

A large, stylized illustration of puzzle pieces in white and black outlines is set against a dark blue background. The pieces are arranged in a way that suggests they are being assembled or fit together. The background has a subtle gradient and some light effects at the bottom.

**THE CASE FOR AN ADAPTIVE
FISCAL FEDERALISM:**
*An Evidence-Driven Recalibration
of the NFC Baseline*

April, 2026



Working Paper

**THE CASE FOR AN ADAPTIVE FISCAL FEDERALISM:
An Evidence-Driven Recalibration of the NFC Baseline**

Muhammad Sabir
Rabia Sidat

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Editing Support: Naveed Aamir

Graphics and Designing: Muhammad Rizwanullah Khan

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Acronyms

BE	Budget Estimates
FATA	Federally Administered Tribal Areas
FBR	Federal Board Revenue
HIES	Household Integrated Economic Survey
IPD	Inverse Population Density
KP	Khyber Pakhtunkhwa
MoPD&SI	Ministry of Planning, Development and Special Initiatives
NFC	National Finance Commission
PATA	Provincially Administered Tribal Areas
SPDC	Social Policy and Development Centre
WoT	War on Terror

Executive Summary

This paper addresses the urgent need to update the baseline data underpinning Pakistan’s National Finance Commission (NFC) Award, which governs the distribution of federal revenues among provinces. The 7th NFC Award, instituted in 2010, significantly enhanced provincial autonomy and introduced a multi-indicator formula for horizontal revenue sharing. However, it still operates using the 1998 Census and pre-FATA-merger administrative boundaries, leaving critical changes, such as the integration of merged districts into Khyber Pakhtunkhwa (KP) and significant demographic shifts, unaccounted for in revenue distribution.

Recent developments, including the 2023 Digital Census, 2024-25 poverty estimates, and updated revenue data, necessitate recalibrating the NFC’s underlying indicators to ensure constitutionality, fairness, and fiscal accuracy. The paper proposes an updated baseline that maintains the original formula and weights but updates the four key indicators (population, poverty/backwardness, revenue collection/generation, and inverse population density) using contemporary data. This approach preserves the integrity of the 7th NFC while aligning revenue distribution with current realities. The elimination of the “War on Terror” top slice and its integration into the formula further refines revenue distribution.

The updated fiscal framework raises the federal share by 0.42 percentage points (pp), with provinces experiencing differing changes based on new data. Balochistan benefits the most with a 1.03 pp increase, followed by Khyber Pakhtunkhwa (+0.55 pp), owing to better demographic recognition and the inclusion of merged districts. In contrast, Punjab (-1.86 pp) and Sindh (-0.15 pp) show moderate decreases, largely due to recalibration rather than structural shifts. For instance, Punjab’s share declines due to slower relative population growth and progress in poverty reduction. Overall, these adjustments indicate a move toward a more data-driven, formula-based allocation system.

The paper concludes that updating the baseline is an administrative necessity, supported by precedent from fiscal years 2002-03 to 2005-06. During this period, after the release of the 1998 Census, the NFC Secretariat recalibrated provincial shares using updated demographic data without needing a new Presidential Order, despite the 1997 NFC Award still being in effect. In this context, an Updated Baseline does not replace the next Award; instead, it serves as an evidence-based bridge that maintains fairness, transparency, and adherence to the Constitution throughout the transition period.

It proposes a clear technical pathway for implementing these changes in Budget 2026-27, ensuring transparency and predictability until a new NFC Award is finalized. This interim recalibration enables more accurate, evidence-based fiscal planning while respecting constitutional mandates and the eventual outcomes of ongoing NFC deliberations.

