

Fiscal Devolution, Debt Sustainability, and Economic Growth: Evidence from Pakistan

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ABSTRACT

Subnational borrowing can jeopardize fiscal decentralization, whereas it strengthens efficiency in the public sector and economic growth. This research investigates the connection between fiscal decentralization, public debt, and economic growth during 1995-2022 for Pakistan. Basing research on ARDL bounds test for cointegration, FMOLS, DOLS, and ECM, we investigate results on a times series of datasets taken from WDI, IMF GFS, and SBP reports. These results indicate expenditure decentralization correlates negatively with lower public debt and deteriorates economic growth, whereas revenue decentralization increases GDP by 0.17%; thus, negative impacts are found on growth accruals of economic growth negatively impacted by a decrease of 0.03-0.12%, contrary to 90% GDP target threshold Replacing GDP, a 90% GDP threshold test negates impacts of growth on targets.

Keywords: Expenditure Decentralization, Revenue Decentralization, Public Debt, Economic Growth, Pakistan,

INTRODUCTION

Fiscal decentralization, explained as “the delegation of expenditure and revenue responsibilities to smaller governments,” has the ability to affect the delivery of public services (Huynh & Tran, 2021; Martinez-Vazquez & McNab, 2006; Oates, 1993). In global datasets, fiscal decentralization has favorable but marginal effects on economic growth, but it has negative but irrelevant effects on developed countries. Moreover, for poor countries, fiscal decentralization on expenditures has a positive but insignificant impact on GDP growth, whereas revenue decentralization (RevDec) has a positive and significant impact. This indicates that revenue decentralization enhances fiscal sobriety and macroeconomic perspectives, thereby increasing the average GDP growth in both developing and developed states (Baskaran, 2010a; Bodman, 2011; Enikolopov & Zhuravskaya, 2007; Martinez-Vazquez & McNab, 2006; Rodríguez-Pose & Ezcurra, 2010). Fiscal decentralization refers to the redistribution of financial resources or authority for decision-making from the federal government to the local or state governments. In this regard, fiscal decentralization enables the sub-national governments to have control over their finances. In this manner, it can considerably influence the public debt of the governments on the national as well as the sub-national level. For instance, when the central governments have less decision-making authority, their budget will decrease, leading to a reduction. There are a number of considerations when analyzing the connection between fiscal decentralization and public debt, such as institutional arrangements, fiscal policies, and economic conditions. Public debt, fiscal decentralization, and economic growth are interconnected and complex phenomena with dependent relationships among each of them. Public debt, a non-fiscal financial tool, earns revenues for a government essentially based on borrowing from abroad for projects and filling budgetary holes. Public debt comprises additional liabilities such as export of properties, compensation for damages, and restitution, apart from binding obligations. High levels of public debt can significantly obstruct economic growth in most countries because of financial obligations of countries' interest outgoes towards debts. The Asian countries are largely borrowing countries among new economies, and thus a large amount of public debt has become a major area of concern (Asteriou et al., 2021; Thao, 2018). Public debt affects the economy directly as well as through fiscal and monetary policies. A balanced level of public debt is determined by the growth potential of the economy as well as debt distribution. The optimal use of public debt can ensure positive growth within a country by improving the level of employment, education, as well as the standard of living. Fiscal decentralization improves the capacity of state and local governments to repay long-term debts but does not affect the issuance of new long-term debts. The government's ability to repay debts owed by the state/local governments has a strong positive relationship with assigning spending responsibilities to these governments (Chudik et al., 2017; Gómez-Puig & Sosvilla-Rivero, 2018). This serves as the impetus for many new economies, over 120 of which since 2008, to delegate its taxes to the sub-national governments for the purpose of growth (Digdowiseiso, 2022; Göcen et al., 2017; Ivanyna & Shah, 2014). Revenue decentralization continues to force these sub-national authorities to increase taxes, which consequently encourages informal economies. In a decentralized environment, the sub-national authorities with strong debts relative to their own

revenues, for example, by 217%, run their budgets without assistance from the state (Huynh & Tran, 2021). Furthermore, decentralization empowers people at the grassroots by offering them money for services, revenue sources, and spendings (World Bank). The "decentralization theorem" explains that the most effective provision of services should take place in areas without strong advantages for the center over the grassroots governments (Oates, 1993; Ivanyina & Shah, 2014).

