

# Pakistan Economic Insights

## First Quarter of Fiscal Year 2025-26

### Executive Summary

Pakistan's economy in the first quarter of fiscal year 2025-26 (July-September 2025) shows signs of regaining, with growth reviewed up to 3.0% for FY25, reinforced by positive commendations from international credit rating agencies (Moody's, Fitch, S&P) and the successful completion of an IMF review. However, this delicate retrieval faces substantial headwinds from overwhelming monsoon floods, which have harshly impacted agriculture, caused inflationary burdens, and stressed fiscal and external accounts.

Crucial encounters comprise an increase in food inflation due to supply disturbances, a broadening trade deficit as imports surge faster than exports, and the fiscal pressure from flood-related expenses. Although remittances and the exchange rate remain stable, the external account is under pressure. The manufacturing sector is sluggish, and the growth structure remains excessively dependent on government amenities rather than strong private sector activity. This brief also presents the critical matter of the unsettled National Finance Commission (NFC) Award, arguing that an innovative, data-driven, and multi-tiered fiscal distribution model is vital for impartial growth and stronger fiscal federalism.

### Key Points

#### 1. Growth & Macroeconomic Stability: *(For details, See Page 3)*

- GDP growth for FY25 was reviewed to increase to 3.0%, with the last quarter displaying a robust 5.7% growth.
- International credit ratings were elevated (e.g., Moody's from Caa2 to Caa1), showing enhanced external trust.
- However, growth is not inclusive, with a substantial input coming from the government sector instead of the industrial private sectors.

#### 2. Impact of Monsoon Floods: *(For details, See Page 3)*

- The floods instigated an estimated Rs. 430 billion in agricultural losses and Rs. 307 billion in infrastructure damage.
- Major crops (cotton, rice, sugarcane) were severely impacted, leading to instant food shortages and mounting pressure on inflation.

- The floods are likely to have lingering impressions on inflation, exports (of perishables), and imports (of food), damaging both fiscal and external accounts.

### 3. Sectoral Performance: *(For details, See Pages 3-4)*

- **Agriculture:** Severely spoiled by floods, with momentous losses to the *khareef* crop and livestock.
- **Manufacturing:** Continued sluggish trend. Large-Scale Manufacturing (LSM) grew a scant 0.5%, with growth focused in food, tobacco, and apparel, while petroleum, chemicals, and pharmaceuticals tapered.
- **Inflation:** CPI inflation rose to 5.6% (YoY) in September 2025, largely determined by flood-induced food price hikes. Additional inflationary pressures are likely from recent gas price surges and the expiration of electricity relief.

### 4. External Sector: *(For details, See Pages 5-9)*

- **Trade Deficit:** Broadened by 10.2% as imports progress (8.3%), overtaking export growth (6.5% on a payments basis).
- **Exports:** Textile exports grew 5.6%, but non-textile exports (especially rice, which fell 42%) deteriorated abruptly.
- **Imports:** Augmented by 13.9%, determined by significant demand for machinery, raw materials, and consumer durables (e.g., mobile phones and vehicles saw over 100% growth).
- **Remittances:** Growth tapered but remained strong at 8.4%, providing key sustenance to the current account.
- **Current Account:** The shortfall, to some extent, expanded to \$594 million, but remains controllable due to remittance influxes.

### 5. National Finance Commission (NFC) Award: *(For details, See Page 11-13)*

- The 11th NFC has been instituted, but its opening meeting has been deferred.
- Currently the provisions of 7th NFC Award (from 2010) remain in effect, but there is a persistent requirement for a new, consensus-based award.
- The brief recommends a radical, multi-tiered distribution model that apportions resources not just to provinces, but further down to districts and tehsils, based on data from Pakistan Social and Living Standards Measurement (PSLM) and Multidimensional Poverty Index (MPI) reports, to safeguard impartial growth at the grassroots level.



## Section 1

### Fundamental Macroeconomic Indicators of Pakistan's Economy

The economic growth in the last quarter of FY25 upgraded to 5.7% to jack up annual growth to 3% from earlier estimates of 2.7%. It resulted in Moody's raising Pakistan's rating from Caa2 to Caa1 in August, while taking into account improved external position. Fitch Ratings and S&P Global Ratings have already upgraded in the recent past. However, economic expansion faced its first serious headwind in the shape of heavy monsoon floods.

The impact on economic growth is not expected to be substantial; however, its inflationary impact is significant, as evident from higher food prices. This shortfall is likely to provide impetus to shortages of essential items and also likely to create demand for imports, which has already raised alarm bells through rising trade imbalance. Recently, oil prices nosedived to compensate for an increase in imports. On the other hand, the global slowdown and strong linkages of agriculture with growth have already started impacting exports.

