ISSN (Print) 2708-4973
ISSN (Online) 2709-0469

DOI: 10.5281/zenodo.14272152

Journal of Contemporary Macroeconomic Issues
www.scekr.org

Improving Pakistan's Fiscal Policy: A Blueprint for Sustainable Development and Economic Growth

Haider Abbas
Civil Servant in the Government of Pakistan
Email: haiderabbasgg@gmail.com

PAPER INFO

Information:
Received: 07 October, 2024
Revised: 01 December, 2024
Published: December, 2024

Keywords:
Tax reform, Expenditure efficiency, Macro-economic stability, Debt management, Revenue generation

Corresponding Author's email:
haiderabbasgg@gmail.com

ABSTRACT

Historically, the fiscal policy of Pakistan has confronted with the challenges like structural inefficiencies, recurring fiscal deficit, and narrow tax base that has impede the sustainable development. Pakistan's economic performance has experienced upheaval due to the 2022's flash flooding and consumption-led growth model. However, following the successful completion of International Monetary Fund (IMF) standby agreement have contributed to the early signs of recovery that has improved cash inflows, robust agricultural growth rate of 6.5%, and exchange rate stabilization have collectively promoted economic stability in the FY2024. Nevertheless, primary challenges still persist; this paper through mixed method approach critically analyzes structural inefficiencies and provides findings for policymakers to bolster the Pakistan's economy. Thus, the Policy recommendations suggest comprehensive measures to achieve economic sustainability.

1 Introduction

Pakistan's fiscal policy plays a significant role in determining its trajectory towards the economic growth. Over the years the country has grappled with low tax-to-GDP ratios, structural fiscal deficits and inefficient public spending that has hindered the economic potential. Therefore, this paper seeks to address these issues by providing a comprehensive blueprint for policy reforms, efficient expenditure allocation, integration of progressive taxation, and sustainability-focused initiatives. Furthermore, this study aims to present the actionable recommendations in terms of growth-oriented fiscal framework.

The pursuit of sustainable development in Pakistan's economy is deeply intertwined with the creation and execution of effective fiscal policy. This involves the use of government spending and taxation to influence country's economic conditions, especially on a macroeconomic scale emphasizing that fiscal policy plays a crucial role in reducing unemployment and stabilizing the economy. (Fatás & Mihov, 2012). Depending on economic conditions, fiscal policy can be either expansionary or contractionary. Expansionary fiscal policy, typically used during economic downturns, aims to stimulate growth by increasing government spending or cutting taxes. Conversely, contractionary fiscal policy seeks to reduce economic overheating or inflation by decreasing expenditures or raising taxes. The primary goal is to stabilize prices and maintain long-term economic stability. Historically, Pakistan's fiscal policy has remained expansionary fiscal contraction. Revenue and expenditure are two major tools of any fiscal policy. Taxes generate revenue for government expenditures that are essential for sustainable development. However, Pakistan faces significant challenges, including a low tax-to-GDP ratio, high tax evasion, and weak tax institutions. Similarly, Pakistan's expenditure surpasses the revenue lands it into a fiscal deficit that directly affects the development portfolio of the country. Addressing these challenges requires comprehensive fiscal reforms to strengthen tax institutions, effective debt management, and rationalize spending that can lead to sustainable economic growth and development (Khan, 2022).

Pakistan's economy showed signs of moderate recovery in FY24 primarily due to a surge in agriculture growth, reduced inflation, and an improved current account balance. The agriculture sector showed a robust 6.25% growth, driven by increased cotton, rice, and wheat production that offset the weaker growth of the manufacturing and services sectors. However, Inflation in the country dropped from an average of 28% last year to 11.7% by May 2024, aided by decreased food inflation and a stable currency exchange rate. Similarly, higher exports and restricted imports significantly reduced the current account deficit. Foreign exchange reserves rose from $9 billion in Jun’23 to $14 billion, supported by $2 billion from the Naya Pakistan Certificate and $2.2 billion from the World Bank and IMF (Mahmud et al., 2022). The completion of a $3 billion Standby Agreement program with the IMF further stabilized the economy (Economic Survey of Pakistan, 2024). The following table shows the Key indicators for FY2024 from July to March.

Table 1

Key Indicators (July to March of Fiscal Year 2024)

Macroeconomic Indicator	Status
Tax Revenue	7.26 trillion PKR
Non-Tax Revenue	2.52 trillion PKR
Total Expenditure	13.68 trillion PKR
Current Expenditure	12.33 trillion PKR
Development Expenditure	1.16 trillion PKR
Fiscal Deficit	3.7 percent of GDP

Source: Economic Survey of Pakistan, 2023-24

However, the challenges persist for Pakistan's economy such as; Circular debt, high debt servicing costs and climate change pose major challenges for sustainable development. Pakistan's energy sector struggles with rising circular debt that reached PKR 2,635 billion (2.4% of GDP) in the power sector and PKR 2,866 billion (2.7% of GDP) in the gas sector by January 2024. This debt surge is mainly due to "take-or-pay" contracts, tariff adjustment delays, structural inefficiencies, high subsidies, and expensive RLNG diversion. Although electricity prices increased from 3.95-25.98/unit in 2021 to 5.95-35.54/unit in 2024, and gas prices rose from PKR 300-4,000 to PKR 500-4,200 for different levels (consumption-wise) still circular debt remains a big trap for Pakistan's economic stability (Ali et al, 2010).

