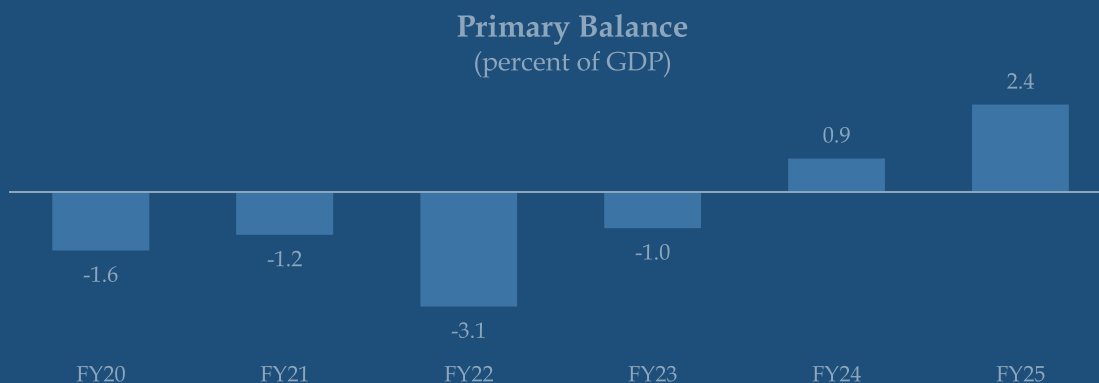


Fiscal Policy and Public Debt

Fiscal and primary balances further improved in FY25, both outperforming the budget estimates. This sustained improvement can be traced to robust growth in revenue and rationalization in expenditure. In terms of GDP, total revenue rose to the highest level in more than two decades. Robust growth in FBR taxes led the increase in tax revenue, while record SBP profit, followed by petroleum development levy collection, supported non-tax revenue. On the expenditure side, entire increase was due to non-interest expenditure as interest payments remained unchanged in terms of GDP, creating space for increased development spending in FY25. Notwithstanding the fiscal consolidation, the public debt accumulation almost maintained the last year's pace. The public debt-to-GDP ratio increased to 70.8 percent of GDP mainly on account of lower growth in nominal GDP. Nonetheless, strong revenue growth, higher foreign exchange earnings and build-up in foreign exchange reserves improved the country's debt repayment capacity.



4 Fiscal Policy & Public Debt

4.1 Fiscal Trends and Policy Review

Fiscal deficit narrowed further, while primary balance improved for the third consecutive year in FY25, both outperforming their respective budget estimates (**Figure 4.1a & Figure 4.1b**).¹ This improved performance can largely be attributed to robust growth in revenue (**Table 4.1**).

The total revenue rose to the highest level (in terms of GDP) in more than two decades, with equal contribution from both tax and non-tax revenue. The tax-to-GDP ratio exceeded the 11.0 percent mark in FY25, with sizeable increase in both direct and indirect taxes. The direct taxes increased due to a combination of higher tax rates and expansion of tax base, while growth in indirect taxes reflected withdrawal of concessional rates, exemptions, and increase in import duties. The substantial increase in non-tax revenue was largely contributed by SBP profit, followed by Petroleum Development Levy (PDL) collection.²

On the other hand, total expenditure increased by 1.9 percentage points to reach 21.5 percent of GDP. This increase was primarily due to non-interest expenditures, led by development,

defense, subsidies and grants. In contrast, interest expenditures remained unchanged in terms of GDP amid declining interest rates, government's buyback of its own securities, and reduced financing needs in FY25.

While continued fiscal consolidation is encouraging, it is important to assess the underlying drivers from the standpoint of sustainability. Though tax revenue increased in terms of GDP, higher SBP profit contributed substantially to fiscal consolidation during FY25. Adjusting for the SBP profit, the fiscal deficit in FY25 turns out to be almost same as in FY24, while primary surplus falls to just 0.1 percent of GDP. This underscores the need for implementation of tax policy and administration reforms for steady increase in tax revenue both at federal and provincial level.

4.2 Revenue

Total revenue grew by 35.6 percent, rising to 15.8 percent of GDP in FY25, from 12.6 percent in FY24 (**Table 4.2**). The increase of 3.2 percentage points was contributed equally by tax and non-tax revenue (**Figure 4.2**).

Fiscal Balance

■ Fiscal balance ■ Budget estimate
percent of GDP

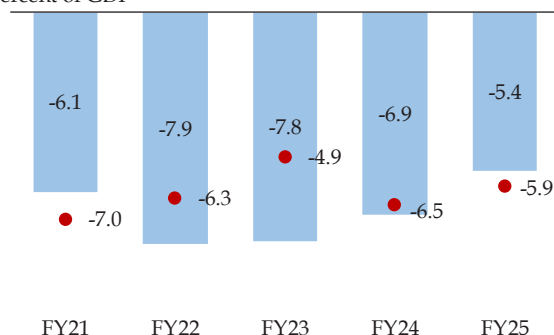


Figure 4.1a Primary Balance

■ Primary balance ■ Budget estimate
percent of GDP

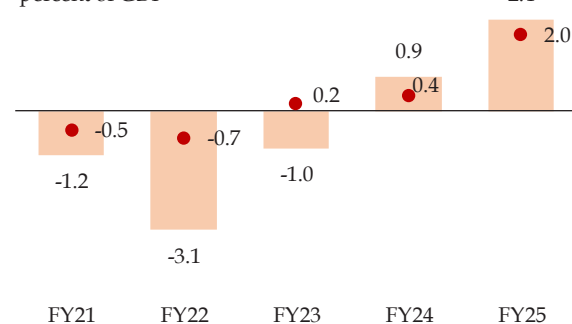


Figure 4.1b

Source: MoF

¹ The provinces contributed a higher surplus of 0.8 percent of GDP to the consolidated surplus in FY25, compared to 0.5 percent in the previous year.

² The FY24 SBP profit was transferred to federal government in Q1-FY25 after publishing of audited annual financial statement.

Consolidated Fiscal Position

Table 4.1

	Value (billion Rupees)			Growth (percent)		
	FY20-FY24 Avg	FY24	FY25	FY20-FY24 Avg	FY24	FY25
1. Total revenue (a+b)	8,823	13,269	17,997	22.4	37.7	35.6
(a) Tax revenue	6,869	10,085	12,723	19.3	29	26.2
o/w FBR taxes	6,277	9,311	11,744	19.8	29.9	26.1
(b) Non-tax	1,954	3,184	5,275	52.3	75.4	65.7
2. Total expenditure (a+b+c)	13,976	20,476	24,166	19.9	26.7	18.0
(a) Current expenditure	12,458	18,571	21,529	21.5	27.3	15.9
o/w Mark-up payments	4,482	8,160	8,887	33.6	43.3	8.9
(b) Development expenditure & net lending	1,642	2,078	2,966	11.7	6.4	42.7
o/w PSDP	1,568	2,027	2,983	15.4	7.1	47.2
(c) Statistical discrepancy	-124	-173	-329	-	-	-
				Percent of GDP		
3. Fiscal balance	-5,154	-7,207	-6,168	-7.1	-6.9	-5.4
4. Primary balance	-672	953	2,719	-1.2	0.9	2.4
5. Revenue balance	-3,636	-5,302	-3,531	-5.0	-5.0	-3.1
6. Provincial balance	273	518	921	0.4	0.5	0.8
7. Financing (a+b)	5,154	7,207	6,168	7.1	6.9	5.4
a) External (net)	611	321	619	1.1	0.3	0.5
b) Domestic (net)	4,543	6,886	5,549	6.0	6.5	4.9

Note: 1) Fiscal balance is total revenue minus total expenditure; primary balance is fiscal balance excluding interest payments; revenue balance is total revenue minus total current expenditure. 2) Numbers might not add up due to rounding-off

Source: MoF

Tax Revenue

Total tax collection rose to 11.2 percent of GDP in FY25. This was largely contributed by higher FBR tax collection, while provincial taxes also ticked up. The increase in FBR taxes was almost equally contributed by direct and indirect taxes (**Figure 4.3**).