Remittances are maintaining their momentum, and more importantly, the exchange rate has remained stable. An increase in inflation was already anticipated in the budget, along with the impact of floods on the escalating inflation, especially of essential food items. Overall inflation is likely to disturb the expected outcome on the price situation. Tax remained buoyant, and the higher profits expected by SBP in the first quarter may at least supplement the fiscal situation in the quarter. Additional demand for flood-related expenditures may dent fiscal consolidation efforts.

The recent conclusion of successful IMF talks and Pakistan's increased role in external relations will also boost confidence in the economic prospects. The current growth and its composition are not significant, as a major portion of it is coming from government contributions. Pakistan has to take its GDP beyond 5% in the next few years and raise employment intensity.

A sectoral analysis is given in subsequent sections.

#### Agriculture

The *khareef* crop is badly affected because of flash floods. According to a report by the Planning Commission, losses in the agriculture sector due to damage are estimated at Rs. 430 billion, followed by infrastructure losses of Rs. 307 billion. A total of 312,000 houses were affected across the country, including Punjab (213,000), Balochistan (6,370), KPK (3,222), AJK & GB (3,677), and Sindh (332). The livestock sector suffered losses of over 2,200 animals, while major crop losses included 3.4 million bales of cotton, one million tonnes of rice, and up to 3.3 million tonnes of sugarcane.

**Table 1: Contribution to Growth (%)**

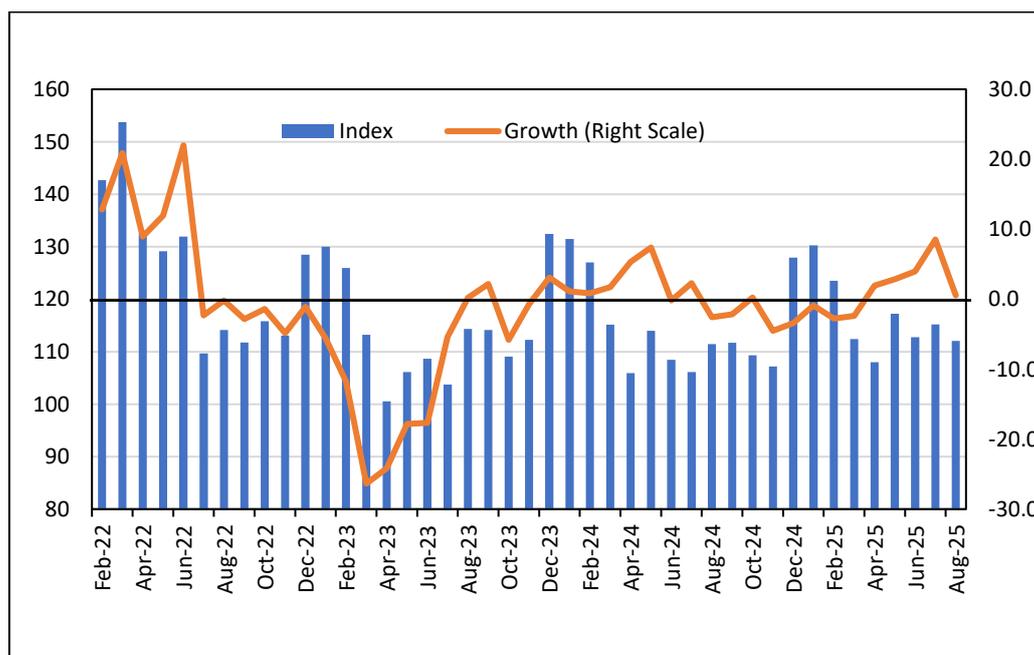
	2023-24	2024-25
Agriculture	1.5	0.4
LS Manufacturing	0.1	-0.1
Electricity & Gas Dist.	-0.5	0.6
Government Services	-0.3	0.4
<b>Overall Growth</b>	<b>2.6</b>	<b>3.0</b>

## Manufacturing Sector

Growth in the manufacturing sector remained sluggish and almost stagnated. LSM growth was recorded at 0.5% in August compared to a contraction of 2.6% last year. Key contributors to growth emanated from the food, tobacco, apparel, cement, and automobile sectors. The automobile sector grew by 1.83%, the apparel sector by 0.84%, and the food sector recorded a 1.02% increase from July to August.

Contractions were witnessed in fabricated metals, petroleum products, chemicals, pharmaceuticals, and furniture sectors. Petroleum production fell by 0.21%, and iron and steel output dropped by 0.16%. Other declines included furniture at 0.17%, beverages at 0.15%, chemicals at 0.13%, and pharmaceuticals at 0.11%.