During FY 23-24, Pakistan's budget deficit reached 3.7% of its GDP which is the same as the previous year. The Federal Board of Revenue (FBR) exceeded its tax collection target of PKR 6.7 trillion in the first three quarters, with the intent to further expand the tax base through digitalization and improved tax compliance. Non-tax revenues also improved, with the State Bank of Pakistan's (SBP) surplus profit reaching PKR 972 billion, up from PKR 371 billion in 9MFY23, contributing 39% of total non-tax revenue (Economic Survey of Pakistan, 2024). Similarly, the petroleum levy and customs tax revenue increased significantly. However, Pakistan's debt servicing consumed 56% of total revenue due to higher interest rates. Total expenditure climbed by 37%, driven by increased interest on domestic and external debt, leading to an additional PKR 8 trillion in domestic borrowing between March 2023 and March 2024. According to the Economic Survey of Pakistan 2023-24, Total public debt stood at Rs. 67.5tr by March 24 with domestic debt recorded at Rs. 43.4tr and external debt at Rs. 24.1tr. The situation is quite worrisome as Pakistan's exponential debt stock is not only putting pressure on its budget FY 24-25 but is also pushing it into a debt trap where it is borrowing more to pay its debt (Al-Kasasbeh, 2023).

Thus, Pakistan's fiscal policy requires a strategic revamp to address the long-standing inefficiencies. By adopting the global best practices and learning from past policy failures, Pakistan has the opportunity to create a resilient fiscal framework. However, this study offers short-term, medium-term, and long-term measures through which fiscal sustainability can be achieved and pave the way for an inclusive growth.

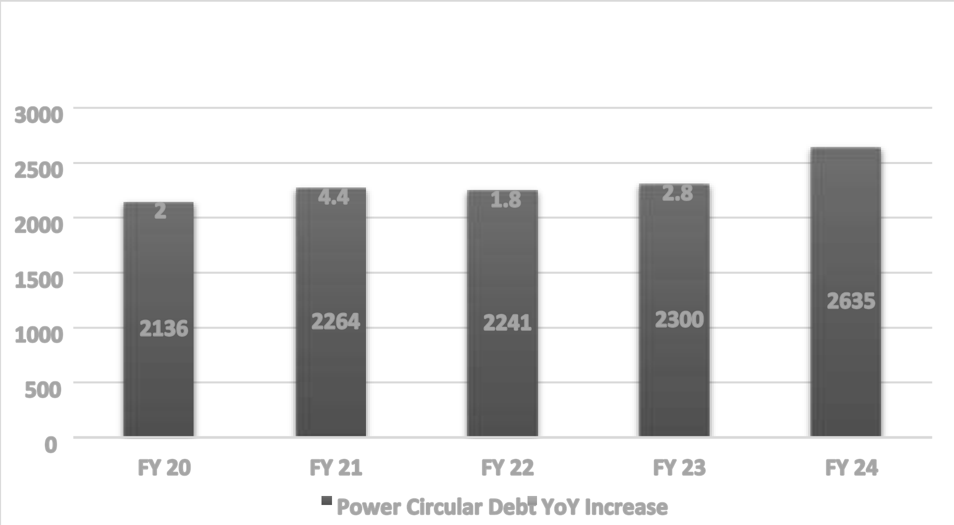

Figure 1

The Past Trends in Power Circular Debt

Source: PACRA, World Bank, 2023

2 Literature Review

The Literature on the fiscal policy and its contribution in the economic development of Pakistan is extensive, however challenges also persist. The fiscal policy is characterized of government revenue collection and the expenditure that directly influences the macro-economic stability, and long-term economic growth and poverty alleviation. The fiscal policy of Pakistan is criticized for its imbalances, inefficiencies, and lack of robust mechanisms (Rajan, 2018). In this connection, scholars have offered diverse perspectives and solution to improve the fiscal policy of Pakistan, and achieving a comprehensive economic growth. However, the comparison with past literature on Pakistan's fiscal policy discloses significant shifts in focus, leaving room for further improvements in the fiscal policy.

The review of the literature delves into the key studies while highlighting the reform proposals, broader implications concerning improved fiscal policy of Pakistan, and current challenges. However, empirical literature and extensive theoretical framework links fiscal policy with the economic performance. (Barro, 1990), writes that sound fiscal policy supports the economic growth by stabilizing the economy, fostering a conducive environment for investment, and by providing public goods. However, poor fiscal management surrounds by insufficient spending, and high deficits that can lead to economic stagnation. In the context of Pakistan's economy fiscal reforms are necessary requirement for addressing the socio-economic disparities and unlocking the country's growth potential. However, fiscal discipline, better public expenditure management, and improved tax revenue are critical components for sustainable development.

