation of economic activity, strengthened audit and enforcement capacity, and focused efforts to bring high-net-worth individuals and under-reported

income segments into the tax net. These measures are intended not only to boost direct tax collection but also to foster a more equitable and transparent taxation regime.

Parallel to this, indirect taxes will remain a critical component of overall revenue generation. Indirect tax collections, comprising sales tax, customs duties, and federal excise duties, are projected to increase from Rs. 7,229.0 billion in FY2026 to Rs. 8,908.9 billion in FY2028. Sales tax, the mainstay of indirect taxation, is expected to grow from Rs. 4,753.0 billion in FY2026 to Rs. 5,871.6 billion in FY2028, driven by improved enforcement, automation of tax processes, and the rationalization of exemptions. Customs duties are projected to rise from Rs. 1,588.0 billion to Rs. 1,878.8 billion, supported by anticipated growth in trade volumes and improvements in customs administration. Federal excise duties are also set to increase from Rs. 888.0 billion to Rs. 1,158.5 billion, reflecting both increased consumption of excisable goods and expanded coverage of excise regimes. The government's strategic focus is on modernizing tax policy and administration in line with global best practices. By emphasizing efficiency over rate increases, the approach leverages digital infrastructure, policy clarity, and simplified compliance processes to unlock the full revenue potential.

Non-Tax Revenue

Non-tax revenues will remain a crucial part of the fiscal framework, with a focus on optimizing existing streams and tapping new sources. Total non-tax collections are projected at Rs.5,147 billion in FY2026 to Rs.5,118.4 billion in FY2028, maintaining a stable contribution. The petroleum levy is expected to increase from Rs.1,468 billion to Rs.1,612 billion, while royalties on oil and gas are projected to rise from Rs.227.0 billion to Rs.312.0 billion. SBP profit, a key component, is projected at Rs.2,400 billion in FY2026 and Rs.1,996.7 billion in FY2028.

Other sources, such as gas levies, PTA receipts, mark-up from provinces and PSEs, and civil administration receipts, will continue to support the non-tax revenue base. This outlook reflects the government's focus on efficient resource mobilization and sustainable fiscal management.

Table 4: Non-Tax Revenue Collections (Rs. Billion)

	Actual	B.E.		Projection	
	FY2023-244	FY2024-25	FY2025-26	FY2026-27	FY2027-28
Petroleum Levy	1,019.2	1,281.0	1,468.0	1,513.7	1,612.0
Natural Gas Development Surcharge	30.5	25.6	49.0	56.4	64.3
Gas Infrastructure Development Cess (GIDC)	2.9	2.5	2.0	2.5	3.1
Petroleum levy on LPG	3.5	3.5	5.0	5.8	6.8

Receipts from Civil Administration and other Functions / ICT Administration	21.6	28.1	32.7	35.9	39.4
SBP Profit	972.2	2,500	2,400.0	1,819.6	1,996.7
PTA	42.3	33.8	29.0	33.6	39.7
Royalties on Oil/Gas/Windfall levy against crude oil	193.1	190.5	227.0	265.6	312.0
Mark-up (Provinces, PSEs, and others)	444.7	294.3	284.0	278.3	270.0
Other Non-Tax Revenues	320.5	486.1	650.3	718.1	774.4
Total NTR	3,050.5	4,845	5,147.0	4,729.5	5,118.4

Indicative Budgetary Spending Levels

Medium-term fiscal framework reflects a prudent, yet growth-oriented expenditure strategy, balancing the containment of current expenditures with sustained development spending to support economic recovery and inclusive growth. Total expenditures are projected to increase from Rs. 17,573 billion in FY2026 to Rs. 19,176 billion in FY2028, indicating a measured fiscal expansion aligned with national development priorities. Current expenditures will continue to constitute the bulk of total spending, primarily driven by mark-up payments, which are projected at Rs. 8,207 billion in FY2026 and are expected to decline moderately to Rs. 7,903 billion by FY2028. This trend reflects ongoing efforts to enhance debt sustainability and manage interest costs more effectively.

Defence expenditures are set to rise from Rs. 2,550 billion in FY2026 to Rs. 3,018 billion in FY2028, ensuring sustained support for national security needs. Pension expenditures, despite ongoing reform measures, are projected to increase from Rs. 1,055 billion in FY2026 to Rs. 1,299 billion by FY2028, largely due to the retirement of existing government employees. The fiscal impact of pension reforms, focused on new entrants and gradual adjustments for existing pensioners, is expected to materialize over the longer term. Similarly, allocations for the running of the civil government are projected to grow from Rs. 971 billion in FY2026 to Rs. 1,218 billion in FY2028, reflecting modest administrative expansion under fiscal discipline.