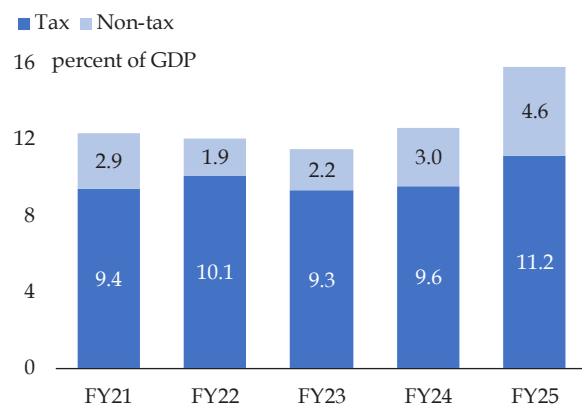
Direct Taxes

Direct taxes maintained the rising trend for the fourth consecutive year, increasing from 4.3

percent of GDP in FY24 to 5.1 percent in FY25. This increase pushed the share of direct taxes in total FBR taxes to 49.3 percent, the highest level in more than two decades. Both withholding taxes (WHT) and voluntary payments drove the growth in direct taxes. A major factor behind the rise in WHT collection was the increase in tax rates across all slabs for salaried class. In addition, higher WHT rates on toll manufacturing, property transactions; dividends from mutual funds; and, profit on debt for non-filers, coupled with increase in imports in PKR terms, also contributed to

Breakdown of Total Revenue

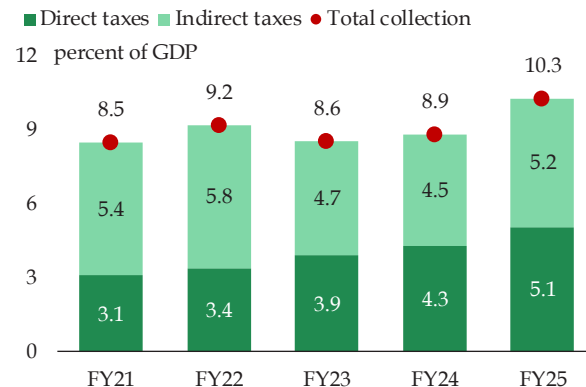
Figure 4.2



Source: MoF

Breakdown of Federal Tax Revenue

Figure 4.3



Note: In FY24, the numbers might not add up due to rounding off
Source: MoF

Breakup of Consolidated Revenue

Table 4.2

	Values (billion Rupees)			Percent of GDP			Growth(percent)		
	FY20-FY24	FY24	FY25	FY20-FY24	FY24	FY25	FY20-FY24	FY24	FY25
	Avg.			Avg.			Avg.		
Total Revenue (a+b)	8,823	13,269	17,997	12.3	12.6	15.8	22.4	37.7	35.6
(a) Tax revenue	6,869	10,085	12,723	9.6	9.6	11.2	19.3	29	26.2
Federal	6,277	9,311	11,744	8.7	8.9	10.3	19.8	29.9	26.1
Direct taxes	2,668	4,531	5,792	3.6	4.3	5.1	26.5	38.5	27.8
Indirect taxes	3,609	4,780	5,953	5.1	4.5	5.2	15.5	22.7	24.5
Sales tax	2,362	3,099	3,901	3.4	2.9	3.4	16.6	19.5	25.9
Federal excise duty	359	577	767	0.5	0.5	0.7	21.0	56.2	32.8
Customs	888	1,104	1,285	1.3	1.1	1.1	11.2	18.1	16.4
Provincial	592	774	979	0.8	0.7	0.9	14.3	19.2	26.4
Direct taxes	-	39	38	-	0.0	0.0	-	8.3	-2.6
Land revenue	-	23	20	-	0.0	0.0	-	7.6	-11.8
Property tax	-	5	7	-	0.0	0.0	-	-31.4	42.0
Indirect taxes	-	735	941	-	0.7	0.8	-	19.8	27.9
Sales tax on services	361	505	612	0.5	0.5	0.5	20.1	21	21.4
(b) Non-tax revenue	1,954	3,184	5,275	2.8	3.0	4.6	52.3	75.4	65.6
Federal	1,800	2,961	4,961	2.6	2.8	4.4	57.2	79.6	67.5
SBP profit	681	972	2,620	1.0	0.9	2.3	1,491.0	161.9	169.5
PDL	489	1,019	1,220	0.6	1.0	1.1	89.5	75.8	19.7
Provincial	154	223	314	0.2	0.2	0.3	22.9	34.5	40.6
Profits (Hydroelectricity)	26	24	99	0.0	0.0	0.1	65.5	334	313.9
Others, including forest	122	192	198	0.2	0.2	0.2	26.3	24.7	3.2
<i>Memorandum Items</i>									
Nominal GDP*	71,775	105,190	113,748	-	-	-	-	-	-

Note: Numbers might not add up due to rounding-off

* Revised GDP numbers as published by PBS in October 2025

Source: MoF

increase in WHT collection.³ Apart from tax rate changes, broadening of tax base by extending the scope of advance tax to sales made to distributors, dealers, wholesalers and retailers across all sectors also contributed to direct tax collection.

Notwithstanding these measures, WHT collection from income earned on interest-bearing accounts and investment in government securities declined as compared to the previous years due to both lower interest rates (price effect), and resulting decline in individual's demand for interest-bearing securities and accounts (volume effect).^{4,5} Besides increase in WHT collection, voluntary payments also increased to 1.9 percent of GDP in FY25 from 1.6 percent in the previous year. This was largely on account of rise in minimum tax rate from 39 percent to 44 percent on banks in FY25.

Indirect Taxes

Similar to direct taxes, indirect taxes increased from 4.5 percent of GDP in FY24 to 5.2 percent of GDP in FY25. Major contribution to this increase came from sales tax, whereas customs collection remained almost unchanged at previous year's level. The increase in sales tax collection was on account of revenue measures introduced in FY25 budget,⁶ which included withdrawal of zero-ratings and exemptions on several items – electricity, plant and machinery, bakery products, certain types of feed and seeds, various categories of milk and tractors. Most of these items are now subject to either the standard 18 percent GST rate or a reduced rate.

Importantly, concessional GST rates on LPG, textile and leather products were also withdrawn.

³ WHT rates on toll manufacturing, which comes under the head of 'Contracts', were raised from 5 percent to 9 percent for companies, and 5.5 percent to 11 percent for other than companies. Moreover, advance tax on profit on debt for non-filers was increased from 30 percent to 35 percent in FY25.

⁴ The interest-bearing accounts (fixed, savings, and remunerative current) cumulatively recorded a contraction of around 98 percent in FY25 compared to FY24. Source: Financial Soundness Indicators by SBP.

⁵ Non-competitive bids also showed an overall decline of 12.1 percent in FY25 compared to FY24. Source: State Bank of Pakistan.

⁶ Source: Various Budget documents

These measures, along with increased tax rates on imported products such as computers and laptops, accelerated the growth in sales tax collection to nearly 26 percent in FY25 compared to average growth of 11.0 percent in the previous two year. In case of customs, increased tax rates on petroleum products, withdrawal of exemptions and concessions on wheat and sugar imports, and administrative measures supported the 16.4 percent growth, albeit slower compared to the previous year.⁷

Notwithstanding these measures, indirect taxes missed the initial budgeted target by Rs 1.5 trillion.⁸ In part, this is due to economic factors – such as GDP growth, inflation, and growth in imports and LSM turned out to be lower than the levels FBR assumed to project tax collection for FY25 (Table 4.3).

The tax rationalization measures introduced in the last couple of years have helped in restraining tax expenditures, which declined from 4.6 percent of GDP in FY23 to 2.3 percent in FY24.⁹ The continuation of these measures in FY25 and FY26 is a step in the right direction, as it will further strengthen the country's tax revenue capacity.

Provincial Taxes

Provincial taxes increased slightly by 0.2 percentage points to 0.9 percent of GDP in FY25 (Table 4.2). This slight rise is largely attributed to indirect taxes, primarily general sales tax on services, while direct taxes witnessed a slight decline in terms of GDP. Higher collection from GST on services was on the back of increase in GST rate on services from 13.0 percent to 15.0 percent by the government of Sindh.¹⁰ However, overall provincial tax collection continues to remain less than 1 percent of GDP, partially

FBR Evidence Based Forecasts vs Actual

Table 4.3

growth in percent

	Annual Projections	Actual (FY25)
Imports	16.9	7.3
Inflation	15.6	4.5
Real GDP	3.7	3.0
LSM	3.5	-0.7

Sources: FBR Evidence Based Revenue Forecasting FY25, SBP and PBS

reflecting modest revenue efforts amid substantial revenue transfers from the federal government under the NFC award.