**Fig. 1: QIM Index and Growth**



Source: Pakistan Bureau of Statistics

## Inflation

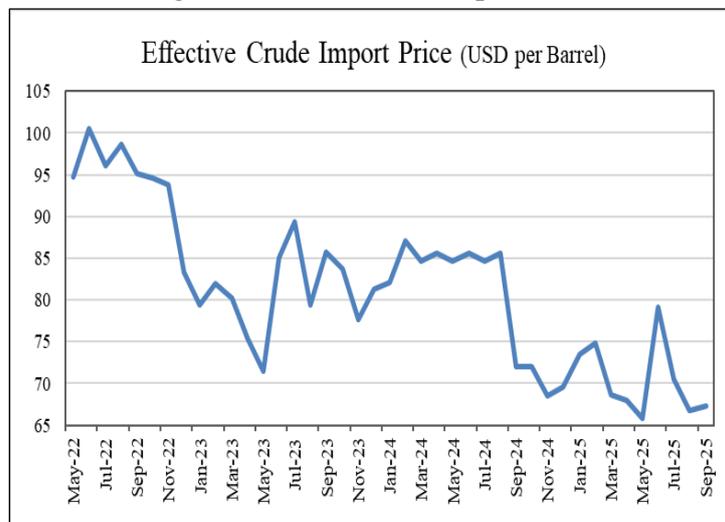
CPI inflation increased by 5.6% on a year-on-year basis in September 2025, compared to 3.0% in the previous month and 6.9% in September 2024. On a month-on-month basis, it increased by 2.0% in September 2025 as compared to a decrease of 0.6% in the previous month and a decrease of 0.5% in September 2024. The flood-induced shortages of perishable food commodities exerted upward pressure on food prices. The steep increase in gas prices in July 2025 and the expiry of the relief in electricity prices applied in Q4-FY25 are expected to trigger inflationary pressures in FY26. These pressures are likely to be offset by benign global commodity prices, such as the recent nosedive in oil prices. The domestic demand is increasing, as evident from higher growth in imports. The surge in non-core inflation will exert pressure on core inflation in the second half of FY26.

**Table 2: CPI Inflation (%)**

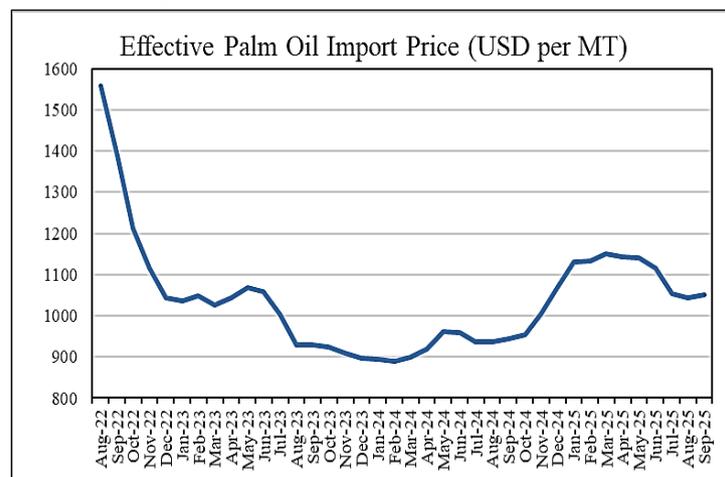
	July-June		July-September	
	2023-24	2024-25	2024-25	2025-26
<b>CPI National</b>	<b>23.4</b>	<b>4.5</b>	<b>9.2</b>	<b>4.2</b>
Food	21.9	0.6	2.1	2.1
Non-Food	24.7	7.7	15.3	5.8
Energy	48.2	3.4	28.7	1.8
Core	17.9	9.2	11.2	7.3
<b>CPI Urban</b>	<b>24.1</b>	<b>5.3</b>	<b>11.4</b>	<b>4.4</b>
Food	22.1	1.6	3.1	2.0
Non-Food	25.5	7.9	17.7	6.0
Energy	62.6	6.1	43.0	3.6
Core	16.1	8.5	10.4	6.9
<b>CPI Rural</b>	<b>22.5</b>	<b>3.3</b>	<b>7.3</b>	<b>3.9</b>
Food	20.3	-1.2	1.5	2.3
Non-Food	23.0	7.1	13.6	5.4
Energy	24.6	-2.9	6.9	-2.2
Core	22.4	10.7	15.9	7.9

Source: Pakistan Bureau of Statistics

**Fig. 2: Effective Crude Import Price**



**Fig. 3: Effective Palm Oil Import Price**



Source: Pakistan Bureau of Statistics



## Country's International Trade Outlook

The current account started to widen, but during the first quarter, it was almost at the same level as last year. In fact, the current account turned in surplus during September after two months of vibrance. Both exports and imports moderated in the previous two months, but imports grew faster than exports. Although the growth in remittances tapered off, the fact that it remains at 8.4% is a great help to the sustainability of the current account. Services exports growth on the back of buoyant IT exports remained in the double digit [See Table 3].