1. INTRODUCTION

The 7th National Finance Commission (NFC) Award of 2010 marked a major milestone in Pakistan’s fiscal federalism. It strengthened provincial autonomy, expanded the provincial share in the divisible pool from 45 percent to 57.5 percent, and introduced a multidimensional formula for horizontal distribution. However, sixteen years later, the Award continues to operate on the basis of 1998 Census demographics and a pre-merger administrative structure, where the former Federally Administered Tribal Areas (FATA) remained outside the NFC distributional framework and were financed through federal grants rather than constitutionally mandated entitlements.

Pakistan’s federal landscape today is fundamentally different. The 25th Constitutional Amendment, passed in May 2018, legally and administratively integrated the former FATA and PATA (the Provincially Administered Tribal Areas) into Khyber Pakhtunkhwa (KP). This shift brought more than five million residents under the provincial constitutional framework and reshaped KP’s demographic weight, geographic footprint, and development priorities. Concurrently, the 2023 Digital Census, the newly released official poverty estimates based on the Household Integrated Economic Survey (HIES) of 2024–25, and updated 2023–24 revenue data from the Federal Board of Revenue (FBR) provide the most current and granular evidence on population, deprivation, and revenue collection and generation across the federation.

In this context, the central argument of this paper is that an Updated Baseline is required before the 11th NFC can meaningfully address horizontal distribution among the provinces. This update does not entail altering the 7th NFC’s weights, indicators, or negotiated entitlements. Instead, it involves replacing outdated inputs with the latest official statistics to ensure that the horizontal distribution remains constitutionally compliant, empirically grounded, and aligned with current demographic and socioeconomic realities.

1.1. Required Adjustments for an Updated Baseline

To preserve the integrity of the 7th NFC Award while ensuring its relevance to current fiscal realities, the Updated Baseline must remain anchored in the existing horizontal distribution formula, with only the underlying data brought up to date. Under the current formula, the horizontal distribution of the divisible pool is based on four weighted factors: population (82 percent), poverty and backwardness (10.3 percent), revenue collection/generation (5 percent) and inverse population density (2.7 percent).

The following four updates are essential to align this formula with the current landscape:

i) Demographic Realignment

Update the Population (82 percent) and Inverse Population Density (2.7 percent) indicators to reflect Khyber Pakhtunkhwa’s post-merger boundaries and the revised population shares reported in the 2023 Digital Census. This ensures that the demographic basis of the Award is constitutionally accurate and administratively current.

ii) Recalibration of the Socioeconomic Indicator

Refresh the Poverty/Backwardness (10.3 percent) indicator using the official 2024–25 poverty estimates derived from HIES 2024–25. This update captures the contemporary distribution of deprivation, including within the merged districts, and ensures that horizontal transfers reflect current socioeconomic realities.

iii) Up-dation of Revenue Indicator

Update the Revenue Collection/Generation (5 percent) indicator using the data from the FBR Yearbook 2023–24, thereby replacing the outdated 2007–08 benchmark. This aligns the revenue component with the current tax effort and fiscal capacity of the provinces.

iv) Restoration of the Net Divisible Pool

Eliminate the temporary 1 percent “War on Terror” (WoT) top-slice to restore the divisible pool to its full constitutional form before applying horizontal shares. This ensures that the distribution framework reflects the Award’s original structure rather than transitional arrangements.

These adjustments retain the original 7th NFC formula but update the underlying inputs to reflect Pakistan’s current administrative and socioeconomic landscape.

1.2. Administrative Precedent: The Automatic Update of Horizontal Shares

The operational practice of the NFC requires that while the formula remains fixed for the duration of an Award, the underlying data must be updated automatically whenever new official statistics are released. This practice ensures that annual budgetary transfers remain aligned with current realities even in periods when a new Award is pending.

As illustrated in Table 1, a clear administrative precedent exists from fiscal year (FY) 2002–03 to 2005–06. Following the release of the 1998 Census, the NFC Secretariat recalibrated provincial shares using the updated demographic data without requiring

a new Presidential Order, even though the 1997 NFC Award remained in force. This adjustment was treated not as a renegotiation, but as a routine technical update necessary to maintain fidelity to the existing Award.