The challenges concerning Pakistan's fiscal policy are well-documented, with the literature emphasizing the problems like; over-reliance on indirect taxes, narrow tax base, inefficient public spending, and high fiscal deficits. Malik (2019) provides an analysis of the taxation system of Pakistan, noting that structural deficiencies have led to the sub-optimal tax revenue collection. He further mentions that only 1% of the total population pays the income tax, and the informal economic activities remain largely untaxed that exacerbate fiscal imbalances. Moreover, excessive spending on non-developmental projects and public expenditure inefficiencies hampers Pakistan's growth trajectory and crowds out the investment in the crucial sectors of education and health.

The strategies and reform proposals are proposed by numerous scholars aimed at strengthening the economic stability of Pakistan. To increase the tax revenue World Bank (2021) advocates for improving tax compliance, broadening tax base, and reducing exemptions. Further, it is emphasized that the essential requirement for comprehensive expenditure reform is to advocate a transformation from current expenditure to a developed-oriented spending. It is also argued that investment in education, infrastructure, and healthcare can yield high returns concerning economic productivity and human capital development (Hussain & Ahmad, 2020). Policy suggestions also underscore the significance of the decentralization of the fiscal powers. The contribution of the fiscal decentralization in the promotion of governance efficiency and regional economic equity is also explored by previous studies. Their research offers that empowering provincial governments to manage and generate revenues could lead to more effective and tailored developmental policies. The example from Malaysia's fiscal policy strategies and comparison with it emphasized how efficient resource allocation and targeted subsidies can drive economic growth while ensuring fiscal discipline. The alignment of fiscal strategies with the sustainable development needs a focus on green finance mechanisms and environmental taxation. In addition, the gender-responsive budgeting is crucial to reduce poverty and ensuring equitable economic opportunities. The Asian Development Bank (2020) and International Monetary Fund (IMF) have also provided frameworks for fiscal consolidation and debt management. The structural reforms provided by the IMF (2023) include reducing fiscal deficits and sustainably managing debt. Similarly, the Asian Development Bank (ADB) outlines the strategies emphasizing the requirement for economic diversification, enhancing fiscal resilience against external shocks, and efficient mobilization of resources.

The empirical studies have highlighted mixed outcomes of previous fiscal policies in Pakistan. The time-series analysis of fiscal policy impacts on economic growth from 1980-2015 in Pakistan conducted by (Javaid & Raza, 2017). Their findings recommend that while public investment positively correlates with Gross Domestic Product (GDP) growth, high fiscal deficits undermine the macro-economic stability. Further, it is also argued that it is insufficient to only initiate tax reforms without improvements in expenditures. However, the comparable developing economies case studies offers lessons for Pakistan, such as India's fiscal reform policies illustrates that potential benefits of implementing GST-Goods and Services Tax in order to streamline revenue collection and curb the tax evasion. Thus, if such frameworks are applied, it could reform Pakistan's fragmented taxation system in terms of supporting social development initiatives and increasing fiscal space.

Pakistan's fiscal policy, which encompasses taxation (government revenue collection), and spending plays a crucial role in shaping the economic landscape of Pakistan. However, due to the persistent debts, budget deficits, and socio-political challenges, fiscal policy has often confronted several challenges in achieving sustainable growth. In the recent years, Pakistan's fiscal policy has been focused on stabilizing the economy amid challenges such as, public debt, high deficit, and low foreign reserves. The government of Pakistan has collaborated with IMF, by implementing a series of fiscal reforms aimed at spurring growth, achieving economic stability, and tackling structural issues (Fatima, 2021). The following section presents the analysis of Pakistan's fiscal policy. The constitution of the Islamic Republic of Pakistan through its Articles 79 to 88 provides the basis for fiscal policy making and public financial management. The government of Pakistan presents a fiscal policy statement before the national assembly by the end of January each year by section 6 of the Fiscal Responsibility and Debt Limitation Act, 2005 (FRDA, 2005). The fiscal policy statement analyzes key macroeconomic indicators such as total fiscal deficit, total revenue receipts, total expenditure, total debt, and debt per capita and provides a rationale behind deviation from the approved benchmarks. Furthermore, the Public Financial Management Act promulgated in 2019 provides an enabling environment for a sound fiscal policy through improved macroeconomic management (Aslam, 2021).

Moreover, Pakistan's tax-to-GDP ratio remains low not only by global standards (at least 15pc) but remains one of the lowest in the region as well. Although FBR's tax collection remained at 7 trillion during the financial year 2023-24, still its tax-to-GDP ratio remained at an average of 8pc which is much below the international standard and Pakistan's potential. During the last two years, the situation was not encouraging and Pakistan's tax-to-GDP ratio remained at 10.3 pc of GDP which was again much lower than the international standard as well as below standard set for the South Asian region for FY 2021-22 (Organization for Economic Cooperation and Development, 2023). According to FBR’s tax gap report 2022, Pakistan is unable to collect its 26 potential collectible taxes which are mainly adding to its low tax-to-GDP ratio thus resulting in reduced revenue generation and growing fiscal deficit. However, In terms of composition, indirect taxes (sales tax, customs duty, federal excise duty) have always dominated the total FBR collection share From FY2006-23, on average indirect taxes have contributed 63%, while direct taxes contributed only 37% of total FBR taxes that discourages progressive taxation in the country (Ahmed & Mangla, 2024).