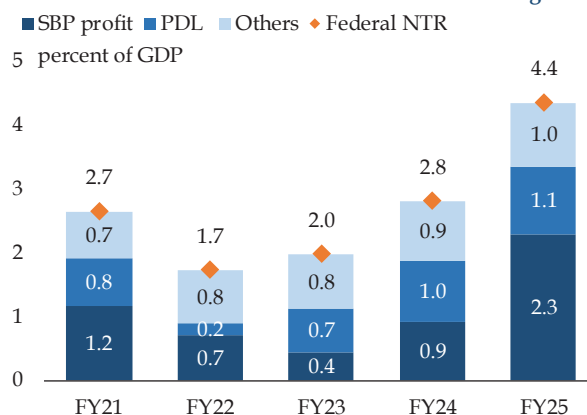
Non-Tax Revenue

Non-Tax revenue (NTR) maintained the momentum, rising to 4.6 percent of GDP in FY25 compared to 3.0 percent last year. Almost entire increase came from federal NTR, mainly large SBP profit and higher PDL collection, while provincial NTR only increased slightly (Figure 4.4).

The sharp increase in SBP profit is attributed to interest income generated through liquidity injections into the financial system amid elevated interest rates.¹¹ The increase in PDL collection was due to both higher PDL rate¹² and increase in POL

Breakdown of Federal Non-Tax Revenue

Figure 4.4



Source: MoF

⁷ Source: Various Budget documents

⁸ However, as per the revised target, indirect taxes missed the target by 125 billion only.

⁹ Tax expenditures is defined as revenue forgone due to selective provisions in the tax code. Source: Tax Expenditure Report 2025

¹⁰ Source: Circular no. 5/2024 dated 30th June 2024 by Sindh Revenue Board (SRB).

¹¹ FY24 SBP profit was transferred to federal government in Q1-FY25. In FY24, the interest rates were at the highest level of 22 percent, with first cut initiated in June FY25. See chapter 3 for more details.

¹² PDL rate on Petrol was raised from Rs 60 to Rs 70 per litre on March 15, 2025, and then to Rs 78 on April 15, 2025. Likewise, PDL rate on HSD was raised from Rs 60 to Rs 70 on March 16, 2025 and then to Rs 77 on April 16, 2025. Source: OGRA; PSO

Breakup of Consolidated Expenditure

Table 4.4

	Values (billion Rupees)			Percent of GDP			Growth (percent)		
	FY20-FY24	FY24	FY25	FY20-FY24	FY24	FY25	FY20-FY24	FY24	FY25
Total expenditure*	14,073	20,649	24,494	19.6	19.6	21.5	20.2	25.9	18.6
1. Current expenditure (a+b)	12,431	18,571	21,529	17.3	17.7	18.9	21.5	28.5	15.9
(a) Federal	9,078	13,970	15,696	12.5	13.3	13.8	24.4	29.5	12.4
Mark-up payments	4,482	8,160	8,887	6.0	7.8	7.8	33.6	43.3	8.9
Domestic	3,953	7,164	7,997	5.3	6.8	7.0	33.6	45.1	11.6
Foreign	528	996	890	0.7	0.9	0.8	37.9	31.1	-10.6
Defense affairs and services	1,477	1,859	2,194	2.1	1.8	1.9	10.2	17.2	18.0
Pension	581	808	911	0.8	0.8	0.8	15.9	21.2	12.8
Running of civil government	599	784	892	0.9	0.7	0.8	9.5	23.7	13.7
Subsidies	892	1,067	1,298	1.2	1.0	1.1	66.3	-1.2	21.6
Grants to others	1,020	1,292	1,514	1.5	1.2	1.3	29.0	30.8	17.2
(b) Provincial	3,380	4,601	5,833	4.8	4.4	5.1	14.7	21.1	26.8
General public services	-	2176	2793	-	2.1	2.5	-	25.0	28.4
2. Total development expenditure	1,642	2,078	2,966	2.3	2.0	2.6	11.7	6.4	42.7
(a) Development expenditure	1,586	2,027	2,983	2.3	1.9	2.6	12.0	7.1	47.2
PSDP	1,568	2,027	2,983	2.2	1.9	2.6	15.4	7.1	47.2
Federal	519	635	786	0.8	0.6	0.7	7.7	-2.6	23.7
Provincial	1,048	1,392	2,198	1.5	1.3	1.9	23.8	12.1	57.9
(b) Net lending to PSEs	55	52	-18	0.1	0.0	0.0	12.9	-13.7	-134.2
<i>Memorandum items</i>									
Non-interest (total) expenditure	9,591	12,490	15,607	13.7	11.9	13.7	15.2	16.7	25.0
GDP	71,775	105,190	113,748			-	19.2	25.7	8.1

Note: Numbers might not add up due to rounding-off

* This excludes statistical discrepancy

Sources: MoF and SBP staff calculations

sales during FY25.¹³ In the case of provinces, NTR increased slightly to 0.3 percent of GDP in FY25 compared to 0.2 percent in the previous year. This is attributed to Punjab government's income from investments.¹⁴

4.3 Expenditure

Total expenditure rose by 1.9 percentage points to reach 21.5 percent of GDP in FY25. This increase came entirely on the back of non-interest expenditure, while interest expenditure remained unchanged at FY24 level (Table 4.4).

Non-Interest Expenditure (NIE)

The increase in NIE was due to higher development spending, defense expenditure, subsidies, grants and expenditure on running of the civil government, while spending pertaining to pension remained unchanged in terms of GDP.

Development spending witnessed a considerable increase of 0.7 percentage points to 2.6 percent of GDP in FY25. This increase was led by higher provincial spending, with Punjab claiming the largest share, followed by Baluchistan, Sindh and KPK. The focus of provincial development was on the projects related to construction and transport, agriculture, food, forestry and fishing. The federal PSDP, on the other hand, fell short of the budgetary target due to administrative delays and lower target for FY25.¹⁵

After two years of consecutive decline, total subsidies rose to Rs 1.3 trillion, up by 0.1 percent of GDP during FY25. This increase was driven by higher power subsidies, which more than offset a notable reduction in non-power subsidies. Power subsidies rose on account of more-than-budgeted disbursements to Independent Power Producers (IPPs) in Q4-FY25 (Table 4.5). These subsidies were meant to reduce circular debt stock, which

¹³ POL sales include sales of petrol and HSD only. Petrol and HSD sales increased by 4.2 percent and 12.3 percent in FY25, respectively.

¹⁴ It includes principal and markup receipts from investment in government securities – three months TDR. Source: Finance Department, Government of Punjab

¹⁵ IMF (2025) Country report dated May 2025.

Breakup of Subsidies and Grants

Table 4.5

values in billion Rupees, share of budget and growth in percent

	Actual Values		Actual as percent of Budgeted		Growth
	FY24	FY25	FY24	FY25	FY25
Subsidies					
Total	1,067	1,298	100.3	95.2	21.6
Power subsidies	893	1,212	99.9	101.8	35.6
IPPs	262	753	100.0	350.1	187.2
K-Electric (TDS)	298	3	174.3	1.7	-99.0
AJK (TDS)	105	-	-	-	-100.0
Inter-disco TDS	149	288	99.4	104.3	93.1
Non-power subsidies	174	86	220.2	68.5	-50.4
Petroleum	51	4	100.0	19.7	-92.8
RLNG to consumers	28	-	97.4	-	-100.0
Shortfall payments (PSO)	8	2	-	29.2	-77.0
Others	124	83	103.3	53.4	-33.0
Fertilizer plants	25	1	100.0	35.3	-95.8
NPHFS	23	16	197.5	73.5	-33.4
USC	35	13	100.0	20.0	-62.9
Grants					
Grants to provinces	103	119	111.5	105.2	15.4
Grants to others	1,292	1,514	98.2	91.0	17.2
BISP	466	592	100.0	100.0	27.1
AJK and GB	150	173	109.5	100.0	15.6
DIII	10	20	-	100.0	100.0
Others	667	729	91.5	83.0	25.5
Total grants	1,395	1,633	99	92	17.0

TDS: Tariff Differential Subsidy; PSO: Pakistan State Oil; USC: Utility Stores Corporation; NPHFS: Naya Pakistan Housing Finance Scheme; DIII: Digital Information Infrastructure Initiative
Source: MoF

decreased substantially in FY25.^{16,17} However, other subsidies witnessed a notable decline, primarily due to government's decision to abolish untargeted subsidies, such as gas subsidies to fertilizer plants that were not serving the intended purpose of reducing urea prices for farmers.¹⁸ Grants also increased by 0.1 percent of GDP during FY25. About 17.0 percent growth in grants was due to higher disbursements under Benazir Income Support Program (BISP) on account of 0.7

million increase in the number of program beneficiaries in FY25.¹⁹ Moreover, government also increased the quarterly payment in Kafaalat program under BISP.²⁰

Despite the implementation of austerity measures, the spending on running of civil government increased by 0.1 percent of GDP in FY25. The major austerity measures introduced during FY25 included the complete ban on purchase of non-essential vehicles, machinery, ad-hoc new posts and non-obligatory visits abroad introduced at the end of Q1-FY25.²¹

The provincial current expenditure, adjusted for interest payments, witnessed a notable rise of 0.8 percentage points during FY25 from a decline of 0.2 percentage points in the previous year. This increase was mainly driven by higher spending on general public services, especially on transfers, and financial and fiscal affairs.