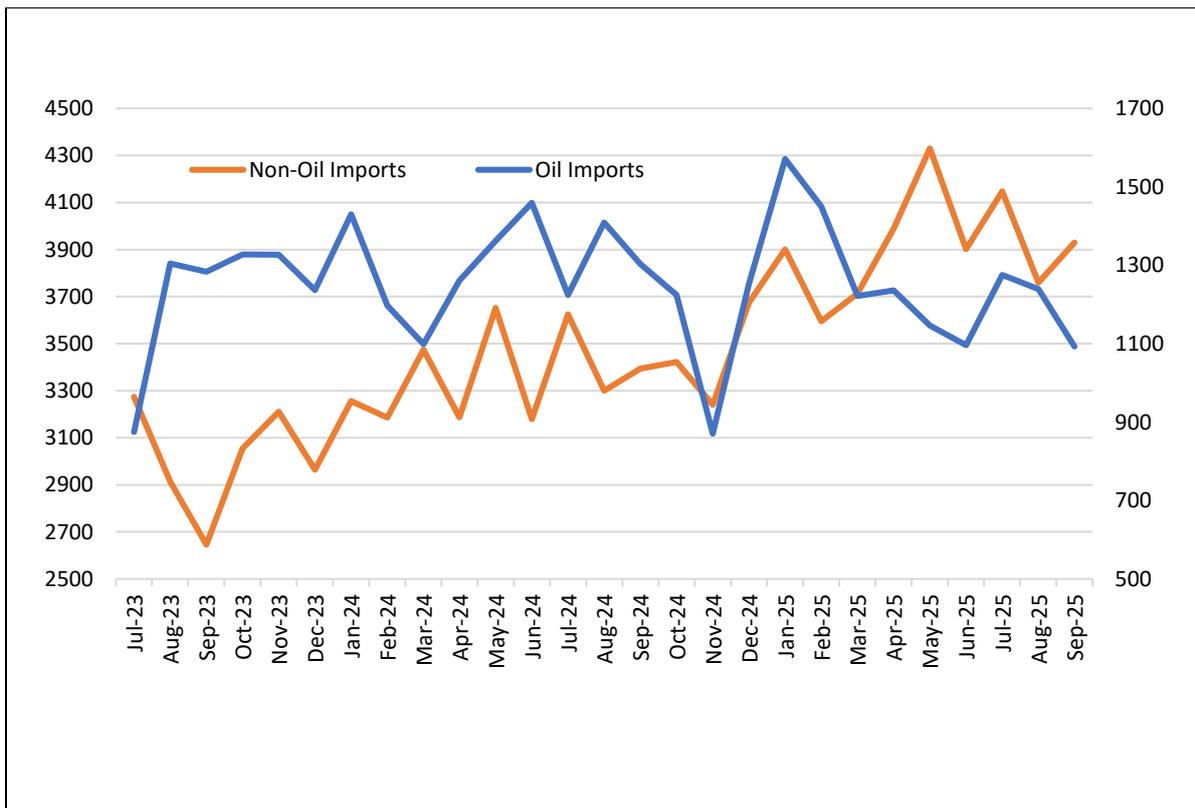
**Table 3: Balance of Payments**

	\$ Million				
	FY		July-September		% Change
	2023-24	2024-25	2024-25	2025-26	
<b>Current Account Balance</b>	<b>-2,072</b>	<b>1,932</b>	<b>-502</b>	<b>-594</b>	<b>-18.3</b>
<b>Trade Balance</b>	<b>-22,177</b>	<b>-26,771</b>	<b>-6,835</b>	<b>-7,532</b>	<b>-10.2</b>
Exports	30,980	32,340	7,420	7,906	6.5
Imports	53,157	59,111	14,255	15,438	8.3
<b>Services (Net)</b>	<b>-3,110</b>	<b>-2,645</b>	<b>-900</b>	<b>-931</b>	<b>-3.4</b>
Credit	7,691	8,408	1,915	2,198	14.8
Debit	10,801	11,053	2,815	3,129	11.2
<b>Income (Net)</b>	<b>-8,986</b>	<b>-9,100</b>	<b>-2,133</b>	<b>-2,183</b>	<b>-2.3</b>
Credit	909	999	269	298	10.8
Debit	9,895	10,099	2,402	2,481	3.3
<b>Current Transfers (Net)</b>	<b>32,201</b>	<b>40,448</b>	<b>9,366</b>	<b>10,052</b>	<b>7.3</b>
Current Transfer Credit	32,668	41,039	9,502	10,265	8.0
Worker Remittances	30,251	38,300	8,797	9,536	8.4
Current Transfers Debit	467	591	136	213	56.6
<b>Financial &amp; Capital Account, o/w</b>	<b>5,565</b>	<b>1,825</b>	<b>980</b>	<b>559</b>	<b>-43.0</b>
Direct Investment (net)	2,126	2,475	879	484	-44.94
Portfolio Investment (net)	-376	-638	143	-630	-540.56
<b>Net Liabilities</b>	<b>3,610</b>	<b>-183</b>	<b>-102</b>	<b>680</b>	<b>766.67</b>
General Government	-683	1,875	-675	289	142.81
Disbursement	6,044	9,518	869	1,235	42.12
Amortization	6,727	7,643	1,544	946	-38.73
<b>Overall Balance</b>	<b>2,862</b>	<b>3,744</b>	<b>383</b>	<b>-274</b>	
Use of Fund Credit and Loans	<b>2,154</b>	<b>1,433</b>	<b>853</b>	<b>-91</b>	
Gross Official Reserve	10,627	15,836	11,978	15,492	-344

Source: State Bank of Pakistan

Both oil and non-oil imports have been stagnating for the last few months, reflecting weaker economics in the aftermath of floods in many parts of the country [Fig. 2]. Global commodity prices have helped keep import pressure tamed, which in turn supported the real effective exchange rate under check.

**Fig. 4: Oil and Non-Oil Imports**



Source: Pakistan Bureau of Statistics