In addition, Tax expenditures are special provisions in a tax code/law that benefit specific sectors or groups of taxpayers through exclusions, concessions, deferrals, credits, and tax rates for socioeconomic reasons. The global average for tax expenditure for 2010-2022 is 4.16 pc whereas for OECD countries the average tax expenditure for the same period is 5.15 pc. In comparison, Pakistan's average tax expenditure for this time remained at 1.61 pc. Pakistan also ranks below the average tax expenditure among its regional peers. The tax expenditure average of the South Asia region is 3.22 pc which is much higher than Pakistan's average. This means Pakistan is losing its potential revenue due to its tax expenditure policy (FBR, 2024). Further, Pakistan's narrow tax base and low compliance cause revenue losses to the government and promote tax evasion. The number of active taxpayers in Pakistan is 5.3 million people despite 11.4 million people being registered (World Bank blog). This shows that not only fewer people have been registered with FBR but those registered and having valid NTN numbers are not submitting their annual income tax return. In 2024, only 2.4 pc Pakistanis filed income tax returns out of which almost 56 pc people filed nil income tax thus shifting the burden on the compliant segments (Rana, 2024). This happens because punitive actions and effectiveness have not been ensured by the tax administration. In addition, sectors like Agriculture and Real estate are exempted from the tax which is causing a huge revenue loss of up to 69.5 billion to the exchequer.

While in terms of non-sustainable pension expenditure, the Finance Division has long been cognizant of ever-growing pension liability. The pension liability which was recorded at Rs 250 billion in 2016-17 has grown to Rs. 801 billion in CFY 2023-24 (more than 200%). This is expected to reach Rs. 927 billion in the next 02 years which will be a huge challenge. However, pension reforms are still at the draft stage. The federal government provides a range of products and services to the general public including passports, ID cards, etc. The Cost Organization, Finance Division is the institutional mechanism for determining the cost of service however; it has been dysfunctional for the last 07-08 years (Finance Division, 2023). This has a direct bearing on the non-tax revenue of the federation which is non-divisible. Moreover, as per the Public Financial Management (PFM), one of the prime objectives was the promulgation of the PFM Act 2019 to ensure that all Federal receipts are credited to the Federal Consolidated Fund. Unfortunately, the objective could not be achieved today. Most of the earnings of SOEs and public authorities like NADRA, CDA, HEC, and NHA are not credited in FCF. Further, the PFM Act 2019 has not been implemented in Defense organizations to date. The complex situation results in increased net borrowing which results in fiscal mismanagement (Dawn, 2019). The overburdened federal government despite Devolution and the 7th NFC Award, the federal government spends two-thirds of its consolidated expenditure on some of the already devolved areas. The provinces get approximately 3/5th of the consolidated revenues after the 18th amendment and

7th NFC Award (FY-2022). Expenditure for these devolved subjects including health and education amounted to Rs.328 billion (0.5% of GDP) in FY2022 alone. Similarly, expenditure on HEC and BISP amounted to approximately 0.10% of GDP (Rs.70 billion) and 0.36 percent of GDP in FY22. Additionally, in FY22, Rs. 315 billion (0.5% of GDP) was spent on development in devolved areas. This vertical fiscal imbalance, along with expenditure on devolved subjects, has contributed to ongoing federal fiscal deficits and will continue to pose future fiscal challenges.

Pakistan has an extensive informal economy that is contributing to its economic woes. This extensive sector includes small-scale agriculture businesses, small enterprises, retail shops, etc. According to the World Bank, Pakistan's informal economy contributes to one-third of its GDP where approximately 61 pc of its population is employed. Several federal SOEs made net losses averaging around 0.5% of GDP from FY2016– FY2020, with accumulated losses amounting to 3.1%. (World Bank, 2023) FG provides fiscal support, to aid these SOEs, through loans, subsidies, and equity injections. These amounted to 1.4% of GDP in FY2021 alone. This practice also crowds out loans for the private sector and puts significant pressure on fiscal balance. Over the past decade, these SOEs have consistently experienced losses, placing significant strain on fiscal resources. Remarkably, the overall profitability of SOEs has sharply declined since FY14, shifting from a profit of 0.8% of GDP to a loss of 0.2% of GDP in FY22 (Ahmed & Tola, 2024). While analyzing Pakistan’s fiscal policy, the country’s per capita debt has increased 36pc from 2011 to 2023 as compared to its regional peers whereas, Pakistan's GDP per capita has declined to 6 pc during this time period. This disparity between the growth rate and payable debt has resulted in additional borrowing thus making it an unsustainable debt profile. According to the State Bank of Pakistan, Pakistan's total external debt amounts to 24.3 bn with 3,9 bn allocated for the payments of interests and 20.4 bn to repay principal payments. For the next financial year, Pakistan's estimated debt payment is estimated and at is alarmingly high and pushes the country to debt vulnerability (Khan, 2023).