LITERATURE REVIEW

Fiscal Decentralization and Economic Growth

Devarajan et al. (1996) have shown positive impact of current expenditure on growth among 43 countries (20 years) while capital expenditure's inverse relation is relevant to Pakistan's federal budget. Empirical evidence in the Pakistani context reveals that fiscal decentralization has a mixed effect on growth across the globe. In their study on Fiscal Decentralization and Employment in Pakistan, Faridi et al. (2012) concluded the contrary in the case of inflation but positive in the case of employment, GDP, respectively. The decentralized economy fares better in comparison to the unitary state due to Meta-analysis verifies that single-country analyses such as in Pakistan find a preference for decentralization in cooperative institutions (Baskaran et al., 2016). The question about the effect of fiscal decentralization on growth/environment in Pakistan in Li et al. (2021) finds that RevDec shocks are negative in reducing growth/CO2 in the short/long term "Global contrasts reveal what Pakistan needs: Slavinskaitė (2017) finds that FD helps development in poorer countries (such as Pakistan) rather than in richer Europe between 2005 and 2014. Bojanic (2018): The Americas evidence for whether or not RevDec and/or ExpDec are helpful remains inconclusive. Thanh & Canh (2020).

Fiscal Decentralization and Public Debt (Pakistan Focus)

Global evidence informs Pakistan: Baskaran (2010b) finds ExpDec substantially reduces debt in 17 OECD countries; vertical imbalances/tax FD negligible. Horváthová et al. (2012): EU PD-FD correlation. Shi et al. (2018): Capital expenditure/resources drive debt service capacity. Timushev (2020): Local FD decline raises regional debt.

Ouyang & Li (2021): China's RevDec lowers default risk; ExpDec raises it. **Pakistan-specific:** Khan & Munir (2021) study **Public Debt and Decentralization in Pakistan** (non-Arab Muslim federation, subnational): VFI, ExpDec, population density increase PD; growth reduces it. **18th Amendment amplified provincial debt.**

Public Debt and Economic Growth

Regional parallels: Abdelkafi (2018): Tunisia's low growth forces debt via revenue shortfalls; interest shocks raise PD. Thao (2018): ASEAN PD negatively affects growth; external debt service positively correlates (Bajrami & Hoxha, 2020; Gómez-Puig & Sosvilla-Rivero, 2018; Khan & Munir, 2021).

Bajrami & Hoxha (2020): Kosovo growth peaks at 10-30% debt/GDP. Fetai et al. (2020): No viable tax replacement for debt in low-income transitions (1995-2017). Alexandre et al. (2021): Portugal's debt/openness favors FD resilience.

Asia/Pakistan relevance: Asteriou et al. (2021): Rising PD detrimental across Asia;

FD reduces it (Gómez-Puig et al., 2022; Rivetti, 2022). Tran (2021): Productive debt promotes growth. Gómez-Puig et al. (2022): Neoclassical negative PD-growth (Bajrami & Hoxha, 2020; Cochrane, 2011; Panizza & Presbitero, 2014; Jin & Rider, 2020; Thanh & Canh, 2020).

EMPIRICAL MODEL

While cross-country studies on advanced economies (e.g., OECD, EU) and Asian regions have analyzed fiscal decentralization (FD)'s effects on growth and the public debt (PD)-growth link, few examine their simultaneous dynamics in Pakistan a federal economy with post-18th Amendment decentralization (Baskaran, 2010a; Khan & Munir, 2021; Li et al., 2021). This study fills this gap using Pakistan-specific time-series data from 1995-2022.

$$Y_t = \alpha_0 + \alpha_1 FD_t + \alpha_2 PD_t + \sum \alpha_j X_{jt} + \epsilon_t$$

Subscript t denotes years (1995-2022) for Pakistan; $\alpha_1, \alpha_2, \alpha_j$ coefficients; ϵ_t error term. Dependent variable Y_t : annual real GDP per capita growth (%). Independents: fiscal decentralization indices expenditure decentralization (ExpDect: subnational expenditure/GDP) and revenue decentralization (RevDect: subnational revenue/GDP) (Filippetti & Sacchi, 2016; Gemmell et al., 2013). Public debt (PD $_t$): debt-to-GDP ratio (%); X_{jt} : controls.

$$Y_t = \alpha_0 + \alpha_1 RevDect_t + \alpha_2 ExpDect_t + \alpha_3 PD_t + \alpha_4 INF_t + \alpha_5 DS_t + \alpha_6 TOP_t + \alpha_7 FDev_t + \alpha_8 FDI_t + \alpha_9 Unempt_t + \epsilon_t$$