Table 1: NFC Share Recalibration 2002-03 – (%)

Province	1997 Presidential Order Share	Updated Share (Budget 2002-03)	Net Change
Punjab	57.88	57.36	-0.52
Sindh	23.28	23.71	0.43
NWFP (now KP)	13.54	13.82	0.28
Balochistan	5.30	5.11	-0.19

Source: Presidential Order 1 of 1997 & Explanatory Memorandum on Federal Receipts 2023.

This precedent reinforces that updating the baseline for Budget 2026–27 and subsequent Budgets until the finalization of a new Award is a standard administrative requirement—not a constitutional innovation.

1.3. Purpose and Structure of this Paper

Using the updated official datasets—but fully retaining the weights and structure of the 7th NFC Award—this paper constructs an Updated Baseline that can be applied to Budget 2026–27 if the 11th NFC Award is not finalized in time. Even if a consensus is eventually reached, the Updated Baseline offers a constitutionally defensible and technically rigorous approach to ensure fairness in the interim fiscal cycle.

The paper proceeds by:

- recalculating each of the four horizontal indicators using the latest official data;
- deriving updated horizontal shares;
- integrating the WoT adjustment to obtain effective vertical and horizontal allocations; and
- demonstrating the indicative revenue implications using the Budget Estimates for 2025–26.

The paper concludes by contrasting the distribution under the status quo with that derived from the Updated Baseline, highlighting how reliance on updated data reshapes fiscal outcomes across the federation.

2. RECONSTRUCTION OF THE UPDATED BASELINE

To operationalize the conceptual adjustments outlined in the previous section, this section builds the Updated Baseline through a sequential, indicator-by-indicator approach. The objective is to translate constitutional and administrative developments into the underlying metrics that populate the 7th NFC formula. Population is addressed first—both because it carries the highest weight (82 percent) and because the post-merger demographic realignment fundamentally reshapes the distributional landscape. By examining each indicator in turn, the analysis demonstrates how updated evidence reconfigures provincial shares and reveals the structural changes that have taken place since 2010.

2.1. Demographic Realignment

Population remains the central pillar of the 7th NFC formula, accounting for 82 percent of the horizontal distribution. Updating this indicator is therefore the most crucial step in constructing the Updated Baseline. The move from the 1998 Census to the 2023 Digital Census captures demographic changes accumulated over two decades, including the constitutional merger of the former FATA into KP, differential provincial growth patterns, and shifts in internal migration. These developments have collectively reshaped the demographic balance across the federation.

Table 2 presents the updated population distribution alongside the weighted population component of the 7th NFC formula. The comparison illustrates how the revised data alter the provincial shares, establishing the foundation for all subsequent indicator updates.

Table 2: Updated Population Shares – (%)

Province	Population Share (%)			Weighted Contribution (%)		
	7 th NFC	2023 Census	Net Change	7 th NFC	2023 Census	Net Change
Punjab	57.4	53.4	-4.0	47.0	43.8	-3.2
Sindh	23.7	23.3	-0.4	19.4	19.1	-0.3
Khyber Pakhtunkhwa*	13.8	17.1	3.3	11.3	14.0	2.7
Balochistan	5.1	6.2	1.1	4.2	5.1	0.9
Total	100.0	100.0		82.0	82.0	

Source: Pakistan Bureau of Statistics (PBS), 2023 Digital Census; National Finance Commission Secretariat, Proceedings of the 7th NFC (2010).

*The 7th NFC population shares reflect the 1998 Census, where FATA and PATA were outside KP. The 2023 Census includes these merged districts within KP.