Grants, including allocations for social protection and intergovernmental transfers, are projected to increase from Rs. 1,928 billion in FY2026 to Rs. 2,270 billion in FY2028, indicating a strong commitment to equity and social support. Subsidies are expected to rise slightly from Rs. 1,186 billion in FY2026 to Rs. 1,227 billion in FY2028, reflecting a more targeted and efficient approach to fiscal support and price stabilization.

Development expenditures under the Public Sector Development Programme (PSDP) are

projected to increase from Rs. 1,000 billion in FY2026 to Rs. 1,400 billion in FY2028, indicating the government's commitment to infrastructure development, service delivery improvements, and social sector investment. Net lending is also projected to rise from Rs. 287 billion to Rs. 354 billion, supporting strategic public initiatives and targeted development financing.

Expenditures under the emergency and others category are projected to increase from Rs. 389 billion in FY2026 to Rs. 487 billion in FY2028, reflecting enhanced provisioning for disaster response, climate resilience, and unforeseen contingencies.

Overall, the expenditure trajectory over the medium term strikes a careful balance between macro-fiscal stability and development imperatives, laying a foundation for sustainable and inclusive economic growth.

Table 5: Indicative Budgetary Spending Levels (Rs. Billion)			
	Projections		
	FY2025-26	FY2026-27	FY2027-28
Mark-up Payments	8,207	7,883	7,903
Defence	2,550	2,690	3,018
Grants	1,928	2,092	2,270
Subsidies	1,186	1,205	1,227
Pension	1,055	1,159	1,299
Running of Civil Govt	971	1,086	1,218
Emergency and others	389	435	487
PSDP	1,000	1,300	1,400
Net Lending	287	321	354
Total Expenditure	17,573	18,171	19,176

Table 6: Indicative PSDP Spending Levels (Rs. Billion)			
	Projections		
	FY2025-26	FY2026-27	FY2027-28
PSDP	1,000	1,300	1,400

Statement of Fiscal Risks 2025-28

Statement of Fiscal Risks for 2025-28 provides a comprehensive analysis of the uncertainties that could affect Pakistan's fiscal outlook beyond the official Medium-Term Budgetary Framework projections. It categorizes these risks into macroeconomic, revenue, debt, State-Owned Enterprises (SOEs), climate change, natural disasters, and other contingent liabilities, quantifying their possible impacts on the fiscal deficit and suggesting mitigation measures to manage these risks effectively.

Macroeconomic Risks

Macroeconomic risks primarily arise from slower-than-expected GDP growth, inflation shocks, and exchange rate volatility. A one percentage point slowdown in GDP growth could reduce government revenues due to lower tax collections and increase expenditures on automatic stabilizers such as social safety net programs. This combined effect could widen the fiscal deficit by roughly 0.13 percent of GDP in FY2025-26. Inflation spikes and currency depreciation may further strain public finances, though these effects are more challenging to quantify precisely.

Revenue Risks:

Revenue collection remains vulnerable to lower tax buoyancy, slower economic growth, and underperformance in key revenue sources. Should tax revenues grow at only half the anticipated rate, the fiscal deficit could increase by approximately 0.4 percent of GDP. Additional revenue risks include a potential 30 percent decline in State Bank profits transferred to the government, which alone could widen the deficit by 0.32 percent of GDP, and a 20 percent shortfall in petroleum levy collections, increasing the deficit by about 0.2 percent. These factors indicate the government's reliance on volatile revenue streams and the importance of improving tax administration and compliance.

Debt-Related Risks:

Debt servicing costs represent a significant fiscal vulnerability. A 2-percentage point increase in domestic interest rates and a 1 percentage point rise in external interest rates could lead to higher interest payments, raising the fiscal deficit by an estimated 0.42 percent of GDP. Additionally, refinancing risks from maturing debt could add about 0.04 percent to the deficit. Exchange rate depreciation could increase the burden of external debt servicing, further complicating debt sustainability.

SOE-Related Risks:

State-Owned Enterprises pose fiscal risks through potential shortfalls in dividend payments and increased government support. A decline in SOE dividends by 6.1 percent relative to projections could add around 0.02 percent of GDP to the deficit. Increased government financial support to

SOEs, amounting to 1.5 percent of GDP, could exacerbate the fiscal gap by a similar margin of 0.4 percent. Additionally, risks linked to energy sector reforms and the transition to clean energy, such as restructuring costs, may increase the fiscal deficit by an estimated 0.15 percent, reflecting the financial challenges in this sector.

Climate-Related Risks:

The fiscal impact of climate change varies across scenarios. Under the moderate RCP2.6 scenario, increased government spending on green infrastructure and climate adaptation could raise the fiscal deficit by 0.28 percent of GDP in the short term. In contrast, the more severe RCP8.5 scenario anticipates lower short-term fiscal impacts but greater long-term costs due to increased frequency and severity of climate-related disasters. These projections highlight the growing fiscal burden of climate adaptation and mitigation policies.