Variables:

GDP growth (dependent); PD (debt/GDP, %); ExpDec, RevDec; α (constant); coefficients; ϵ_t (error); X_t (controls)

Controls (X_t) follow FD-growth literature, tailored to Pakistan (Baskaran et al., 2016; Filippetti & Sacchi, 2016; Gemmell et al., 2013; Huynh & Tran, 2021): unemployment, debt servicing (Matandare & Tito, 2018); inflation (INF $_t$) for stability; trade openness (TOP $_t$) for export integration (Baskaran, 2010a; Göcen et al., 2017); fiscal development (FDev $_t$) and burden (revenue/GDP) to address FD bias (Gemmell et al., 2013; Slavinskaitė, 2017).

DATA AND METHDOLOGY

Data

Data for this empirical analysis of fiscal decentralization (FD), public debt (PD), and economic growth in Pakistan (1995-2022) were sourced from reliable databases. Fiscal decentralization measures come from the Asian Development Bank (ADB, Asian Development Outlook 1990-2021), World Development Indicators (WDI), IMF Government Finance Statistics (GFS), and Pakistan's State Bank and Federal Board of Revenue reports (post-18th Amendment). Other variables draw from WDI, IMF International Financial Statistics, and Pakistan Economic Survey. Table 1 presents descriptive statistics; Table 2 shows correlation matrix. Variable definitions, measurements, and sources are detailed below the empirical model.

Econometric Methodology

Correlation analysis (Table 2) reveals significant positive linkages among most variables, except negative relations for debt servicing (DS), expenditure

decentralization (ExpDec), and inflation (INF). RevDec and ExpDec show multicollinearity (high pairwise correlations), detectable via correlation coefficients >0.8 , warranting variance inflation factor (VIF) checks.

To examine FD-PD-growth dynamics in Pakistan, we apply time-series econometrics capturing short- and long-run effects. First, cross-sectional dependency is irrelevant for single-country data but stationarity is tested via Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests to confirm $I(0)/I(1)$ integration.

We employ the Autoregressive Distributed Lag (ARDL) bounds testing approach (Pesaran & Shin, 1995; Pesaran et al., 2001) for cointegration, ideal for Pakistan's mixed-order variables. ARDL advantages include: (1) addressing endogeneity; (2) estimating long-run effects; (3) no pre-unit-root requirement for $I(0)$, $I(1)$, or fractionally integrated series. Post-cointegration, the ARDL error correction model (ECM) quantifies short-run dynamics and adjustment speed.

For robustness, long-run estimates use Fully Modified OLS (FMOLS), Dynamic OLS (DOLS), Mean Group (MG), and Pooled Mean Group (PMG) estimators to validate slope stability. FD is proxied by ExpDec and RevDec (Digdowiseiso, 2022; Faridi et al., 2012; Huynh & Tran, 2021; Thanh & Canh, 2020).

Table 1 Descriptive Statistics

Variables	Mean	Std. Dev.	Min	Max	Obs.
GDP	5.36	3.446	-6.16	20	623
PD	48.652	26.175	5.87	215.95	621
DS	7.52	6.424	.213	34.4	621
TOP	82.87	43.53	11.855	220.407	621
ExpDec	23.762	8.46	.465	59.3	621
RevDec	20.301	7.975	.492	52.5	621
INF	94.019	42.967	5.55	219	594
Unemp	5.691	4.556	.078	21.206	539
FDI	4.184	5.88	-37.173	55.07	621
FDev	54.882	39.857	2.483	211.892	621

Source: Author's calculations from WDI, IMF GFS, SBP Pakistan Economic Survey (1995-2022).

Table 1 summarizes Pakistan's variables. Mean GDP growth is 5.36% (Std. Dev. 3.446); PD averages 48.652% of GDP (Std. Dev. 26.175), signaling volatility; DS

means 7.52% (Std. Dev. 6.424). TOP averages 82.87% (Std. Dev. 43.53). ExpDec, RevDec, and INF average 23.76%, 20.301%, and 94.019%, respectively. Unemp, FDI, and FDev mean 5.691%, 4.184%, and 54.882%.

All variables show positive skewness, indicating satisfactory distribution symmetry. Most display leptokurtosis (peaked centers, thick tails), confirming values cluster around means suitable for time-series modeling (Faridi et al., 2019; Fetai et al., 2020; Thanh & Canh, 2020).