Interest Expenditure

Interest expenditure, after persistently increasing during the preceding two years; remained unchanged at 7.8 percent of GDP in FY25 compared to FY24. This was mainly due to a sharp decline in interest rates and government's buyback of securities issued at higher interest rates as part of its debt management strategy. Resultantly, mark-up payments as a percent of key fiscal indicators improved in the current year although, remained higher than the average of last 5 years (Table 4.6).

4.4 Public Debt

The pace of public debt accumulation slightly slowed from 13.3 percent to 13.0 percent during

¹⁶ Circular debt declined substantially by Rs 801 billion to Rs 1.614 trillion at end-June 2025. Source: Circular Debt Report – June 2025.

¹⁷ Source: Circular Debt Management Plan, 2025.

¹⁸ IMF (2024). Pakistan: 2024 Article IV Consultation and Request for an Extended Arrangement under the Extended Fund Facility- Press Release; Staff Report; and Statement by the Executive Director for Pakistan, International Monetary Fund, Washington, D.C.

¹⁹ IMF (2025) Country report dated May 2025.

²⁰ Quarterly UCT Kafaalat Program benefit was increased from Rs 10,500 to Rs 13,500 in January 2025. Source: IMF First Review Under Extended Arrangement (May 2025)

²¹ MoF Circular titled: "Austerity measures for controlling expenditures of Federal Government" dated: 4 September 2025

Mark-up Payments (as percent of major fiscal heads and GDP)

Table 4.6

	FY20-24 Avg.	FY24	FY25
Total expenditure	30.3	39.5	36.3
Current expenditure	34.4	43.9	41.3
PSDP	273.5	402.6	297.9
Non-interest expenditure	44.5	65.3	56.9
Total revenue	48.4	61.5	49.4
FBR tax	68.4	87.6	75.7
Net FBR taxes*	166.2	201.6	181.7
GDP	6.0	7.8	7.8

* FBR tax revenue adjusted for NFC transfers to provinces

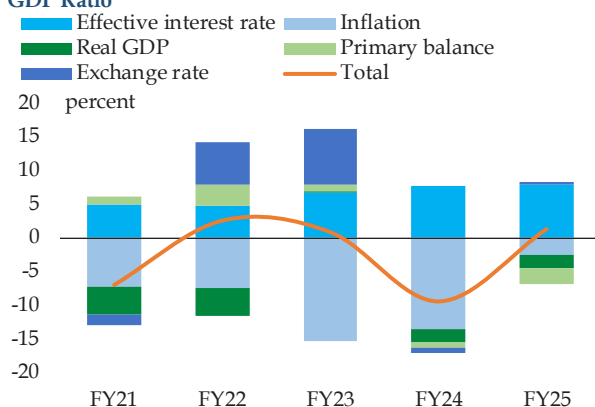
Sources: MoF, SBP staff calculations

FY25. In terms of GDP, however, the public debt rose to 70.8 percent as of end-June 2025 from 67.7 percent as of end-June 2024 (**Figure 4.5 and Table 4.7**). This increase was primarily driven by domestic debt, as external debt remained unchanged in terms of GDP. The decomposition of change in public debt-to-GDP ratio suggests that lower inflation relative to previous year²² and PKR depreciation increased, while primary surplus and real GDP growth reduced the debt-to-GDP ratio during FY25 (**Figure 4.6**).

Lower fiscal deficit, coupled with higher foreign exchange earnings and build-up in foreign exchange reserves, boosted the country's debt repayment capacity during FY25 (**Figure 4.7**). Further, public debt profile improved, as both domestic and external borrowings were largely concentrated of long-term, resulting in

Decomposition of Change in Public Debt to GDP Ratio

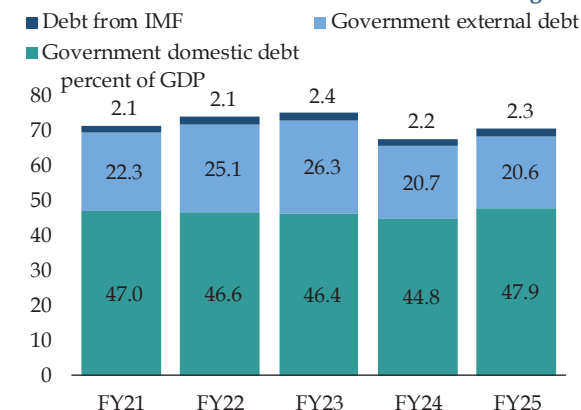
Figure 4.6



Sources: SBP and MoF

Public Debt

Figure 4.5



Source: SBP

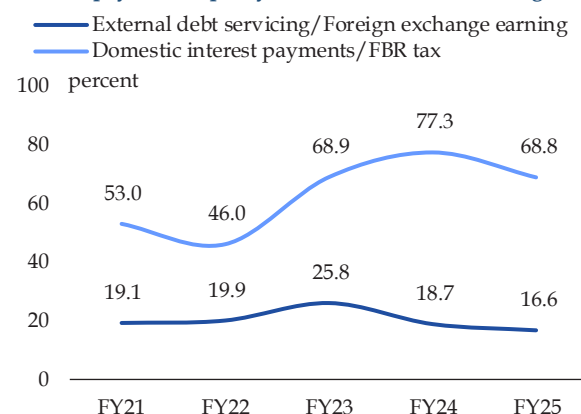
lengthening the average time to maturity (ATM) in FY25 (**Figure 4.8**). However, from the debt sustainability standpoint, besides managing the debt profile, the government also needs to focus on reducing the public debt-to-GDP ratio (**Box 4.1**).

Domestic Debt

The domestic debt rose to 47.9 percent of GDP in FY25 from 44.8 percent in the previous year. This was despite slower growth in domestic debt due to lower gross financing needs (GFN) during FY25. Most of the domestic debt during FY25 was mobilized through longer-tenor instruments (like

Debt Repayment Capacity of Pakistan

Figure 4.7



Sources: SBP and MoF

²² The contribution of inflation in reducing public debt-to-GDP ratio decreased to 2.5 percentage points during FY25 compared to 13.6 percentage points in the previous year.

Summary of Pakistan's Debt and Liabilities

Table 4.7

stock and flows in billion Rupees, growth in percent

	Stock			Flows		Growth	
	FY23	FY24	FY25	FY24	FY25	FY24	FY25
Total Debt & Liabilities	76,511.5	85,457.5	94,197.1	8,946.0	8,739.6	11.7	10.2
Gross Public Debt (I+II+III)	62,881.0	71,245.9	80,518.0	8,364.9	9,272.1	13.3	13.0
I. Government domestic debt	38,809.8	47,160.2	54,471.3	8,350.4	7,311.1	21.5	15.5
II. Government external debt	22,030.9	21,753.6	23,416.9	(277.3)	1,663.2	(1.3)	7.6
III. Debt from IMF	2,040.2	2,332.1	2,629.8	291.8	297.7	14.3	12.8
IV. External liabilities	3,101.9	3,265.6	3,392.3	163.6	126.7	5.3	3.9
V. Private sector external debt	5,503.3	5,467.0	5,019.9	(36.4)	(447.1)	(0.7)	(8.2)
VI. PSEs external debt	2,147.9	2,068.1	2,200.5	(79.8)	132.3	(3.7)	6.4
VII. PSEs domestic debt	1,687.2	2,105.0	2,015.6	417.8	(89.4)	24.8	(4.2)
VIII. Commodity operations	1,485.9	1,378.3	1,066.5	(107.6)	(311.8)	(7.2)	(22.6)
IX. Intercompany external debt	1,301.4	1,592.2	1,638.5	290.9	46.3	22.4	2.9
Percent of GDP							
Gross public debt	75.2	67.7	70.8	-	-	-	-
Government domestic debt	46.4	44.8	47.9	-	-	-	-
Government external debt	28.8	22.9	22.9	-	-	-	-
Total external debt and liabilities	43.2	34.7	33.7	-	-	-	-

Source: SBP

PIBs and Sukuk), while a considerable amount of short-term debt (T-bills) was retired on net basis (Table 4.8). This improved the maturity profile of domestic debt by extending the ATM to 3.8 years as of end-June 2025 from 2.7 years as of end-June 2024 and, lowering the rollover risk.