Moreover, it has been analyzed that Pakistan's Human Capital Index (HCI) is 0.41, which is below the South Asian average of 0.48, highlighting major educational challenges. A two-decade-long wave of terrorism in the country has badly affected its education system. Destroyed schools and interrupted education have resulted in limited skill development. Additionally, climate change poses a growing threat as empirical evidence suggests that there is a negative relationship between climate change and human development, and Rising temperatures, increased floods and drought can further lower Pakistan's HCI ranking with serious implications for economic growth (Batool & Khan, 2023). This literature underscores that since, fiscal policy is a significant and powerful tool for economic development, Pakistan’s current fiscal framework needs significant reforms. This requires addressing the structural weaknesses in the tax collection, adopting sustainable fiscal practices, and improving public expenditure efficiency to foster long-term economic growth. However, scholars agree that development goals by integrating fiscal procedure can transform Pakistan’s economic landscape, but successful implementation will require institutional capacity, strong political will, and international cooperation.

Thus, the literature review offers a comprehensive understanding of the academic discourse on the fiscal policy of Pakistan, and its implications for the sustainable development. Furthermore, policy experiments and research is necessary for addressing the emerging challenges and optimizing the fiscal strategies for Pakistan’s future prosperity. Moreover, the long-term sustainability depends upon addressing the low productivity, climate vulnerability, and resource allocation. The fiscal policy should assist the private sector led growth, human capital investment, and climate adaption. These insights emphasize the significance of comprehensive fiscal reforms in Pakistan.

3 Research Methodology

This research paper aims to develop actionable strategies to improve the fiscal policy of Pakistan for sustainable development and economic growth. The methodology used for this research is qualitative approach to provide a comprehensive understanding of Pakistan's fiscal policy. The below mentioned steps outline the methodology.

3.1 Research Design

The study employs a qualitative data to analyze Pakistan's fiscal policy landscape. The qualitative aspect focuses on comprehending the structural and policy challenges through literature reviews and other secondary sources. However, where needed a Quantitative analysis has also been incorporated that involves economic data analysis to assess the fiscal policy impacts on growth indicators.

3.2 Mixed Method Approach

A mixed method approach combines both qualitative and quantitative research for comprehensive analysis. Quantitatively, the statistical data has been informed through government reports, and Pakistan Bureau of Statistics to analyze the fiscal trends, expenditures allocations, revenue patterns. Qualitatively, previous literature, academic journals, government publications, and policy papers have been reviewed to provide a theoretical foundation and historical context on the fiscal policy of Pakistan.

3.3 Data Analysis

The data informed from qualitative approach has been analyzed using a thematic analysis to identify the recurring challenges, recommendations, and perspectives concerning fiscal policy. Whereas, the statistical data analysis of fiscal indicators i.e. GDP growth, tax to GDP ratio and debt levels were analyzed to measure the current state and impacts of fiscal policies.

3.4 Limitations

The limited access to government data, and time constraints for collecting a comprehensive data were the possible limitations for the research conducted.

5 Results and Discussion

Due to the low Tax to GDP ratio, Pakistan is relying more on foreign loans and pledges. Due to which the public sector development fund has been curtailed in past years badly affecting the development portfolio of the country and its commitment towards achievement of SDGs 2030. Secondly, Tax imposition in the country heavily relies on indirect taxation. Indirect taxes being regressive are a burden on consumers they discourage consumption, savings, and investment (potentially slowing down economic growth) and promote tax evasion. Moreover, the Government is losing a sizeable share of potential sales tax, income tax, and customs duty revenue (26%, 18%, and 30% respectively) due to tax exemptions given to various sectors (Naqvi, 2024). In addition, Pakistan's growing pension bill is emerging as a major threat to the country's fiscal sustainability majorly due to lack of contribution from the pensioners. As compared to civil servants, military pensioners number increase more rapidly due to early retirement which surges the pension bill and leads to a fiscal deficit. However, the Non-rationalization of service charges and subsidies for the services provided by the government also affects revenue generation in the country, which is vital for development work being conducted by the government.

It is also worth noticing that the PFM Act 2019 lacks an effective mechanism for the operational needs of autonomous bodies and public entities in the country. Currently, organizations are keeping their money in commercial banks (approx. 4000 accounts) which is public money yet the finance division borrows from the same commercial banks causing fiscal burden due to interest on borrowed money. While other countries are privatizing SOEs, Pakistan still debates for disinvestment of these SOEs. Meanwhile, the government injects significant funds as subsidies and grants annually to sustain these unprofitable 204 entities. The size of Pakistan's informal sector highlights the vast number of businesses and individuals outside the tax net, potentially costing the national exchequer hundreds of billions in tax revenue. Further, the government's dependence on domestic banks to finance its fiscal deficit has surged due to a decline in foreign direct investment (FDI) and remittances. This increasing reliance on banks is often considered to pose a "systematic risk" to the country's financial system (Khalid & Sial, 2022). However, considering the current economic situation of the country, issues and challenges posed to Pakistan’s fiscal policy as discussed in preceding sections, improvements in the fiscal policy will be proposed in this section to attain inclusive and sustainable development. The main focus will be on both components of the fiscal policy such as revenue and expenditure with proposed changes for improvement that could lead to several positive outcomes.