**Exports** data on a shipment basis has decreased by 3.9% whereas on a payments basis it has increased by 6.5%. This is mainly due to transmission lags involved between shipment and payment data. The main causality of the decline in exports is rice, the second largest export after textiles, which has witnessed a declination of 42%, partially contributed by a 19% fall in its unit value. Textiles as a group saw an increase of 5.6% compared to last year. Within textiles, exports of cotton cloth decreased by 14.2% while other major components kept positive growth. Only cotton cloth and yarn are subjected to negative terms of trade shock, while major textile exports like readymade garments, knitwear, bedwear, etc., have a favorable price situation. This has supported a positive outlook on the favorable fallout of US tariffs on Pakistan’s textiles sector, but one must be cautious about drawing conclusions based on limited data from just one month. All other commodity groups recorded negative growth.

**Table 4: Group-wise Increase in Exports**

Particulars	July-September		\$ Million
	2024-25	2025-26	Change
			(%)
<b>A. Food Group</b>	<b>1,617</b>	<b>1,109</b>	<b>-31.4</b>
Rice	722	419	-42.0
Meat and Meat Prep.	116	122	5.6
<b>B. Textile Group</b>	<b>4,520</b>	<b>4,775</b>	<b>5.6</b>
Cotton Yarn	163	182	12.2
Cotton Cloth	524	449	-14.2
Knitwear	1,269	1,424	12.2
Bedwear	795	853	7.3
Readymade Garments	997	1,057	6.1
Synthetic	96	98	1.6
<b>C. Petroleum Group</b>	<b>148</b>	<b>108</b>	<b>-26.6</b>
<b>D. Other Manufacturing Sectors</b>	<b>1,065</b>	<b>1,036</b>	<b>-2.7</b>
Chemicals & Pharma Products	406	333	-18.0
Engineering Goods	110	112	2.0
Cement	65	99	51.9
Leather Products	186	187	0.5
<b>E. All Other Items</b>	<b>556</b>	<b>571</b>	<b>2.7</b>
<b>Total</b>	<b>7,906</b>	<b>7,599</b>	<b>-3.9</b>
<b>Excluding Textile</b>	<b>3,385</b>	<b>2,825</b>	<b>-16.6</b>
Share of Textile	57.2	62.8	
Share of Non-textile	42.8	37.2	

Source: Pakistan Bureau of Statistics

**Imports** based on shipment data increased by 13.9% during the first quarter, with major contributions to this increase coming from the machinery group (27%), raw materials (29%), consumer durables (36%), and food items (29%). Both mobile phones and vehicles recorded more than 100% increase, implying a rise in demand. The increase in machinery and raw materials suggests that the domestic market is ready to respond to rising demand.