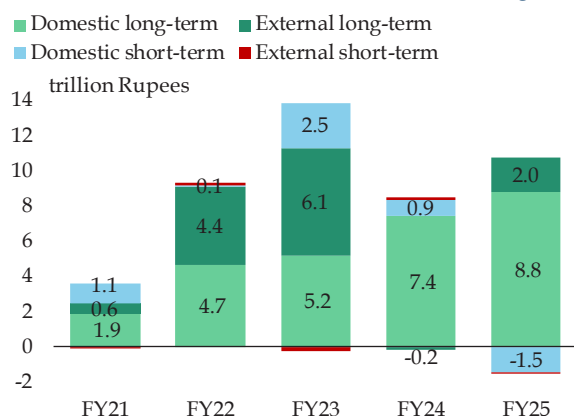
Similar to previous year, major chunk of the domestic debt was raised through variable coupon rate instruments.²³ While it reduced the cost of borrowing amid falling interest rates, it increased the interest rate risk as around 70 percent of the domestic debt stock is on floating rate. This indicates the existence of domestic original sin

(DSIN) - a concept generally defined as country's inability to borrow domestically in local currency at long-term maturities with a fixed interest rate (Box 4.2).

The institution-wise holding of domestic debt shows that scheduled banks continued to dominate with 64.5 percent of domestic debt, even though non-banks' participation increased in auctions (Figure 4.9), especially in H1-FY25. Amid declining interest rates and change in minimum deposit rate policy, the public limited companies

Composition of Public Debt - Flows

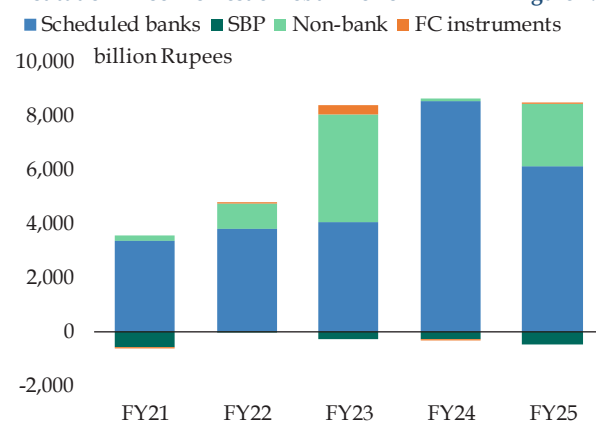
Figure 4.8



Source: SBP staff calculations

Institution-Wise Domestic Debt - Flows

Figure 4.9



Source: SBP

²³ However, the government raised relatively more funds through fixed-rate securities (28.7 percent) during FY25 compared to FY24 (17.8 percent).

Government Domestic Debt**Table 4.8**

billion Rupees; share in percent

	Stock		Flows		Share	
	Jun-24	Jun-25	FY24	FY25	Jun-24	Jun-25
Government domestic debt, of which	47,160.2	54,471.3	8,350.4	7,311.1	100.0	100.0
GOP Ijara Sukuk	4,766.2	6,187.1	1,615.6	1,420.9	10.1	11.4
Pakistan Investment Bonds	28,025.8	35,015.0	6,016.5	6,989.0	59.4	64.3
Prize Bonds	385.1	407.5	2.6	22.4	0.8	0.7
Treasury Bills	10,167.3	8,638.5	898.1	-1,528.8	21.6	15.9
National Saving Schemes (net of prize bonds)	2,707.8	2,942.4	-110.7	234.5	5.7	5.4
Naya Pakistan Certificates, held by residents only	84.1	61.9	-58.6	-22.2	0.8	0.7

Source: SBP

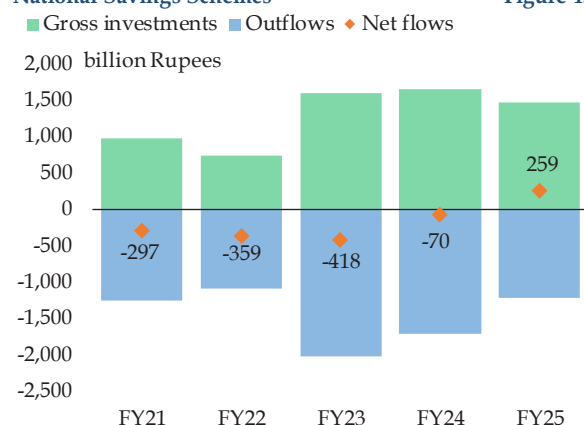
and financial institutions shifted their funds from deposits to investment in government securities. Unlike previous year, National Saving Schemes (NSS), including prize bonds, recorded net inflows; reversing the trend of net outflows observed for the past four years (**Figure 4.10**). Though contributing a small amount, it reflects shifting interest of retail investors, possibly due to reduced spread between returns on bank deposits and government securities, and NSS instruments.²⁴

In an effort to diversify the funding sources, the government introduced new debt instruments: Zero Coupon Sukuk (of 1-Year & 10-Year) and PIBs (2-Year & 15-Year); 3-Year variable rental rate (VRR) Green Sukuk; and 22-Days and 1-month T-bills. The government was able to mobilize around 12 percent of the total domestic debt

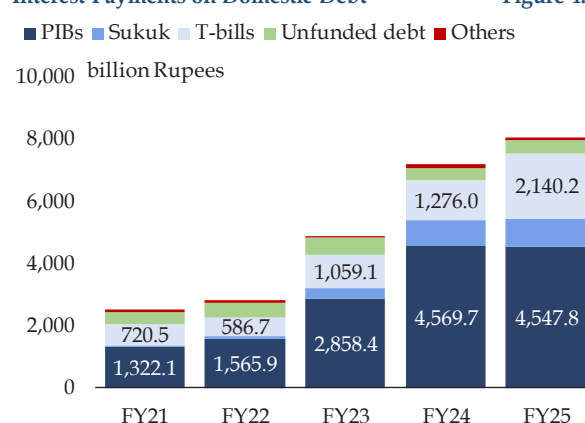
through these instruments during FY25. The government's move to generate funds through a diversified base, for relatively longer tenor and fixed instruments was in-line with its Annual Borrowing Plan of FY25; and is likely to lower GFN for the next year due to improved ATM.

Domestic Debt Servicing

During FY25, interest payments on domestic debt rose to Rs 8.1 trillion from Rs 7.2 trillion in the previous year (**Figure 4.11**). Despite increase in PIB stock, interest payments on PIBs marginally declined in FY25, reflecting the impact of lower interest rates. Within T-bills, major rise in interest payments was against 12-month T-bills (constituting 79 percent of T-bills) as these were raised at the time of higher interest rates during FY24. Similarly, a slight increase in interest

National Savings Schemes**Figure 4.10**

Sources: SBP and CDNS

Interest Payments on Domestic Debt**Figure 4.11**

Source: SBP

²⁴ The average rate of return on NSS during FY21 – FY24 was 13.0 percent, while return on the government securities was 13.4 percent.

Public External Debt**Table 4.9**

million US\$, share in percent

	Stock		Flow		Share	
	FY24	FY25	FY24	FY25	FY24	FY25
Public external debt (1+2)	86,525.1	91,794.6	2,474.9	5,269.6	100.0	100.0
1. Government external debt, of which	78,147.4	82,526.6	1,221.3	4,379.20	90.3	89.9
i) Long term (>1 year), of which	77,387.6	81,787.5	621.8	4,399.8	89.4	89.1
Paris club	6,474.4	6,004.6	-1,426.7	-469.8	7.5	6.5
Multilateral	39,248.0	42,480.1	1,884.8	3,232.1	45.4	46.3
Other bilateral	18,552.4	18,038.9	980.1	-513.5	21.4	19.7
Euro Sukuk global bonds	6,800.0	6,800.0	-1,000.0	-	7.9	7.4
Commercial loans/credits	5,490.3	7,156.3	-73.5	1,665.9	6.3	7.8
Naya Pakistan Certificates, held by non-	783.9	1,225.1	249.6	441.1	0.9	1.3
ii) Short term (<1 year), of which	759.8	739.2	599.5	-20.6	0.9	0.8
Multilateral	250	552.3	89.7	302.3	0.3	0.6
2. From IMF	8,377.6	9,268.0	1,253.7	890.3	9.7	10.1

Source: SBP

payments on sukuk was due to surge in fixed rate sukuk issued at higher rates in FY24. The interest payment on unfunded debt decreased due to downward revision in profits rates on various NSS instruments in line with falling rates on PIBs.