Empirical evidence shows that although revenue collection has shown an upward trend during the last five years still growing fiscal deficit poses a serious challenge to the country's economic stability. This fiscal challenge is because the improved revenues are mainly the result of excessive policy handles and not from a robust tax system. Therefore, it is vital to create an enabling environment for a robust tax system through following policy alternatives. The existing taxation system is uniquely regressive as it puts equal burden on wealthier and poorer people through income-based taxes and consumption-based indirect taxes. Although Pakistan has adopted some measures for progressive taxation still there is a long way to embrace progressive taxation in letter and spirit. This involves restructuring the tax system to ensure higher-income individuals and corporations contribute proportionally more to government revenue (Hassan & Khan, 2020). This can be achieved through closing corporate tax exemptions, improving federal-provincial coordination, increasing provincial revenue through logical agricultural taxation, increase in excise duties for socially harmful goods, reducing tax expenditure in the energy sector, eliminating loopholes, and reducing tax evasion through stricter enforcement and better compliance mechanisms.

Pakistan focuses primarily on income tax as a sole criterion of tax liability and has to be criticized for its fairness as well as for its insufficient fiscal base. Developed countries have included collecting wealth, inheritance, capital gains, and gift taxes into their comprehensive tax systems. Due to inadequate tax administration capacity, these taxes are not yet added and leading to fragmentation of the fiscal base. By incorporating these taxes, Pakistan can improve its fiscal base to a significant level. Persistent reliance on amnesties as policy tools, coupled with unresolved issues from the Tax Amnesty Scheme of 2018 and increasing challenges from offshore tax evasion, are projected to exacerbate fiscal deficits beyond current estimates (Mehmood & Shahid, 2019). Therefore, it is important that all beneficiaries of these amnesties be trailed and policy be formulated to invoice the export and import sectors to discourage them from retaining surpluses abroad. Pakistan’s fiscal deficit is primarily due to its growing expenditure therefore, efficient expenditure management is crucial for fiscal discipline. To achieve this following policy measures are proposed to the government. By right-sizing the government public expenditure can be saved. Unnecessary hierarchy is putting a strain on lieu of salaries and pensions; therefore, the government should promote digitization in the public sector that can bring efficiency and accountability as well as reduce public spending. Nevertheless, with regard to Subsidy Rationalization and Elimination; the targeting subsidies is required to benefit low-income households while phasing out subsidies that primarily benefit inefficient sectors such as state-owned enterprises (Shah, 2016).

Furthermore, Pakistan’s lack of investment in its human capital has led to reduced labor productivity which has resulted in its overreliance on friendly countries. Thus, it is significant to reduce poverty, unequal growth and prioritize labor productivity. To promote inclusive growth and improving human capital is possible through annual increases in healthcare, education, and social protection programs. Long-term fiscal sustainability can be achieved by addressing both internal and external debt, and by considering the certain measures such as; Negotiating with international creditors particularly China to restructure debt terms and conditions. This includes schedules of repayment and interest rates in order to ease the immediate financial burdens (Ahmad et al., 2018). Moreover, exploring opportunities to refinance the debt at more reliable and favorable terms through mutual agreements in international markets can contribute to long-term sustainability.

Moreover, to ensure borrowing remains with manageable limits it is essential to conduct regular assessment of debts that can lead to transparency in debt management practices. This will also provide regular updates to stakeholders on repayment strategies, obligations, and debt levels. In this connection, government can engage the development sector to provide their technical assistance. Below are the expected gains by implementing the alternative policies.

1. Firstly, the progressive taxation policy will generate higher revenues from those most able to pay, broaden the tax base, and will reduce dependence on regressive taxes.
2. Secondly, subsidy rationalization and efficient spending would lower the entire government expenditure, leading to improved fiscal balance, and reduction in borrowing needs.
3. Thirdly, lower fiscal deficit through reduced expenditure and increased revenue will enhance the confidence of investors.
4. Lastly, efficient debt management policies will mitigate risks associated with debt servicing, and will free up of resources economic development and productive investments.

In the context of Pakistan's economy the implementation of the outlined model of fiscal policy may confront various considerations and challenges that need critical evaluation. However, progressive taxation aims at increasing revenue from corporations and higher individuals. Pakistan faces notable problems concerning tax enforcement and compliance. Loopholes and Tax evasion are rampant that reduces the effectiveness of higher tax rates. There is a large informal economy that is untaxed, and limiting the potential revenue from wealth taxes and income. The administrative capacity constraints and political resistance from influential groups further hinder the effective implementations of reform policies, thereby efficient expenditure management is crucial given Pakistan's history of fiscal deficits driven by inefficient public spending and extensive subsidies. Pakistan has faced persistent issues with both internal and external debt that led to high debt servicing costs straining fiscal resources. The restructuring of debt and refinancing initiatives require collaboration from foreign creditors, influenced by Pakistan's geo-political relationships and global economic conditions. Effective debt sustainability analysis is crucial but often lacks transparency, impacting investor confidence and Sovereign Credit Ratings.

Policy Suggestions

To improve Pakistan's fiscal policy for sustainable growth, the policy recommendations can be divided into short-, medium-, and long-term goals as follows.