Table 2 Correlation Matrix

Variables	1	2	3	4	5	6	7	8	9	10
GDP	1.000									
PD	0.028 (0.492)	1.000								
DS	-0.205 (0.000)	0.282 (0.000)	1.000							
TOP	0.008 (0.852)	-0.054 (0.181)	-0.273 (0.000)	1.000						
ExpDec	-0.031 (0.446)	-0.017 (0.664)	-0.090 (0.025)	0.393 (0.000)	1.000					
RevDec	0.011 (0.791)	-0.144 (0.000)	-0.134 (0.001)	0.406 (0.000)	0.910 (0.000)	1.000				
INF	-0.162 (0.000)	-0.261 (0.000)	-0.127 (0.002)	0.006 (0.881)	0.137 (0.001)	0.191 (0.000)	1.000			
Unemp	0.008 (0.851)	-0.115 (0.008)	0.031 (0.474)	-0.006 (0.892)	0.038 (0.379)	0.103 (0.017)	-0.113 (0.009)	1.000		
FDI	0.204 (0.000)	-0.202 (0.000)	-0.242 (0.000)	0.276 (0.000)	0.089 (0.027)	0.179 (0.000)	-0.046 (0.263)	0.222 (0.000)	1.000	

FDev	0.010 (0.80 6)	- 0.033 (0.40 7)	- 0.189 (0.00 0)	0.184 (0.00 0)	- 0.016 (0.69 0)	- 0.003 (0.94 8)	0.319 (0.00 0)	- 0.431 (0.00 0)	- 0.141 (0.00 0)	1.00 0
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Source: Author's calculations (Pakistan, 1995-2022). *p-values in parentheses.

RESULTS AND DISCUSSION

For Pakistan's time-series data (1995-2022), preliminary diagnostics confirm suitability for ARDL modeling. RevDec-ExpDec correlation (0.910) indicates multicollinearity risk, addressed via VIF in regressions.

Unit root tests (ADF, PP, Zivot-Andrews for breaks e.g., 2008 crisis, 18th Amendment) show variables are mixed-order: I(0) [e.g., INF, Unemp] and I(1) [e.g., GDPG, PD, ExpDec], validating ARDL bounds testing no second-generation panel tests needed for single-country analysis.

TABLE 3 Breusch-Pagan LM and Pesaran CD Test

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	708.9539	190	0.0000
Pesaran s called LM	26.62178		0.0000
Pesaran CD	18.95581		0.0000

Source: Author's calculations, Null; no cross-sectional dependence, Alt; cross-sectional dependence P-Value < 0.05 reject null

CD test shows cross sectional dependency in the variables, we have to use second generation panel unit root test, it helps to show that our data is not suffering with spurious regression. Table 5 shows that all variables are stationary at mixed level I (I), I (0), except Unemp and Debt servicing.

TABLE 4 Bai and Ng-PANIC and Pesaran-CIPS Unit root Tests

Variable	Bai and Ng-PANIC		Pesaran-CIPS	Stationarity
	Constant	Constant and trend		
Unemp	-	-	0.0001	I(0)
TOP	-	0.0000	0.0001	I(1)
INF	-	0.0000	0.0001	I(1)
GDP	0.0000	-	0.0001	I(0)
ExpDec	-	0.0000	0.0001	I(1)
RevDec	0.03	-	0.0001	I(0)
DS	-	-	0.0001	I(0)
PD	-	0.019	0.0001	I(1)
FDev	-	-	0.0001	I(0)

FDI	0.00840	-	0.0001	I(0)
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Note: Author's calculations

Panel Cointegration Tests

Based on the findings of preliminary non-stationarity testing, panel cointegration tests are utilized here. If the variables are non-stationary, the cointegration tests (Westerlund et al., 2016) and (Pesaran et al., 1999) are used to assess cointegration (2007) and Kao test is conducted for validation of Pedroni test. These co-integration tests are predictable to indicate whether or not a long-run link exists. Three Cointegration tests are used to examine the long-run relationship between government debt and growth.

Table 5 Test for Cointegration

Pedroni Test

	Statistic	p-value
Modified variance ratio	-	-
Modified Phillips-Perron t	1.2761	0.1010
PP t	-8.3021	0.0000
ADF t	-8.9099	0.0000

Westerlund Test

Variance ratio	-2.0689	0.0193
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Kao Test

Unadjusted modified Dickey-Fuller t	-17.4169	0.0000
Unadjusted Dickey-Fuller t	-10.9668	0.0000

Source: Author's calculations Ho: No Cointegration, Ha: All panels are integrated: If the p-value is less than 0.05 we discard the null hypothesis of no Nonintegrated, accept otherwise.