Public External Debt & Liabilities

The stock of public external debt and liabilities (PEDL) increased by US\$ 5.5 billion during FY25, reaching US\$ 103.7 billion as compared to an accumulation of US\$ 3.4 billion in the previous year. The increase was largely on account of public external debt (PED), which recorded increase of US\$ 5.3 billion during FY25 (**Table 4.9 & Figure 4.12**).

The rise in public external debt during FY25 is mainly attributed to relatively higher disbursements, followed by revaluation losses due to depreciation of the US dollar against major currencies. Multilateral creditors, Naya Pakistan Certificates (NPCs) - held by non-residents, and commercial loans, together with loans from IMF under the EFF program, recorded net inflows, whereas, there was a net retirement to bilateral creditors, including Paris Club and short-term debt during FY25.

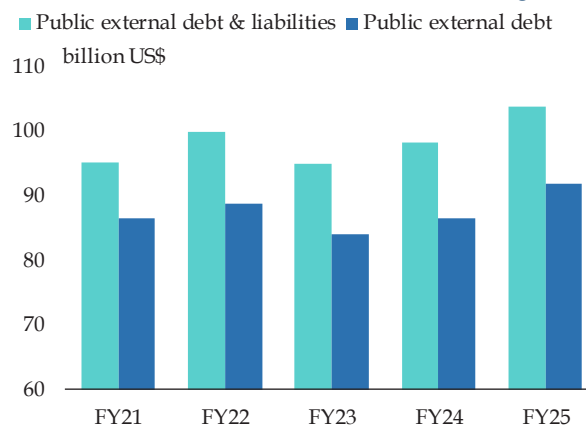
External Disbursements

Total external disbursements amounted to US\$ 12.1 billion during FY25, compared to US\$ 9.8

billion in the previous year (**Table 4.10**). The increase in overall disbursements can be ascribed to higher inflows from Asian Development Bank (ADB), commercial loans and NPCs, along with US\$ 483.5 million guaranteed loan from China during FY25. Increase in inflows through NPCs and commercial loans reflects improved sovereign credit rating amid macroeconomic stability supported by the IMF's EFF program.

External Debt Servicing

External debt servicing inched up to US\$ 13.7 billion during FY25 from US\$ 13.5 billion in the previous year. This was primarily due to higher principal repayments, while interest payments slightly declined (**Figure 4.13**). The major

External Debt and Liabilities Stock**Figure 4.12**

Source: SBP

Disbursements of External Loans and Grants

Table 4.10

million US\$

Sources	Grants		Loans		Total	
	FY24	FY25	FY24	FY25	FY24	FY25
Multilateral	80.3	88.8	4,199.6	4,750.0	4,279.9	4,838.8
ADB	9.7	5.9	1,318.0	2,124.3	1,327.7	2,130.1
AIIB	-	-	345.0	110.4	345.0	110.4
IBRD	15.8	30.3	287.7	362.0	303.5	392.4
IDA	32.6	51.0	1,882.2	1,325.7	1,914.7	1,376.7
IsDB – short-term	-	-	250.0	552.3	250.0	552.3
Bilateral*	114.1	123.1	1,313.7	960.9	1,427.8	1,084.0
China	3.7	3.4	573.7	580.3	577.5	583.7
France	1.2	0.7	48.4	116.7	49.6	117.4
USA	40.2	46.0	-	-	40.2	46.0
Japan	31.5	34.6	4.9	0.2	36.5	34.9
Saudi Arabia	-	4.3	661.5	216.9	661.5	221.3
Commercial banks	-	6.9	999.0	4,290.9	999.0	4,297.8
CHINA DEV BANK	-	-	999.0	2,091.9	999.0	2,091.9
SCB (LONDON)	-	6.9	-	1,399.0	-	1,405.9
NPC	-	-	1,104.6	1,918.1	1,104.6	1,918.1
Bonds	-	-	-	-	-	-
ECO Trade Bank	-	-	-	-	-	-
Time deposits	-	-	2,000.0	-	2,000.0	-
Total	194.4	218.8	9,616.9	11,919.9	9,811.3	12,138.7

* Bilateral also includes \$483.51 guaranteed loan from China

Source: EAD

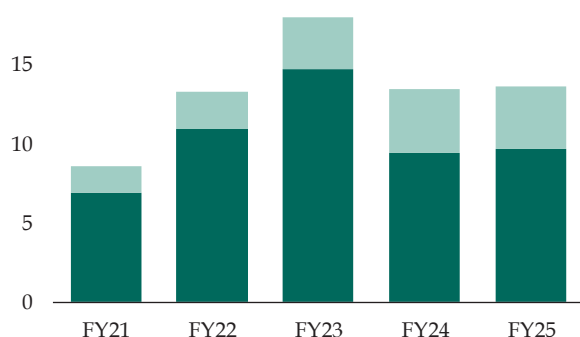
repayments were to commercial and multilateral creditors, followed by bilateral sources (mainly Paris Club), IMF, and NPCs holders. Moreover, net outflows from short-term local currency

securities (T-bills) also contributed to principal repayments during FY25.²⁵

External Debt Servicing - Principal and Interest Figure 4.13

■ Principal repayment on PED ■ Interest paid on PEDL

20 billion US\$



Source: SBP

The slight decline in interest payments to US\$ 4.0 billion during FY25 from US\$ 4.1 billion in the previous year was because of fall in Secured Overnight Financing Rate (SOFR) and lower effective interest rate²⁶ on bilateral creditors including Paris Club, commercial loans, Euro/Sukuk bonds, and IMF debts that outweighed the rise in interest payments on foreign exchange liabilities, multilateral sources, and NPCs (Figure 4.14).²⁷

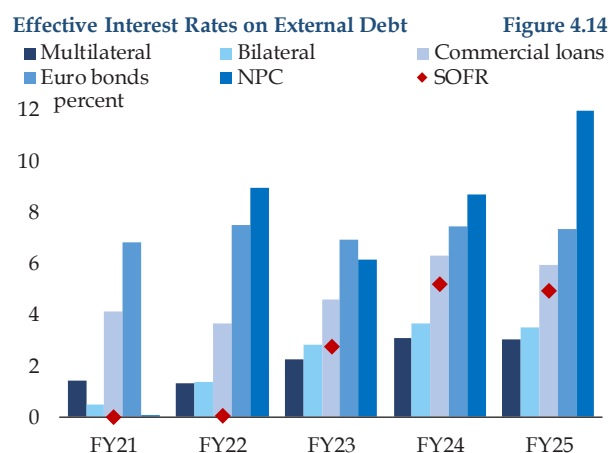
External Debt Sustainability

Increased foreign exchange earnings on the back of continued upward trend in workers' remittances and resilient exports improved the sustainability of public external debt during FY25.

²⁵ External debt in the form of local currencies securities (T-bills) decrease by US\$ 323.0 million during FY25 against US\$ 509.8 million increase in the previous year.

²⁶ Effective interest rate is calculated as the interest payments in the current period divided by debt stock in the previous period.

²⁷ The average SOFR declined to 5.0 percent in FY25 from 5.3 percent in the previous year. Source: SOFR Averages and Index Data – Federal Reserve Bank of New York (newyorkfed.org)

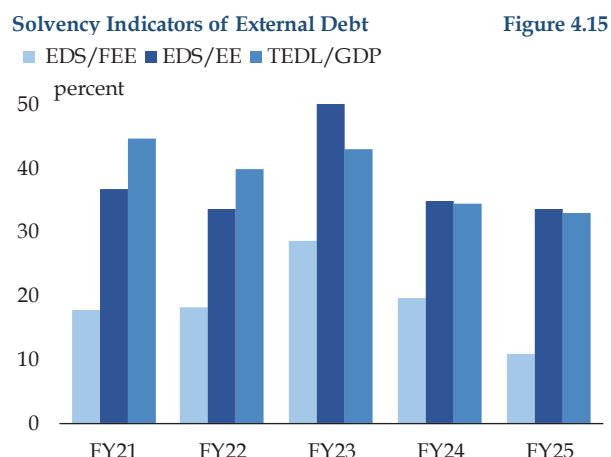


Source: SBP

Similarly, build-up of foreign exchange reserves supported by increased financial inflows, SBP's foreign exchange purchases and broadly stable exchange rate, further contributed in enhancing the country's repayment capacity of external debt.