Short-Term

1. Pakistan's currency swap arrangements with the Kingdom of Saudi Arabia (KSA) and Iran for the import of fuel can be designed to facilitate trade by allowing transactions to be conducted directly in their respective national currencies, rather than relying on a third-party currency like the US dollar.
2. Simplify tax procedures and enforcement for filing and refunds. Increase public awareness of online services, such as the national sales tax return and FBR Tax Maloomat, along with other FBR initiatives, to boost tax compliance and reduce the tax gap.
3. To reduce circular debt and fuel consumption, the closure of markets in the evening and reducing school days to three days a week can be implemented.
4. Strictly enforce the PMF Act, 2019, and fully implement the Treasury Single Account (TSA) to enhance cash management and ensure proper monitoring and accounting of the federal government's cash balances.
5. Implementing the TSA alone will help reduce public borrowing needs and could potentially save Rs. 444 billion (0.53% of GDP) annually, thereby lowering debt servicing costs Privatize or

divest underperforming SOEs, and improve financial reporting and governance for retained SOEs to potentially achieve annual savings of Rs. 458 billion (0.55% of GDP)

Medium Term:

1. Streamline and phase out preferential tax rates (e.g., on cigarettes), zero ratings, and tax exemptions, aiming for potential annual savings of Rs. 670 billion (1% of GDP).
2. Simplify the structure of personal income tax and reduce the tax-free threshold to potentially save Rs. 67 billion (0.1% of GDP) annually.
3. State Bank of Pakistan (SBP) should be engaged to work with banks and companies with mutual funds to formulate pension plans and encourage new recruitment on market wages. It will provide employees with financial security and encourage long-term savings among the working population.
4. SMEs and startups in Pakistan shall establish international supply chains to procure raw materials locally, reducing dependence on expensive imports. This strategy aims to enhance economic resilience, lower production costs, and conserve foreign exchange, supporting sustainable growth and competitiveness in domestic industries.
5. The federation should cease spending on current and development expenditures for devolved subjects. For federally entrusted responsibilities like climate change risk management under Article 144, deduct a matching grant from provincial shares post legislative amendment. Additionally, restructure federal entities to align with devolution plans, including ministries and attached departments.

Long-Term:

1. Steps should be taken to enhance the value addition of the products before export, to diversify the range of goods exported, increase its acceptability in International markets, and at the same time explore new international markets for its sustained exports. These strategies aim to increase export revenue by offering higher-quality products. This will expand market reach, and reduce dependency on specific markets, thus increasing economic growth through diversifying trade opportunities.
2. New labor markets shall be explored which can involve expanding the deployment of workers to additional countries or industries abroad. This strategy aims to increase remittances, sent home by expatriate workers to boost national income. It will enhance economic stability, diversify the sources remittances and will be resilient against the fluctuations in specific regions and labor markets.
3. The Chinese industries are relocating due to higher labor costs, if such is incentivized to move in Pakistan, it can contribute long-term growth initiatives. Such initiative will attract foreign investors to invest, transferring technology and creating job opportunities. Moreover, if offered favorable conditions such as strategic location, and lower operating costs, Pakistan can boost economic growth, industrial development.
4. The implementation of mitigation measures and climate adaptation strategies in Pakistan will reduce the demands for imports that are needed in post-disaster rehabilitation. However, Pakistan can lower its reliance on external aid through enhancement in resilience to climate impacts, disaster preparedness, improved infrastructure, and sustainable practices.
5. The Federal Board of Revenue (FBR) by using Information Technology (IT) can effectively identify the tax evaders. By leveraging intelligence gathering and data analysis, FBR can efficiently detect the enforcement of tax laws, non-compliance, and integrate evaders into tax system.

6. Thereby, increasing fairness and revenue collection, it is also suggested that input from potential governments shall be enforced along with sectors that possess economic potentials. This approach aims at efficient assessment and agricultural land use for tax income with productivity levels while considering the provincial perspectives, and regional variations to ensure equitable distribution of tax revenues and effective implementation.

5 Conclusion

In conclusion, fiscal policy plays significant role in transforming the economic outcomes by influencing effective spending decisions and government revenue. It further stabilizes the economies, ensures resilience against the economic shocks, and fosters growth. Therefore, targeted expenditures on social projects and programs along with balanced revenue generation are crucial for macro-economic stability and sustainable development. Both challenges and potential have been reflected in Pakistan's recent economic trajectory, despite setbacks from flash floods in 2022 and dependence on consumption-driven growth, country has shown moderate signs of betterment. Whereas, towards budget management by allocating significant budgetary resources have underscored the problem of balancing fiscal sustainability that needs development in education sector, infrastructure, social welfare, and healthcare sector. By addressing these challenges it demands a comprehensive reform policy. Therefore, enhancing revenue through curbing tax insufficiencies and progressive taxation is crucial. Moreover, reducing reliance on the informal economic policies, prudent management of debt, expenditures, and pension liabilities is of utmost significance for long-term inclusive growth and economic sustainability. A well-designed fiscal framework that integrates these short, medium and long-term measures will pave the way for self-reliant and robust economy capable of addressing the challenges of the 21st century.

References

Ahmad, K., Mahmood, R., & Zafar, H. (2018). Fiscal reforms for economic growth: Challenges and opportunities. *Lahore Journal of Economics,* 23*(2)*, 45-67.

Ahmed, M. A., & Mangla, I. U. (2024). *Pakistan: Fiscal Crisis Management 2019-24 – The Revenue Perspective*, *3(2),* 111-120.