Natural Disaster Risks:

Natural disasters represent the largest fiscal risk identified in the statement. Without dedicated disaster risk financing mechanisms, an average disaster event could increase the fiscal deficit by as much as 1.03 percent of GDP. However, with effective disaster risk financing tools such as catastrophe bonds or insurance funds, this impact could be reduced to approximately 0.44 percent of GDP. This finding emphasizes the critical need for enhanced disaster preparedness and financing frameworks to shield public finances.

Other Fiscal Risks:

Additional contingent fiscal risks include the invocation of government guarantees linked to commodities, which could increase the fiscal deficit by around 0.11 percent of GDP if 25 percent of guarantees are called. Rising international oil prices, specifically a \$20 per barrel increase, are projected to add 0.37 percent of GDP to the deficit due to higher subsidy costs and import bills. Furthermore, a 10 percent growth in tax expenditures, reflecting expanding tax exemptions and incentives, could increase the fiscal gap by about 0.16 percent, pointing to the need for rationalizing tax expenditures.

Risk Assessment and Combined Effects:

The statement emphasizes that natural disasters, interest rate hikes, and revenue shortfalls constitute the largest fiscal risks. It also highlights the potential for multiple simultaneous shocks to significantly magnify fiscal pressures, underscoring the importance of integrated risk management and contingency planning across all sectors to maintain fiscal stability.

Mitigation Strategies:

To counter these risks, the government intends to enhance revenue mobilization by broadening the tax base and improving compliance. Public expenditure will be managed more efficiently to

protect key social and development programs. Debt management policies will focus on extending maturities and increasing fixed-rate borrowing to reduce vulnerability to interest rate shocks. SOE reforms aim to improve financial discipline and reduce contingent liabilities. The government plans to scale up investments in green infrastructure and climate resilience, alongside establishing disaster risk financing instruments like catastrophe bonds and disaster funds. Finally, tighter oversight of government guarantees and more targeted subsidy programs will help mitigate other contingent fiscal exposures. This Statement of Fiscal Risks equips policymakers and stakeholders with a detailed and quantified understanding of Pakistan's fiscal vulnerabilities over the medium term. It acknowledges the inherent uncertainties in economic conditions and external shocks while outlining proactive, cross-sectoral measures designed to strengthen fiscal resilience, improve transparency, and safeguard macro-fiscal stability amid evolving challenges.

New Initiatives

Budgeting serves as a pivotal instrument in public financial management, strategically aligning policy objectives with fiscal priorities to foster sustainable and inclusive development. In recent years, Finance Division has institutionalized green budgeting and gender-responsive budgeting across key budgetary processes, including budget call circulars, preparation, tracking, monitoring, and reporting. These initiatives ensure a structured and data driven approach to climate resilience, gender mainstreaming, and the achievement of the Sustainable Development Goals (SDGs). By systematically tagging the federal budget for gender, climate, and disaster responsiveness, the government is better equipped to identify gaps and implement targeted policy measures. Building on this foundation, FY2025-26 marks a significant expansion of these reforms. The Finance Division has now extended climate budgeting to grants, subsidies and revenues. Consequently, Pakistan will be among very few countries which have been able to introduce climate lens holistically in budget planning and execution.

A major structural reform during the period is the establishment of a Tax Policy Office (TPO) in the Ministry of Finance, approved by the Federal Cabinet. The TPO is mandated to support evidence-based tax policy formulation through data modelling, revenue and economic forecasting, and review of international tax treaties and obligations. Reporting directly to the Minister for Finance and Revenue, the TPO represents a critical step in strengthening fiscal governance and aligning tax policy with national economic objectives. Finance Division has undertaken a comprehensive update of key fiscal rules and procedures to enhance transparency, efficiency, and responsiveness of public financial management systems. These reforms include:

- Federal Government Receipts and Payments Rules, 2025
- General Financial Rules, 2025

- Special Purpose Funds (General) Rules, 2025
- Grants-in-Aid Rules, 2025
- Amendment to Federal Treasury Rules
- Revised Accounting Procedure for Revolving Fund Accounts
- Digital Prize Bonds (Registered) Rules, 2024

By embedding climate and gender considerations, institutionalizing tax policy development, and modernizing financial rules, the Finance Division is enhancing its capacity to deliver equitable, accountable, and resilient public financial management.