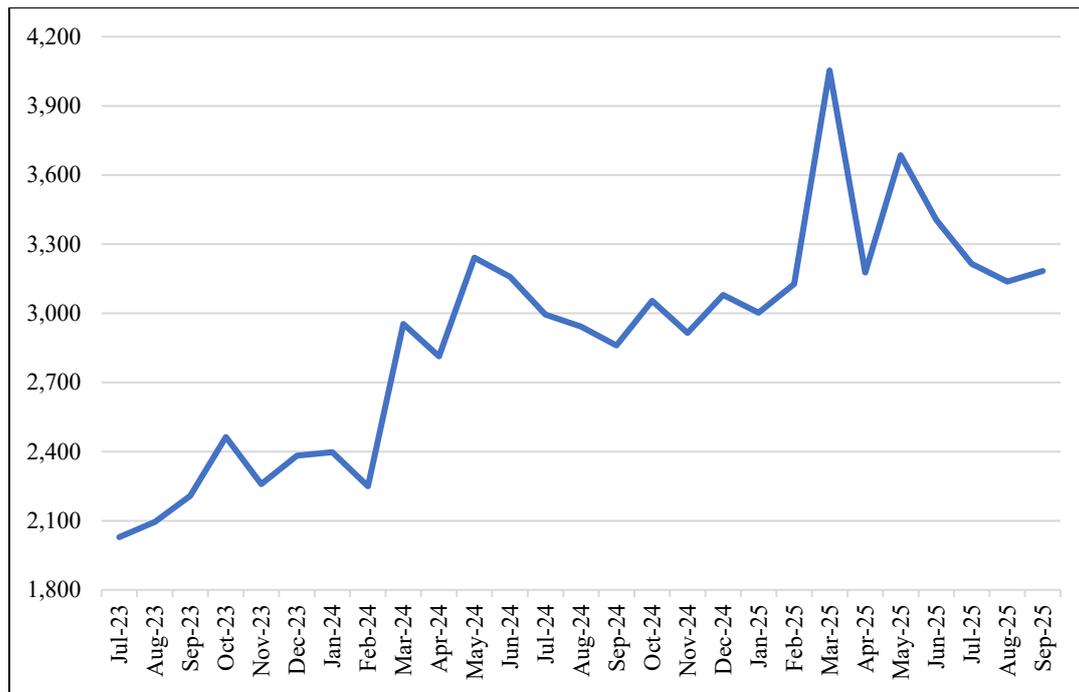
**Table 5: Increase in Imports During July-September FY2026**

	July-September			% Contribution to Increase
	2024-25	2025-26	% Change	
<b>Total Imports</b>	<b>14,954</b>	<b>17,029</b>	<b>13.9</b>	<b>100.0</b>
<b>Food Group</b>	<b>1,662</b>	<b>2,253</b>	<b>36</b>	<b>28.5</b>
Pulses	205	204	0	(0.0)
Tea	156	148	-5	(0.4)
Palm Oil	746	1,001	34	12.3
<b>Machinery Group</b>	<b>1,277</b>	<b>1,836</b>	<b>43.8</b>	<b>26.9</b>
Elect. Machinery & Appl.	886	780	-12.0	(5.1)
Textile Machinery	106	170	60.0	3.1
<b>Consumer Durables</b>	<b>717</b>	<b>1,464</b>	<b>104</b>	<b>36.0</b>
Mobiles Phone	246	500	103.1	12.2
Road Motor Vehicles	471	964	104.6	23.8
<b>Textile Group</b>	<b>1,517</b>	<b>1,695</b>	<b>11.8</b>	<b>8.6</b>
Raw Cotton (M. MT)	474	393	-17.1	(3.9)
<b>Raw Materials</b>	<b>1,872</b>	<b>2,285</b>	<b>22</b>	<b>29.2</b>
Plastic Material	608	746	23	6.7
Iron & Steel Scrap	495	486	-2	9.3
Iron & Steel	488	689	41	9.3
Medicinal Products	282	363	29	3.9
<b>Petroleum Products</b>	<b>4,050</b>	<b>3,775</b>	<b>(7)</b>	<b>(13.3)</b>
Petroleum Products (M. MT)	1,354	1,396	3.1	2.0
Petroleum Crude (M. Barrels)	1,430	1,428	-0.1	(0.1)
LNG	1,025	716	-30.2	(14.9)
<b>Others</b>	<b>3,859</b>	<b>3,722</b>	<b>(4)</b>	<b>(16.0)</b>

Source: Pakistan Bureau of Statistics

**Remittances** have been tapering off in recent months, but still have significant growth of 8.4% in the first quarter [Figure 05]. The current account surplus of last year (FY25) was mainly driven by buoyant remittances, and thus a smooth flow of remittances is critical for the outcome on the external account. However, for the last few months, there has been a visible tapering off of remittances in the first quarter, as apparent in the graph.