Ali, S., Ahmad, N., & Khalid, M. (2010). *The Effects of Fiscal Policy on Economic Growth: Empirical Evidences Based on Time Series Data from Pakistan*. *The Pakistan Development Review, 49(4),* 497-512.

Al-Kasasbeh, O. (2023). The Impact of Fiscal Policy on Economic Growth. *Journal of History and Social Sciences, 2(1),* 16-25.

Asian Development Bank (ADB). (2020). Strengthening fiscal resilience: Strategies for developing countries. Manila, Philippines: ADB.

Aslam, F. (2021). Reforming Pakistan's fragmented taxation system: Lessons from regional examples. *Journal of Economic Policy Review,* 15*(3),* 112-130.

Barro, R. J. (1990). Government spending in a simple model of endogenous growth. *Journal of Political Economy*, 98*(5),* 103-125.

Batool, K., & Khan, I. (2023). Population Growth and Climate Change: Implications for Human Development in Pakistan. *Qlantic Journal of Social Sciences and Humanities,* 4*(3),* 123-136.

Ahmed, A. A., & Tola, A. A. M. (2024, September 4). Budget Tax Burdens and Fiscal Discipline. Business Recorder, 2; Retrieved from https://www.brecorder.com/news/40300365

Kiani, K. (2019, June 12). Budget 2019-20: Tax-heavy budget fails to arrest growing fiscal deficit. Dawn News, 102; Retrieved from https://www.dawn.com/news/1484090

Economic Survey of Pakistan. (2024, June). *MoF*. Retrieved from https://www.finance.gov.pk/survey/chapter_24/Economic_Survey_2023_24.pdf

Fatás, A., & Mihov, I. (2012). Fiscal Policy as a Stabilization Tool. *The B.E. Journal of Macroeconomics, 12*(3), 1-99.

Fatima, Z. (2021). Environmental taxation and sustainable development in Pakistan. *Pakistan Development Review, 60*(4), 389-411.

FBR. (2024). *Tax Expenditure Report*. Retrieved from https://fbr.gov.pk/Budget202425/FinanceBill/Tax-Exp-Report.pdf

Finance Division. (2023). *Budget Strategy Paper 2023*. Retrieved from https://www.finance.gov.pk/budget/Budget_2023_24/Medium_Term_Strategy_2023_24.pdf

Hasan, A., & Khan, R. (2020). Public expenditure inefficiencies in Pakistan: A critical review. *Economic Insights Quarterly, 8*(1), 22-38.

Hussain, M., & Ahmed, I. (2020). Shifting from current to development expenditure: A pathway to economic prosperity. *Economic Policy and Analysis, 10*(2), 77-94.

International Monetary Fund (IMF). (2023). Pakistan: Fiscal policy and structural reforms. Washington, DC: IMF.

Javaid, N., & Raza, S. (2017). Analyzing the impact of fiscal policy on Pakistan's economic growth: A time-series approach. *Journal of Economic Studies, 24*(3), 78-95.

Khalid, A., & Sial, M. H. (2022). Fiscal decentralization and regional economic equity in Pakistan. *South Asian Journal of Governance, 5*(1), 56-71.

Khan, M. S. (2022). *Economic Analysis of Tax Expenditures in Pakistan,* "MPhil Dissertation", Pakistan Institute of Development Economic, Islamabad.

Khan (2024). Revenue Statistics in Asia and the Pacific 2024: *Tax Revenue Buoyancy in Asia,* OECD Publishing, Paris, https://doi.org/10.1787/e4681bfaen

Mahmud, F., Ali, S., & Khan, L. (2022). Gender-responsive budgeting in Pakistan: A strategy for equitable economic development. *Journal of Social and Economic Development, 14*(1), 23-40.

Malik, S. (2019). Structural deficiencies in Pakistan's taxation system: An analytical perspective. *Pakistan Journal of Tax Policy, 7*(2), 99-120.

Mehmood, T., & Shahid, M. (2019). The impact of tax reforms on Pakistan's economy: A CGE model analysis. Economic Modelling and Applications, *9*(4), 312-328.

Naqvi, A. (2024). Economic Brief 2024 (Report No. 37). KPMG Taseer Hadi & Co. Chartered Accountants. Retrieved from https://kpmg.com/pk/en/home/insights/2024/06/economic-brief-2024.html

Rajan, R. (2018). Fiscal reforms in India: Lessons for developing economies. *Journal of South Asian Economic Policy, 12*(2), 45-60.

Rana. S, (2024, March 7). PIA privatization, FBR restructuring greenlit. The Express Tribune, 22; Retrieved from https://tribune.com.pk/story/2458624/pia-privatisation-fbr-restructuring-greenlit

Shah, A. (2016). Malaysia's fiscal policy: Lessons for developing countries. *International Journal of Economic Studies, 11*(1), 34-50.

World Bank. (2021). Tax policy for development: A framework for Pakistan. Washington, DC: World Bank.

World Bank. (2023). *Pakistan Federal Public Expenditure Review 2023*. Retrieved from https://www.worldbank.org/en/country/pakistan/brief/pakistan-federalpublicexpenditure-review-2023