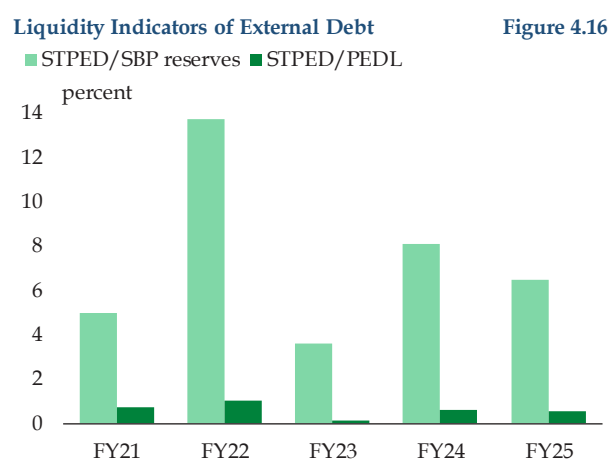
This improvement is manifested in both solvency and liquidity indicators during FY25. The decline in solvency indicators - ratios of external debt service-to-foreign exchange earnings (EDS-to-FEE), EDS-to-exports earnings (EDS-to-EE) and Total external debt & liabilities-to-GDP (TEDL-to-GDP), indicate an improving external debt sustainability (Figure 4.15).

Similarly, fall in liquidity indicators - the ratios of short-term public external debt-to-SBP reserves (STPED-to-SBP reserves) and STPED-to-Public external debt & liabilities (STPED-to-PEDL), indicate improvement in repayment capacity of short-term external debt. The decline in liquidity indicators can be attributed to reduction in short-term debt by US\$ 20.6 million during FY25 (Figure 4.16).



Source: SBP

Subsequent to improved external conditions and sustainability indicators, the overall external debt profile remained stable during FY25. However, based on the IMF's risk assessment benchmarks, the ratio of external debt to total public debt at 32.3 percent, still lies in the range of modest risk of 20 to 60 percent.²⁸



Source: SBP

Box 4.1 Country Experiences in Public Debt Management: Lessons for Pakistan

Over the past decade, Pakistan's public debt has increased from around Rs 20 trillion (60.1 percent of GDP) in FY16 to around Rs 81 trillion (70.8 percent of GDP) in FY25. During FY25, debt servicing constituted a whopping 70 percent of tax revenue and 41 percent of current expenditure, up from 34 percent and 27 percent in 2016, respectively. Comparative data of 2023 shows interest payments in Pakistan are higher relative to peer economies with similar debt levels (Figure 4.1.1). The continuation of current trend poses risk to debt sustainability.

²⁸ With reference to IMF's benchmarks, a country deemed to be at modest risk when the ratio of public debt in foreign currency to total public debt lies between 20 and 60 percent. Below 20 and above 60 percent indicate low and high risk respectively

Public Debt Reduction Episodes in Peer Countries

Table 4.1.1

percent of GDP

Countries	India		Indonesia		Philippines		Brazil		South Africa	
	2003	2010	1999	2012	2003	2016	2002	2008	1999	2008
Public debt	85.9	67.7	95.9	23.0	71.4	37.4	76.1	61.4	45.9	24.0

Source: IMF datamapper

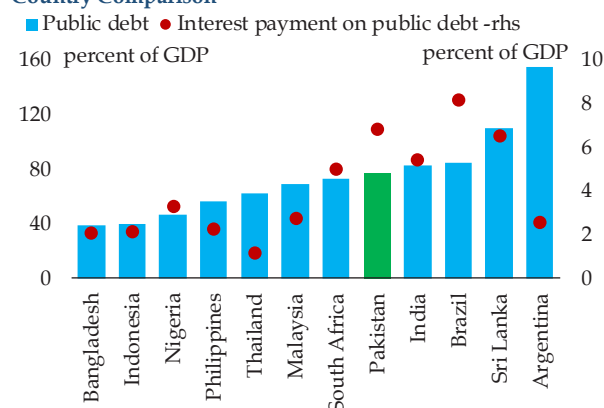
In this backdrop, this Box reviews experiences of five selected countries - India, Indonesia, Philippines, Brazil and South Africa²⁹ - in reducing debt-to-GDP ratio to draw lessons for Pakistan (Table 4.1.1). The analysis also include factor decomposition and logit model to identify factors affecting the debt-to-GDP in Pakistan.

Country Experiences

An analysis of underlying dynamics of public debt in Pakistan validates the applicability of approaches used by the countries that successfully reduced public debt-to-GDP. Results from both factor decomposition and logit model over the 11-year period reveal that interest cost and exchange rate have persistently contributed to increasing debt-to-GDP ratio, while real GDP growth, primary balance and inflation lowered the ratio (Figure 4.7 & Figure 4.1.2). While inflation appears to reduce public debt-to-GDP mechanically, reliance on inflation as a debt-reduction strategy is not sustainable. High inflation erodes purchasing power; increases uncertainty; raise interest costs and a feedback loop of increase in debt undermine macroeconomic stability and growth prospects (Akitoby, Binder, and Komatsuzaku 2017).

Public Debt and Interest Payments: Cross-Country Comparison

Figure 4.1.1

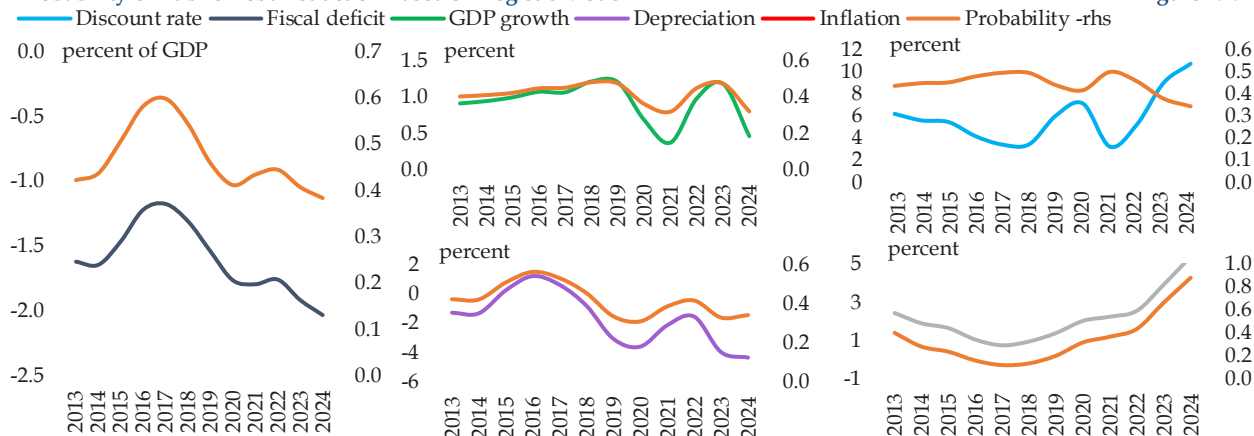


Source: IMF datamapper

The country experiences suggest sustained fiscal consolidation characterized by maintaining a primary surplus over a period of 5 – 7 years, alongside reduced reliance on debt monetization, low and stable inflation and robust long-term real economic growth as the major factors helping to successfully reduce debt-to-GDP (Table 4.1.2). After achieving price stability, mostly via inflation targeting, these countries pivoted their monetary and exchange rate policies to foster economic growth, which in turn helped in reducing debt-to-GDP. Favorable external environment characterized by subdued commodity prices, steady global economic growth, and easy global financial conditions also facilitated reduction in debt-to-GDP. Some of these countries restructured and changed public debt composition

Probability of Public Debt Reduction Based on Logistic Model

Figure 4.1.2



Source: SBP staff estimates

²⁹ These countries successfully reduced their public debt-to-GDP ratio for more than five consecutive years

Reduction in Public Debt-to-GDP Ratio: Country Approaches

Table 4.1.2

Approach	Details	India	Indonesia	Philippines	Brazil	South Africa	Pakistan
Fiscal	a. Legally binding fiscal and budget rules	✓	✓	-	✓	-	✓
	b. Structural reforms: Stabilization oriented economic policies, tax reforms, budget reforms, trade liberalization, Treasury Single Account, etc.	-	✓	✓	Partial	✓	Partial
	c. Privatization of loss-making SOEs	-	-	-	✓	-	Partial
Monetary	a. Inflation targeting	✓	✓	✓	✓	✓	✓
	b. Discontinuation of monetization of fiscal deficit	✓	-	-	✓	-	✓
	c. Coordination b/w fiscal & monetary	✓	✓	-	✓	✓	-
Debt Management Strategies	a. Reliance on domestic debt	-	✓	✓	-	-	✓
	b. Early repayments, debt restructuring, buybacks	✓	✓	✓	✓	✓	✓
	c. Qualitative measures: Ways & Means Advances, debt management units/cells/frameworks etc.	✓	-	-	✓	✓	✓
	d. Building reserves as explicit policy	-	-	-	✓	-	-
GDP	a. Sustained, robust growth led to higher tax revenues	✓	✓	✓	✓	✓	Partial
	b. Better external conditions: global economic growth, easy liquidity, external inflows	✓	✓	✓	✓	✓	✓

Source: Author's compilation from various country reports

to lower the cost of borrowing and ultimately reduced the debt burden. Pakistan also adopted most of these strategies and lowered its debt-to-GDP for a year or two; however, it could not be sustained for a longer term.