**Fig. 5: Remittances**



Source: Pakistan Bureau of Statistics

**The overall economic outlook** has multiple challenges, among many positive vibes, about the economy, which are strengthened by the endorsement of credit ratings agencies and the conclusion of the IMF review. Floods have a major disruption in the quarter for a short time, with some long-term consequences. The agricultural outcome is severely affected by the flood situation; however, it has enhanced prospects of the *rabi* crop due to better availability of water.

One consequence of floods is the obvious rise in inflation due to a shortfall of essentials, and it will take time to restore the supply line of basic food items. One impact is visible on the external account in the shape of lower exports of fruits, vegetables, etc., and the other is higher imports of food items, which rose significantly in the first quarter. Quarterly inflation remained far below the annual target; however, devastating floods might accelerate inflationary pressures.

Food management has remained a major challenge for the last 78 years, and it has exposed the fragility of economic growth against floods. There is a likely impact on fiscal and external accounts for additional spending and imports.

This outlook is subject to risks emanating from aftershocks of floods, like livelihood restoration, an uncertain geopolitical environment, a jittery global commodity market outlook, and global trade-related uncertainties. Afghanistan is a major export market for Pakistan, and developments across the Durand Line have implications for trade. Pakistan's economy needs to capitalize on positive vibes about economic prospects emerging out of its global positioning.



## Section 2

### **Economic Issue of the Month**

#### **Unsettled National Finance Commission (NFC) Awards and Way Forward**

##### **NFC Awards**

In federal systems, revenues are collected by one agency and ultimately distributed among federating units through a well-defined and mutually agreed formula. Most of the revenues are collected at the federal level and then distributed vertically between the federal government and provincial governments and horizontally among provinces.

The Raisman formula (formulated by Sir Jeremy Raisman in December 1947) was the first revenue-sharing formula after the independence of Pakistan. In 1955, four provinces of West Pakistan were declared as one unit, resulting in the emergence of two units: East Pakistan and West Pakistan. In this arrangement, two revenue distribution awards of 1961 and 1964 were held. Under the 1961 award, 54% of the divisible pool was awarded to East Pakistan, and 46% was the share of West Pakistan. The share remained the same in the National Finance Commission (established under Article 144 of the 1962 Constitution) in 1964.

In 1970, the National Finance Committee, chaired by the federal finance minister, changed the distribution ratio between federal and provincial governments (vertical distribution) to 20:80, respectively, but the horizontal distribution (among East and West Pakistan) remained the same. The provinces falling under West Pakistan, i.e., Punjab, Sindh, NWFP (now Khyber Pakhtunkhwa), and Balochistan received 56.50%, 23.50%, 15.50%, and 4.50% respectively. These distribution ratios remained the same even after the separation of East Pakistan till 1973.

Article 160 of the 1973 Constitution mandates President of Pakistan to establish the National Finance Commission (NFC) committee, consisting of the minister of finance of the federal government as chairman and finance ministers of provinces as members. The other members may include four technical members (non-statutory), whom the president may appoint after consultation with the governors of the provinces. The commission's duty is to make recommendations regarding the distribution of taxes (income tax, including corporation tax, sales tax, export and import tax, and excise duties on cotton and others specified by the president) among the federal and provincial governments. The commission also set a mechanism for the distribution of grants-in-aid among federal and provincial governments, borrowing powers of the federal and provincial governments conferred by the constitution, and any other related matter.

According to Article 160 (3A), the share of the provinces in each award shall not be less than that of the previous award. The federal and provincial finance ministers shall monitor the implementation of the award biannually and present reports in the parliament and provincial assemblies. The president shall specify the recommendations of the commission through an order, but the president, according to Article 160(6), may make changes in revenue distribution if no recommendation is received from the commission.

Award	Criteria of Distribution	Taxes Included	Vertical Distribution		Horizontal Distribution				Status
			Federal (%)	Provincial (%)	Punjab (%)	Sindh (%)	NWFP/KPK (%)	Balochistan (%)	
1st NFC 1974	Population	Income, sales, and export duty	20	80	60.25	22.50	13.39	3.86	Agreed
2nd NFC 1979	Population	Income, sales, and export duty	20	80	57.97	23.34	13.39	5.30	No meeting held, but the 1981 population census changed the shares.
3rd NFC 1985	The provisions of the 2nd NFC award remained in practice							Nine meetings in three years, but remained inconclusive	
4th NFC 1990	Population	Income, sales, and export & excise duty*	20	80**	57.88	23.28	13.54	5.30	Unanimously approved***
5th NFC 1996-97	Population	All taxes & duties****	62.5	37.5	57.88	23.28	13.54	5.30	Unanimously approved
6th NFC 2000	The provisions of the 5th NFC award remained in practice							Inconclusive	
6th NFC 2006*****	Population	All taxes & duties	55	45*****	57.36	23.71	13.82	5.11	Exercise of presidential powers
7th NFC 2010*****	Population (82%), poverty & backwardness (10.3), revenue collection & generation (5), and inverse population density (2.7)	Income tax (includes corporation tax), sales tax, export & import duties, and excise duty	42.5	57.5	51.74	24.55	14.62	9.09	Unanimously agreed
8th NFC 2015	The provisions of the 7th NFC award remained in practice							Inconclusive	
9th NFC 2019	The provisions of the 7th NFC award remained in practice							Halted due to the finance minister's resignation	
10th NFC 2020	The provisions of the 7th NFC award remained in practice							Inconclusive	