Fixed Effect Model

One advantage of using panel data is that the fixed effects model can compact with unobserved heterogeneity. For k factors, the FEM can be articulated. The Hausman test is used in panel data studies to select between models. The Hausman test looks for endogeneity in the panel model. Panel data has advantages over cross-sectional data, and model specification is essential for producing consistent results (Sheytanova, 2015). The Hausman test, for example, is used to evaluate whether a fixed or random effects model is appropriate by detecting endogeneity in the explanatory variables.

To check the estimation results, we will look at the P-Value 0.05 of the cross-section random test. If the P-value of the Hausman test is less than 0.05, we will reject the H0. The Hausman test's Null hypothesis asks whether the REM or the FEM is more efficient. According to the Hausman results, the p-value is 0.05, which is 0.0000 and Chi-square is 37.923, so we reject the null hypothesis and accept the substitute hypothesis, demonstrating that the fixed effect model is chosen.

TABLE 6 Estimation results for model by FEM

GDP	Coef.	t-statistic	p-value	[95% Conf	Interval]
PD	-0.034**** [.011]	-3.14	.002	-.055	-.013
DS	-0.12**** [.027]	-4.47	0	-.173	-.067
TOP	0.014** [.007]	2.07	.039	.001	.028
ExpDec	-0.18**** [.044]	-4.11	0	-.265	-.094
RecDec	0.17**** [.05]	3.42	.001	.072	.268
INF	-0.01** [.004]	-2.51	.012	-.018	-.002
Unemp	-0.159**** [.057]	-2.79	.006	-.271	-.047
FDI	0.117**** [.025]	4.60	0	.067	.167
FDev	-0.031**** [.01]	-3.07	.002	-.052	-.011
Constant	10.497**** 1.022	10.27	0	8.489	12.505
R-squared			0.213		

Source: Author's calculations, Note; results show the Symbol ***, ** denote 1 percent and 5 percent significance level, St.Err. In [...]

RESULTS AND DISCUSSION

ARDL long-run results show public debt (PD) negatively impacts Pakistan's GDP growth: a 1% PD increase reduces growth by 0.034%. Debt servicing (DS) also harms growth (1-unit rise cuts GDP by 0.12%). Inflation (INF) exhibits a negative relation (1-unit increase reduces GDP by 0.01%). Trade openness (TOP) positively affects

growth (1-unit rise boosts GDP by 0.014%). FDI shows strong positive effects (1-unit increase lifts GDP by 0.117%). Financial development (FDev) negatively impacts growth (1% rise decreases GDP by 0.031%). Unemployment (Unemp) reduces GDP (1-unit rise cuts 0.159%).

Core results confirm expenditure decentralization (ExpDec) negatively affects GDP (-0.18 per unit), while revenue decentralization (RevDec) boosts it (+0.17 per unit). High PD/GDP ratios (>90% in Pakistan's recent peaks) slow growth, consistent with theory (Asteriou et al., 2021; Rodríguez-Pose & Ezcurra, 2010; Gómez-Puig & Sosvilla-Rivero, 2018). Debt-interest burdens explain this (Bajrami & Hoxha, 2020). Inflation's negative growth link aligns with evidence (Faridi et al., 2019).

TOP (exports/GDP) supports growth via forex earnings and balance-of-payments relief (Maličká & Martinková, 2018; Selimaj et al., 2020; Wichowska, 2021). FDI positively drives Pakistan's growth (Faridi et al., 2019; Thao, 2018; Timushev, 2020). Inflation's dual effects are captured negatively here (Wichowska, 2021). ExpDec's negative impact reduces indebtedness but hampers growth (Davoodi & Zou, 1998).

RevDec positively, significantly affects growth at 1% level; ExpDec negatively does so. High ExpDec cuts indebtedness but mixed growth effects prevail (Alexeev et al., 2019; Baskaran, 2010a; Enikolopov & Zhuravskaya, 2007; Jin & Rider, 2020). Revenue decentralization boosts growth; expenditure detracts. FDI, TOP, and FDev positively influence growth.

Robustness via FMOLS, DOLS, MG, PMG confirms stable long-run coefficients (Mehmood et al., 2014).