Public Debt

The Government remains committed to ensuring public debt sustainability through fiscal consolidation, revenue mobilization, and efficient debt utilization. The debt-to-GDP ratio is projected at 69% by the end of FY2024-25, primarily driven by higher nominal GDP and exchange rate stability. This trend is expected to continue, with the ratio remaining broadly stable to 66% by FY2025-26, supported by fiscal discipline and improved debt management strategies. Over the medium term, the Government aims to maintain public debt at sustainable levels through prudent expenditure rationalization and productive deployment of borrowed resources. The total stock of public debt is expected to rise from Rs. 71,246 billion in FY2023-24 to Rs. 85,500 billion by FY2025-26, with both external and domestic components increasing. External debt is projected to grow from Rs. 24,086 billion in FY2023-24 to Rs. 25,300 billion in FY2025-26, while domestic debt is estimated to increase from Rs. 47,160 billion to Rs. 60,200 billion over the same period. To strengthen fiscal sustainability and optimize debt management, the Government will focus on meeting financing needs at the lowest possible cost while maintaining a prudent level of risk. Efforts will be directed toward reducing Gross Financing Needs (GFN) through various measures, expanding the investor base, and ensuring a well-functioning domestic debt capital market.

Extending the maturity profile of domestic and external debt in line with the Medium-Term Debt Management Strategy will remain a priority to mitigate refinancing and interest rate risks. Engagement with domestic and international investors will be enhanced to improve coordination and market transparency. The Government is committed to completing actions related to multilateral program loans, ensuring their disbursement over the medium term. Additionally, improvements in National Savings Schemes will create an enabling environment for savings while making these instruments more cost-effective.

Maximizing available concessional external financing will play a crucial role in boosting economic productivity and strengthening debt repayment capacity. The Government will also maintain an active presence in international capital markets through the issuance of Panda bonds, Eurobonds,

International Sukuk, ESG bonds and Green Sukuk bonds to diversify financing sources. By implementing these strategies, the Government aims to ensure a stable and sustainable debt trajectory, reducing fiscal vulnerabilities while supporting long-term economic growth.

Table 7: Stock of Public Debt			
	Actual	Revised	Projected
	FY2023-2024	FY2024-2025	FY2025-2026
Public Debt	71,246	79,100	85,500
External	24,086	24,600	25,300
Domestic	47,160	54,500	60,200

Conclusion

Medium-Term Budget Strategy Paper (FY2025-26 to FY2027-28), prepared in accordance with Section 3 of the Public Finance Management Act, 2019, reaffirms the Government's unwavering commitment to the principles of transparency, responsiveness, inclusivity, and sound financial management. By prioritizing revenue mobilization and expenditure rationalization, the Government aims to achieve fiscal consolidation, ensuring economic stability and fostering sustainable, inclusive growth. This document serves as a blueprint for realizing these strategic objectives. Navigating Pakistan's economic landscape demands a balanced approach, integrating both short-term interventions and long-term structural reforms. Challenges such as high inflation, current account deficit, low foreign exchange reserves, and a significant debt burden necessitate decisive policy measures. In response, the Government remains steadfast in its efforts to strengthen macroeconomic stability and establish a robust foundation for balanced, resilient growth.

Medium-Term Fiscal Framework FY2025-26 to FY2027-28

Rs. Billion

	FY2024-25	FY2025-26	FY2026-27	FY2027-28
	Budget Estimates	Revised Estimates	Budget Estimates	Projections
Total Federal Revenues	17,815	16,802	19,278	20,807
FBR	12,970	11,900	14,131	16,078
NTR	4,845	4,902	5,147	5,118
Provincial transfers	7,438	6,997	8,206	9,112
Net Federal Revenue	10,377	9,805	11,072	11,695
Total Federal Expenditure	18,877	17,249	17,573	18,171
Current Expenditure	17,203	16,089	16,286	16,549
Interest Payments	9,775	8,945	8,207	7,883
Defence	2,122	2,140	2,550	2,690
Grants	1,777	1,777	1,928	2,092
Subsidy	1,363	1,299	1,186	1,205
Pension	1,014	930	1,055	1,159
Running of Civil Government	839	880	971	1,086
Emergency & Others (including Rs.15bn for Disasters triggered by natural hazards)	313	-	389	435
Net Lending	274	193	287	321
PSDP	1,400	967	1,000	1,300
Statistical discrepancy		118		
Federal Fiscal Deficit	-8,500	-7,444	-6,501	-6,476
% of GDP	-6.8%	-6.5%	-5.0%	-4.5%
Federal Primary Balance	1,275	1,501	1,706	1,407
% of GDP	1.0%	1.3%	1.3%	1.0%
Provincial Surplus	1,217	1,009	1,464	1,449
Overall Fiscal Deficit	-7,283	-6,435	-5,037	-5,027
% of GDP	-5.9%	-5.6%	-3.9%	-3.5%
Primary Surplus	2,492	2,510	3,170	2,856
% of GDP	2%	2.2%	2.4%	2.0%
GDP	124,150	114,692	129,567	144,913