\*Excise duty on sugar and tobacco

\*\*Increment in volume of provincial share in revenue collected by around 18% as compared to 1974, due to the inclusion of excise duty

\*\*\*Straight transfers to provinces in the domains of net hydel profit, development surcharge on gas, and excise duty on crude oil.

\*\*\*\*Income tax, wealth tax, capital value tax, sales tax, export duties, customs duties, excise duties (including gas), and any other tax collected by the federal government. Royalties on crude oil and gas are also given to provinces.

\*\*\*\*\*Award remained inconclusive, and on recommendation of provinces, the president, under Article 160(6), amended 'Distribution of Revenues and Grants-in-Aid Order 1997.'

\*\*\*\*\*For the first financial, and would reach 50% with a subsequent increase of 1% per annum.

\*\*\*\*\*1% share from the divisible pool was decided to be diverted to the KPK province due to the war on terror.

## **Current Status and Discussion Points for Upcoming NFC Awards Meeting**

The president of Pakistan constituted the 11th NFC to finalize the fiscal distribution mechanism. Its inaugural meeting was due in the last week of August 2025, but was delayed.

NFC awards meeting may be formulated and designed based on the true spirit of fiscal federalism, including the resource distribution mechanism and the allocation of responsibilities among the federal and provincial governments.

The consistency in the NFC awards distribution is inevitable, and for this, from committee formation to resource distribution decision-making, all should be based on scientific and professional research work. These research efforts should be continuous throughout the five years, providing enough data sources for robust decision-making. Though the current system of the NFC committee has some technical members, political influences dominate in this regard, too.

There is a severe problem of inequitable and unnecessary allocation of resources in certain districts, which creates a significant development gap among districts of even the same province. For example, the per capita development expenditure of Lahore district is significantly higher compared with that of some other districts of South Punjab. The crux of devolution of power and responsibilities is that it should not stop at the provincial level but should extend all the way to the grassroots level.

NFC award meetings may incorporate data collected by PSLM and MPI reports to identify the social gaps and address these accordingly through well-planned resource allocation.

There should be more tiers of vertical and horizontal distribution of resources. For example, in the first tier, the vertical distribution between the federal government and provincial governments, and the horizontal distribution among provinces, is conducted (which is already taking place). In the second tier, there should be another vertical distribution, i.e., between a province and its districts, and a horizontal distribution among the districts of that province. Similarly, in the third tier, there should be a vertical structure between a district and its tehsils, and a horizontal structure among tehsils. A fourth tier could also be added, which would be between a tehsil and its union councils. This extension of the NFC awards distribution mechanism should be data-driven and social need-based allocation as per the MPI and PSLM records. It is a comprehensive model that intends to deliver the benefits at the grassroots level.

## **Conclusion**

Pakistan's economy is at a serious stage. While evolving from a period of steadiness with enhanced international trustworthiness, the recovery is nascent and susceptible. The instantaneous economic outlook is troubled by the repercussions of the floods, which have unearthed structural fragilities in agriculture and food security. Dealing with the inflationary surge and the broadening trade deficit will be the key short-term challenges.

For sustainable, long-term development, the economy must change towards a more investment and export-oriented model that produces higher employment. Importantly, settling a new NFC award based on the principles of impartiality and data-driven fiscal federalism is not just a financial imperative but a fundamental step towards addressing regional inequalities and consolidating the federation. The pathway forward requires practical economic management, recovery from the floods, and a focused political determination to establish harmony on a fair and broad-minded revenue-sharing system.



Prepared by:

**Dr. Zafar ul Hassan Almas**  
IPS Senior Associate &  
Former Joint Chief Economist

**Dr. Asim Ehsan**  
Senior Research Officer  
Institute of Policy Studies, Islamabad

For Queries:

**Shafaq Sarfraz**  
Head of Operations  
Institute of Policy Studies, Islamabad.  
[shafaq@ips.net.pk](mailto:shafaq@ips.net.pk) | [www.ips.org.pk](http://www.ips.org.pk)