What emerges from this updated dataset is a consistent pattern of demographic rebalancing across provinces, whereby:

- Punjab holds the largest population share and therefore experiences the most significant revision under the Updated Baseline. Although its population has grown in absolute terms, its relative growth has been slower than that of other provinces. Also, the incorporation of more than five million residents from the Merged Districts has further altered the national denominator. Given the dominant weight assigned to population in the 7th NFC formula, this reduction in Punjab’s relative share directly translates into a sizeable decline in its weighted contribution.
- Sindh shows only marginal adjustments, indicating broad demographic stability. Its updated share remains close to its historical proportion, resulting in a slight but noteworthy decline in its weighted contribution.
- Khyber Pakhtunkhwa registers the most substantial increase, driven primarily by the inclusion of the Merged Districts. KP’s population share rises sharply, and its weighted share increases almost proportionately. This represents one of the most significant structural shifts introduced by the Updated Baseline.
- Balochistan also records a meaningful increase in its population share. While smaller in absolute terms, the proportional impact is significant due to its historically low base, reinforcing its entitlement under the formula.

Taken together, these demographic updates establish a markedly different distributional landscape from the one that informed the 7th NFC Award and is still used for provincial revenue distribution. The implications of these shifts unfold across the subsequent indicators—each of which interacts with the new population base, further shaping the updated provincial shares.

2.2. Spatial Dispersion: Updating the Inverse Population Density Indicator

While population is the dominant variable in the NFC formula, the Inverse Population Density (IPD) indicator serves a distinct purpose: it compensates provinces with vast territorial expanse and low population density, where the per capita cost of delivering public services is structurally higher. Although the IPD weight is modest at 2.7 percent, its inclusion reflects a constitutional commitment to geographic equity, recognizing that dispersion imposes administrative and developmental burdens.

Updating the IPD shares using the 2023 Digital Census results in relatively minor adjustments compared to the population indicator, but the direction of change is both logical and consistent with broader spatial trends. The revised IPD shares illustrate the continued dominance of Balochistan in this category, while also capturing the incremental gains made by the other three provinces as their populations spread outward and administrative boundaries evolved.

Table 3: Updated Inverse Population Density Shares – (%)

Province	IPD Shares (%)			Weighted Contribution (%)		
	7 th NFC	2023 Census	Net Change	7 th NFC	2023 Census	Net Change
Punjab	4.32	5.37	1.05	0.12	0.15	0.03
Sindh	7.18	8.45	1.27	0.19	0.23	0.03
Khyber Pakhtunkhwa	6.51	8.32	1.81	0.18	0.22	0.05
Balochistan	81.99	77.86	-4.13	2.21	2.10	-0.11
Total	100.0	100.0		2.70	2.70	

Source/Note: Inverse population density under the 7th NFC is based on 1998 Census population and pre-merger administrative boundaries, as documented in the Proceedings of the 7th NFC (2010). The updated IPD shares are authors' calculations using 2023 Census population from PBS and area data from the Statistical Supplement, Pakistan Economic Survey 2024–25, which reflects the post-merger integration of FATA into KP.

Table 3 highlights the updated figures, showing a subtle yet meaningful realignment in provincial shares:

- For both Punjab and Sindh, the modest increase in their IPD shares reflects two simultaneous dynamics. First, although the population of both provinces have grown in absolute terms, their relative population growth has been slower than that of KP and Balochistan over the past two decades. Second, the incorporation of the Merged Districts into KP expands the national denominator for the IPD calculation by adding significant land area and population to a single province. Because Punjab's and Sindh's own land areas and settlement patterns remain unchanged, these denominator shifts raise their proportional contribution to the national IPD total. The resulting increase is therefore mechanical rather than structural—driven by changes elsewhere in the federation rather than within the provinces themselves.
- Khyber Pakhtunkhwa shows the largest positive change among the settled provinces. The integration of the Merged Districts significantly alters KP's geographic profile, adding large tracts of sparsely populated territory to the province. This structural shift naturally boosts KP's IPD share, reinforcing the demographic changes captured in the previous subsection.
- Balochistan remains overwhelmingly dominant in this indicator, but its IPD share declines by just over four percentage points (pp). Since the province's land area is unchanged, the reduction reflects faster population growth within Balochistan itself, which lowers its relative dispersion when expressed as a national share. Despite this sizeable decline in the raw IPD share, the resulting weighted adjustment is modest (-0.11 pp) due to the small weight assigned to this indicator in the 7th NFC formula.