Lessons for Pakistan

The gradual, market-based adjustment in the exchange rate, instead of abrupt and often large one-time adjustment, plays a key role in maintaining investors' confidence, reducing external debt servicing costs, and avoiding speculative capital flight. The empirical results also suggest borrowing-mix in favor of medium and long-term bonds as interest rate shock causes relatively more cost on short-term securities, resultantly increasing GFN and the public debt. The findings also show relatively softening effects of interest rate shock on debt-to-GDP in case of coordinated fiscal and monetary policies. Moreover, legally binding fiscal and budget rules, backed by a medium-term fiscal framework that sets realistic revenue and expenditure targets are also crucial for effective debt reduction.

**The contribution of Almas Karim, Ana Khattak and Shah Hussain is acknowledged in writing this box.*

Box 4.2 Determinants of Domestic Original Sin in Pakistan

Pakistan's domestic debt, with a share of 67.8 percent in total public debt, is increasingly concentrated in floating-rate³⁰ and short-term securities; a composition considered risky due to higher interest rate risk and rollover risk (Figure 4.2.1).³¹ This inherently risky composition seems to be arising out of domestic original sin (DSIN) - a concept generally defined as country's inability to borrow domestically in local currency at long-term maturities with fixed interest rates.^{32,33} Literature suggests that increasing domestic debt composition in favour of long-term fixed-rate securities can be used to minimize interest cost, rollover risk, and maturity mismatches.

Against this backdrop, this box applies the concept of DSIN in Pakistan. The estimates show that DSIN in Pakistan, on average, stands at 0.67 over the sample spanning from Q4-FY16 to Q2-FY25 (Table 4.2.1). The level of DSIN in Pakistan was not only higher; it also remained a permanent phenomenon as reflected from the insignificant and

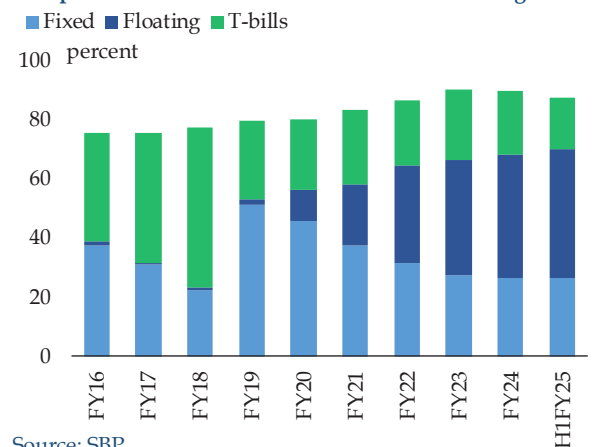
³⁰ Floating-rate securities are generally indexed to interest rate or inflation.

³¹ Approximately 80 percent of domestic debt consists of either short-term or floating-rate instruments, making it highly exposed to interest rate risk (IMF Country Report No. 25/109).

³² $DSIN = 1 - \text{Long term domestic debt in local currency with fixed interest rate} / \text{Total public debt}$

³³ Arnoud, M and Julien, R. (2005).

Composition of Domestic Debt



Source: SBP

Figure 4.2.1

Descriptive Statistics			Table 4.2.1
Entire Sample	Mean	Standard Deviation	Correlation with DSIN
DSIN	0.67	0.09	-
Debt service-to-GDP	0.05	0.01	0.07
Primary balance-to-GDP	-0.01	0.01	0.20
Inflation	0.11	0.07	0.07
Slope of the yield curve	-0.32	1.93	-0.02
Investors base	0.06	0.01	-0.08
After FY21			
DSIN	0.71	0.03	-
Debt service-to-GDP	0.06	0.01	0.58
Primary balance-to-GDP	-0.01	0.02	0.47
Inflation	0.18	0.07	0.19
Slope of the yield curve	-1.82	2.00	-0.51

Source: SBP

lowest standard deviation.³⁴ The consistent decrease in the share of long-term fixed-rate securities in total domestic debt led to severity in the state of DSIN (Figure 4.2.2).³⁵

The literature identifies several underlying factors contributing to DSIN for both emerging and developing economies (Mehl and Reynaud (2005). Following the existing literature³⁶, the correlation analysis of these factors in the context of Pakistan, is presented in (Table 4.2.1). The analysis shows that the debt burden, which is measured by debt service-to-GDP ratio, has a positive correlation with DSIN for the entire sample.

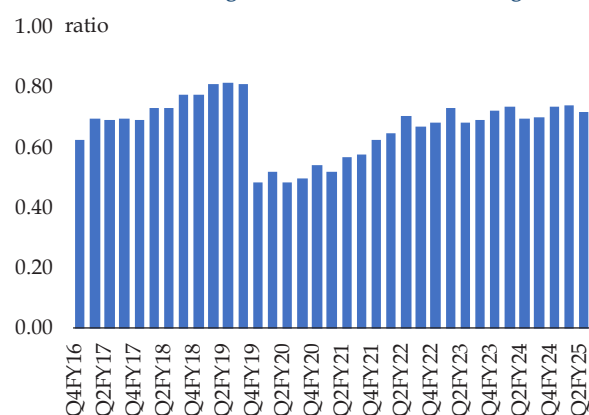
The positive association with debt burden further strengthened when the average debt service-to-GDP ratio increased to 6.0 percent after FY21. Similarly, the state of DSIN also depends on fiscal credibility, which is proxied by primary balance-to-GDP ratio. The influence of primary balance-to-GDP ratio on DSIN has also risen with the passage of time. The positive relationship of both debt burden and primary balance with DSIN reveals that risk premium becomes large for the government to raise funds through long-term papers at fixed interest rates.

The monetary policy credibility measured by inflation, also played critical role in determination of DSIN. The inflation remained positively associated with DSIN, reflected from the increase in correlation coefficient after FY21 when average inflation surged to 20 percent. The results indicate that inflationary pressure increase the creditors' fears that domestic debt could be inflated away and therefore, changing their composition towards short-term and interest rate-indexed securities.

The slope of the yield curve is negatively and significantly associated with DSIN. The slope of the yield curve is not only negative; but also steepened considerably during FY22 to FY24. The increasing slope intensity of the inverted yield curve further strengthened the inverse relationship with DSIN during the last years. The results

Trend in Domestic Original Sin

Figure 4.2.2



Source: SBP

³⁴ The standard deviation of DSIN is 0.03 for the period after FY21.

³⁵ The latest data for domestic debt revealed that DSIN has decreased as the share of fixed rate instruments increased to 28.7 percent during FY25 from 17.8 percent in the previous year.

³⁶ The results in the existing literature are mostly based on graphical and correlation analysis along with empirical estimation. However, the exercise of empirical estimation is beyond the scope of this box.

confirm the creditors' point of view that debt maturity shortens with the increasing steepness of inverted yield curve.

Lastly, investors' base, proxied by national savings-to-GDP ratio,³⁷ and DSIN are weakly but negatively correlated. It may be concluded that DSIN decreases with growing investors' base. It indicates that larger investors' base may deepen the bonds market leading to lessening the severity of DSIN.

The results suggest that fiscal consolidation, low inflation, upward sloping yield curve and larger investors' base are likely to be instrumental in reducing DSIN and optimizing the domestic debt composition in the context of interest cost, rollover risk and terms of maturity.

**The contribution Shah Hussain is acknowledged in writing this box.*

References:

- i. Mehl, A. and Reynaud, J. (2005), "The Determinants of Domestic Original Sin in Emerging Market Economies", Working Paper Series No. 560, European Central Bank.

³⁷ The analysis for national savings-to-GDP ratio and DSIN is based on annual data due to unavailability of quarterly data on national savings.