Pakistan's Budget: Reiterates That Defence Rules

Introduction

Post Operation Sindoor, the Pakistan Army is back at centre stage. This was clearly evident with the promotion of General Asim Munir to Field Marshal and was reinforced by the overtures made to its military leadership by the United States (US) and has now manifested by the increase in the defence budget on 10 Jun.

The hike in defence expenditure by 20per cent comes amid a cut in overall spending, which is shrinking by 07 per cent to USD 62 bn. The Pakistan Economic Survey 2025, released days before the budget, shows that the country's total public debt has soared to a record PKR 76 tn USD 269 bn. This figure includes PKR 51.5 tn in domestic debt and PKR 24.5 tn in external obligations.[1] These figures are double those of four years ago.

The last few years have been turbulent for Pakistan's economy. Foreign reserves fell to just under USD3 bn in 2023, bringing the country to the brink of default though recently, following International Monetary Fund (IMF) deals the reserves have increased to USD 11 bn. Similarly, the Pakistani rupee, which had dropped to PKR 303 in Sep 2023 against the US dollar, has now stabilised between PKR 280 and 282 per dollar.[2]

The Budget

Pakistan's budget for the year 2025–26 claimed a 4.2 per cent GDP growth, PKR 14.3 tn in revenue, and a fiscal deficit reduced to 3.9 per cent of GDP. The Finance Minister announced a PKR 200 bn in tariff cuts on raw materials, a digital-transactions levy to generate PKR 64 bn, and a token sub-1 per cent tax relief for salaried workers granting middle-class households a paltry few hundred rupees monthly. Yet, these headline figures mask a budget crafted to appease the powerful, not to drive much-needed growth by encouraging investments.[3]

Expenditure patterns tell a similar story. Out of the PKR 17.57 tn outlay, PKR 8.2 tn, or nearly half, has been earmarked for interest payments, underlining the unsustainable debt load.

Pakistan's debt-to-GDP ratio stands near 74 per cent, with external debt service obligations for FY26 projected to exceed USD 24 bn. In such a scenario, domestic fiscal space shrinks, leaving little for infrastructure, health, or digital transformation the key drivers of long-term growth.[4]

The Pakistan Finance Minister, Muhammad Aurangzeb said, the budget would drive economic growth in the coming fiscal year, saying Islamabad has steadied the economy, which looked at risk of defaulting on its debts as recently as 2023. Pakistan also projected a deficit of 3.9 per cent of GDP against the 5.9 per cent targeted for 2024-25. Inflation was projected at 7.5 per cent. [5]

Defence Remains Privileged

For the coming year, Pakistan has allocated USD 9,04 as the defence budget, which is 1.97 per cent of the GDP and USD2.63 bn to military pensions, taking the entire defence budget to USD11.67 bn accounting for nearly 03 per cent of GDP. [6]

The new allocation is a 17 per cent increase compared with the revised defence budget in 2024–25 and a 20 per cent rise against the original allocation in that year. The Service wise breakdown sees the Army getting 45.9 per cent, the Pakistan Air Force 20.4per cent, the Pakistan Navy getting 10.4 per cent and the Inter Services Organisations which include the Inter-Services Intelligence getting 19.5 per cent. [7]

Further salaries of military personnel, are not revealed publicly and are under the General Public Services-Staff Salaries, which are not included in the defence budget. Thus, the defence allocation reflects only operational, administrative, and development expenditures. In matters of salaries of defence personnel, even parliamentary oversight is limited. Budget committees are briefed in classified sessions and members often cannot question details freely.

The Cabinet, chaired by Prime Minister Shehbaz Sharif before the budget was tabled in parliament, had already approved a 10 per cent salary increase for government employees and a 07 per cent hike in pensions. [8]

The massive hike in the defence budget, is in line with growing defence allocation in recent years. The military’s budget has nearly doubled in the past five years. In fiscal year 2020-21, the allocation stood at USD4.53 bn.

This increase, alongside the slashing of 118 development projects worth PKR 1,000 bn in the Public Sector Development Programme (PSDP), diverts resources from critical investments in health, technology, and infrastructure. The budget's heavy military allocation and PSDP squeeze illustrate the power the military wields reflecting a loss of developmental intent.[9]

This increase places the defence sector as the second-largest component of Pakistan's annual spending, behind only debt servicing. Defence and debt will continue to be the drivers of Pakistan's economy. The defence allocation represents 14.5 per cent of the total federal outlay of USD62 bn, while debt payments account for nearly 47 per cent, highlighting the extent to which both sectors dominate the financial landscape.

The Pakistan government itself admits the seriousness of this trend. "Excessive or poorly managed debt can pose serious vulnerabilities, such as rising interest burdens and can undermine long-term fiscal sustainability and economic security if left unaddressed", is what its economic survey stated. [10]

While defence spending is being raised, the social cost is increasingly difficult to ignore. According to recent data from the World Bank, nearly 45 per cent of Pakistan's population now lives in poverty, and 16.5 per cent are classified as living in extreme poverty, following an upward revision of the international poverty line.[11]

This year alone, 1.9 million more people fell into poverty, a trend attributed to economic stagnation, inflation, and reduced government support as money is not being spent on development.

On the other hand, Pakistan's security apparatus and by extension, the ecosystem that enables terrorism are being supported by clever budgetary infusions including channeling international aid and loans under the guise of public development. The international institutes in a way are indirectly subsidising both conflict and militancy. This has both serious domestic and regional implications.

There is no doubt that without redirecting resources to health, education, infrastructure, and job creation, Pakistan will remain locked in a cycle of debt and underdevelopment. The fault line will only widen.

China a Trusted Friend

Alongside the budget announcement, Pakistan confirmed that it had been offered significant military hardware from China its most trusted friend.

These offers include 40 fifth-generation J-35 stealth fighter jets, KJ-500 airborne early warning and control aircraft, and HQ-19 ballistic missile defence systems. The J-35 jets, developed by Shenyang Aircraft Corporation, were publicly showcased at the 2024 Zhuhai Airshow and would mark China's first overseas sale of the fifth-generation aircraft.[12]

The Pakistani government's official social media post on 07 Jun described these offers as part of "Several major diplomatic achievements", which also included the deferment of USD 3.7 bn in debt by China.

Conclusion

Pakistan's budgets have consistently failed to align with priorities like debt reduction, energy reliability, food security and development. Health and education continue to receive limited attention as allocations are not proportionate to the pressing needs of the population. No wonder the former Finance Minister Miftah Ismail commented that the, "Modernising our armed forces is essential. But the key is spending wisely".

The focus are remains prioritising defence expenditure as they remain confident of continued loans and bailouts from friends and multi-lateral institutions such as the IMF and World Bank. Each lender offers leeway to Pakistan to divert funds towards the military. While IMF funds are not directly used for military spending, they stabilise Pakistan's economy and allow the government to redirect domestic funds toward defence.

The Pakistan budget, as before, will continue to entrenched interests, and will never be a roadmap for Pakistan's future. The increase comes at a time Pakistan's economy remains fragile and fiscal space is constrained.

Though the budget reflects Pakistan's obsession with prioritising its defence capabilities which includes terrorism to counter India but there also appears to be a sense of panic following the destruction inflicted during Operation Sindoor.

However, there is no doubt that this is an endorsement of their future path, which will remain one of confrontation with India. Hence, guns will always score over growth and development. This is evident in the budgetary figures which reflect distress in the economy, but instead of any structural reforms the continuing direction of the government remains focused on increasing defence expenditure.

Endnotes

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