Even with these shifts, the overall weighted impact remains limited because the IPD indicator carries only a modest share in the formula. Nonetheless, updating the underlying data provides a more accurate representation of spatial dispersion and ensures that the revised baseline remains consistent with the constitutional rationale for including IPD in the 7th NFC framework.

2.3. Updating the Poverty/Backwardness Indicator

Before presenting the updated poverty shares, it is important to note that Khyber Pakhtunkhwa held the highest share under this criterion in the 7th NFC Award, reflecting the distribution of deprivation at that time. As part of constructing the Updated Baseline, a comprehensive review was undertaken to identify official poverty estimates that incorporate both absolute and relative measures of welfare, including multidimensional indicators where available.

To the best of our knowledge, no official dataset exists that fully integrates the Merged Districts into KP, with the sole exception of the recently published poverty estimates released by the Ministry of Planning, Development and Special Initiatives (MoPD&SI) for 2024–25. These estimates are officially endorsed, based on the HIES 2024–25, and constructed on the 2023 Census sampling frame. Most significantly, they represent the first survey coverage to fully integrate the Merged Districts into the provincial profile.

Table 4: Updated Poverty Shares – (%)

Province	Poverty Shares (%)			Weighted Contribution (%)		
	7 th NFC	2023 Census	Net Change	7 th NFC	2023 Census	Net Change
Punjab	23.16	16.86	-6.30	2.39	1.74	-0.65
Sindh	23.41	23.59	0.18	2.41	2.43	0.02
Khyber Pakhtunkhwa	27.82	25.54	-2.28	2.87	2.63	-0.23
Balochistan	25.61	34.01	8.40	2.64	3.50	0.87
Total	100.0	100.0		10.30	10.30	

Source: National Finance Commission Secretariat, Proceedings of the 7th NFC (2010); Ministry of Planning, Development & Special Initiatives, Preliminary Report on Poverty Estimation 2024–25; authors' calculations.

Given these features, the MoPD&SI dataset represents the most methodologically consistent source for updating the poverty component of the 7th NFC formula. Table 4 presents the updated distribution, which reflects a marked shift from the 2010 profile.

- Punjab's share of national poverty declines sharply by 6.30 pp (from 23.16 percent to 16.86 percent). This reduction is consistent with the province's substantial relative gains in poverty reduction compared to the national

average. When applied to the fixed 10.3 percent weight in the NFC formula, Punjab’s weighted contribution declines by 0.65 pp.

- Sindh’s share remains effectively stable, showing a marginal increase of 0.18 pp. Its weighted poverty contribution holds steady, reflecting a balance between localized progress and persistent deprivation in specific districts.
- KP’s relative share decreases by 2.28 pp. While the 2024–25 estimates show that 35 percent of KP’s population lives below the poverty line—higher than Punjab (23.3 percent) and Sindh (32.6 percent)—its relative share of the national poverty total declines. This occurs because the updated national distribution allocates a significantly greater proportion of poverty to Balochistan, where absolute deprivation remains higher. Consequently, KP’s weighted contribution to the formula declines by 0.23 pp.
- Balochistan shows the most pronounced increase, with its share of national poverty rising from 25.61 percent to 34.01 percent. This shift aligns with headcount estimates indicating that 47 percent of the province’s population lives below the poverty line—the highest level of deprivation in the federation. This results in a 0.87 pp increase in Balochistan’s weighted poverty share.