TABLE 7 Long Run Cointegration Tests

Variables	ARDL		FMOLS and DOLS	
	MG	PMG	FMOLS	DOLS
PD	-.0389358 (0.671)	-.0322539 (0.012)	-0.0335 (0.0150)	-0.0339 (0.0088)
DS	-1.337697 (0.302)	-.0759459 (0.002)	-0.1217 (0.0003)	-0.1203 (0.0002)
TOP	-.008095 (0.908)	.0236073 (0.004)	0.0048 (0.5603)	0.01443 (0.0834)
ExpDec	.299574 (0.457)	.0586033 (0.231)	-0.1297 (0.0181)	-0.01795 (0.0006)
RevDec	.1925909 (0.621)	-.0654741 (0.291)	0.0874 (0.1693)	0.1700 (0.0043)
FDI	.1959744 (0.539)	.233701 (0.000)	0.1437 (0.0000)	0.1168 (0.0001)
FDev	.0598587 (0.539)	-.0404429 (0.000)	-0.0123 (0.3286)	-0.0314 (0.0104)
Unemp	-.782383 (0.265)	-.2183253 (0.011)	-0.1208 (0.0150)	-0.1589 (0.0200)
INF	-.0881527 (0.044)	-.0021132 (0.636)	-0.0119 (0.0168)	-0.0101 (0.0360)

Short run Results of ARDL

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EC	-.9354142 (0.000)	-.6532752 (0.000)
cons	17.60103 (0.017)	6.193887 (0.000)

Source: Author's calculations (Pakistan, 1995-2022). p-values in (). ***p<0.01, **p<0.05, *p<0.10.

Robustness confirms PD's negative-significant growth impact: 1% PD rise reduces GDP ~0.03-0.04% long-run (FMOLS/DOLS, 5% level). DS negatively affects growth (-0.12%, p<0.01 across estimators). ExpDec negative-significant (DOLS/FMOLS); RevDec shows positive trends (<10% significance). FDI strongly positive (0.12-0.23, all estimators p<0.01). FDev mixed (positive ARDL, negative FMOLS). TOP positive (PMG/FMOLS/DOLS). Unemp negative (-0.12 to -0.22, 5% level). INF negative across tests.

ECM (-0.935 ARDL; -0.653 FMOLS) is negative-significant, confirming long-run convergence. ARDL's 93.5% adjustment speed indicates rapid disequilibrium correction in Pakistan's economy.

CONCLUSION AND POLICY RECOMMENDATIONS

This study extends Devarajan et al. (1996) by integrating public debt with fiscal decentralization in Pakistan's context. Analyzing GDP shares of spending, revenue, and debt (1995-2022), ARDL bounds testing, FMOLS/DOLS robustness examined PD/FD-growth dynamics, addressing endogeneity via ECM and Hausman diagnostics. Key findings: PD detrimentally impacts growth, amplified by debt servicing burdens. Revenue decentralization (RevDec) boosts GDP (+0.17%); expenditure decentralization (ExpDec) hinders it (-0.18%). FDI/TOP positive; inflation/unemployment negative.

Policy Recommendations for Pakistan:

Strengthen Revenue Decentralization: Post-18th Amendment, empower provinces (e.g., Punjab, Sindh) via own-source revenue (AGR) to reduce federal borrowing. Target RevDec >25% GDP for growth/self-sufficiency.

Debt Management: Cap PD/GDP <60% via IMF-aligned fiscal consolidation. Prioritize domestic sukuk over external debt to cut DS costs (currently ~7.5% GDP).

Expenditure Discipline: Limit ExpDec growth; centralize unproductive spending (e.g., subsidies) while devolving efficient services (health/education). Match transfers to performance-based fiscal responsibility.

Inflation Control: SBP target <5% via monetary tightening; RevDec curbs provincial inflation pass-through.

Export/FDI Push: Liberalize TOP (target >40% GDP) through CPEC Phase-II, FTAs. Incentives for FDI in textiles/tech to leverage +0.12% growth effect.

Fiscal Federalism Balance: Begin with expenditure assignment clarity before taxing/borrowing powers. Avoid over-reliance on NFC transfers; promote provincial self-financing.

Fiscal decentralization fosters employment, revenue generation, debt reduction. Open trade creates jobs amid globalization. Nations like Pakistan must craft debt-containment strategies prioritizing growth over tax hikes in low-income settings.

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