Overall, these updates ensure that the poverty component of the 7th NFC formula reflects contemporary socioeconomic realities rather than historical distributions. This recalibration does not alter the indicator’s weight; it simply enables the formula to function as intended, using the most transparent and officially endorsed data available.

2.4. Updating the Revenue Indicator

The revenue indicator—assigned a cumulative weight of 5 percent in the 7th NFC Award—is split equally between revenue collection (share in total federal taxes) and revenue generation (proxied through income tax on electricity). For the Updated Baseline, this indicator has been recalculated using the most recent figures available from the FBR Yearbook 2023–24. Although the revenue indicator carries a modest weight relative to population and poverty, it captures an important dimension of provincial economic activity and tax-linked performance.

Table 5: Updated Revenue Shares – (%)

Province	Revenue Shares (%)			Weighted Contribution (%)		
	7 th NFC	2023 Census	Net Change	7 th NFC	2023 Census	Net Change
Punjab	44.0	46.4	2.4	2.20	2.32	0.12
Sindh	50.0	45.9	-4.1	2.50	2.29	-0.21
Khyber Pakhtunkhwa	5.0	6.1	1.1	0.25	0.30	0.05
Balochistan	1.0	1.7	0.7	0.05	0.08	0.03
Total	100.0	100.0		5.00	5.00	

Source: National Finance Commission Secretariat, Proceedings of the 7th NFC (2010); Ministry of Planning, Development & Special Initiatives, Preliminary Report on Poverty Estimation 2024–25; authors' calculations.

Table 5 presents the updated revenue distribution, reflecting several notable shifts from the 7th NFC baseline:

- Punjab's revenue share rises from 44.0 percent to 46.4 percent. This uplift reflects the province's expanding share of federal tax collection, driven by population-linked economic activity and the growing concentration of taxable transactions in major urban and industrial centres. Consequently, Punjab's weighted contribution to the formula increases by 0.12 pp.
- Sindh's revenue share declines from 50.0 percent to 45.9 percent, reflecting a relative shift in the pattern of federal tax collection. Given the modest weight assigned to this indicator, the result is a weighted adjustment of –0.21 pp.
- Khyber Pakhtunkhwa's revenue share increases from 5.0 percent to 6.1 percent. This rise aligns with the gradual expansion of formal economic activity and improved documentation within the province. The weighted impact is a positive 0.05 pp.
- Balochistan's revenue share increases from 1.0 percent to 1.7 percent. This adjustment reflects the province's growing visibility in tax-linked economic activity, including the early fiscal contributions emerging from the development of Gwadar Port as a logistics and trade hub. The updated share captures the gradual incorporation of Gwadar-related transport, services, and commercial flows into the federal revenue base. As a result, Balochistan's expanding role in the national economy is better reflected in the formula, yielding a positive weighted adjustment of 0.03 pp.

While the revenue indicator contributes only 5 percent to the horizontal distribution, updating it ensures that the 7th NFC formula reflects current economic patterns rather than historical tax incidence.

3. IMPACT ON PROVINCIAL SHARES AND REVENUE DISTRIBUTION

With all four horizontal distribution indicators updated under the 7th NFC formula, it is essential to consolidate these results into a unified analysis of how provincial entitlements shift as contemporary data replace the 2010 baseline. This section brings together three interconnected components:

- Updated Horizontal Shares: Based on the recalculated Population, Inverse Population Density (IPD), Poverty, and Revenue indicators.
- Updated Vertical and Horizontal Distribution: Incorporating the 1 percent WoT top-slice into the divisible pool to determine effective federal and provincial shares.
- Indicative Revenue Implications: Demonstrating how the updated shares would alter the distribution of the divisible pool using the Budget Estimates for 2025–26.

This integrated approach provides a forward-looking, evidence-aligned basis for understanding how updated provincial entitlements would shape future budgetary allocations under the existing NFC architecture.

3.1. Updated Baseline and Effective Provincial Shares

Table 6 presents the updated provincial shares derived from the automatic application of the revised horizontal indicators to the 7th NFC formula, alongside the corresponding baseline and effective shares. For clarity and transparency, the table distinguishes between two related but analytically separate concepts:

- *Baseline Shares (Excluding War on Terror)*: These represent the horizontal distribution based solely on the updated 2026 dataset, compared directly with the 2010 baseline. This view isolates the effect of updated demographic, socioeconomic, and revenue indicators without incorporating any top-slice adjustments.
- *Effective Shares (Including War on Terror)*: These incorporate the 1 percent WoT allocation, as reported in the Federal Explanatory Memorandum of Receipts (Budget Estimates 2025–26). This adjustment is applied prior to vertical distribution and integrated into Khyber Pakhtunkhwa’s entitlement, reflecting the actual realized distribution used for budgeting purposes.

Collectively, the updated shares present a clear and internally consistent realignment of provincial entitlements when the 7th NFC formula is populated with contemporary official data.

Table 6: Updated Provincial Shares – (%)

Province	Excluding WoT (1%)			Including WoT (1%)		
	Baseline	Updated Share	Net Change	Effective	Updated Share	Net Change
Punjab	51.74	47.99	-3.75	50.85	47.99	-2.86
Sindh	24.55	24.05	-0.50	24.13	24.05	-0.08
Khyber Pakhtunkhwa	14.62	17.17	2.55	16.09	17.17	1.08
Balochistan	9.09	10.80	1.71	8.93	10.80	1.87
Total	100.0	100.0		100.00	100.00	

Source: President’s Order No. 5 of 2010; updated shares derived from Tables 2–5; effective shares based on the Explanatory Memorandum on Federal Receipts 2025–26; authors’ calculations.

Punjab’s horizontal share declines from 51.74 percent to 47.99 percent (–3.75 pp). When viewed through the Effective Share (which incorporates the 1 percent WoT adjustment), the adjustment moderates to –2.86 pp. Punjab remains the largest recipient in absolute terms, but its revised share now aligns more closely with its contemporary demographic and socioeconomic weight within the federation.

Sindh’s position remains remarkably stable. Its horizontal share adjusts slightly from 24.55 percent to 24.05 percent (–0.50 pp). With the WoT adjustment included, the Effective Share shifts by only –0.08 pp, confirming that Sindh’s updated demographic, poverty, and revenue indicators remain broadly consistent with its original 7th NFC entitlement.

Khyber Pakhtunkhwa experiences a significant upward realignment in its horizontal share, increasing from 14.62 percent to 17.17 percent (+2.55 pp). This shift is primarily driven by the constitutional integration of the Merged Districts (FATA), which raises the province’s baseline population and adjusts its poverty and revenue indicators accordingly. Relative to the historical Effective Share, KP’s entitlement rises by +1.08 pp, marking a transition from reliance on ad-hoc grants to a strengthened, formula-based allocation under the Updated Baseline.

Balochistan’s horizontal share increases from 9.09 percent to 10.80 percent (+1.71 pp), reflecting the updated 2023 Census population figures and the latest poverty estimates, which place the province at the highest end of the deprivation distribution. Under the Effective Share, Balochistan’s entitlement rises by 1.87 pp, making it the largest relative gain-holder under the Updated Baseline.

3.2. Impact Analysis: The Unified Vertical and Horizontal Distribution

While Table 6 isolates the horizontal shifts among provinces, Table 7 integrates these changes within the full structure of the Divisible Pool, providing a consolidated picture of how updated provincial shares interact with the vertical distribution mandated under the 7th NFC Award. This unified perspective is essential for administrative implementation, as it shows that retaining the 42.5/57.5 federal–provincial split while integrating the 1 percent WoT top-slice into the formula-based entitlement results in revised effective shares for all stakeholders. By combining both vertical and horizontal dimensions, Table 7 demonstrates the complete impact of applying updated demographic, poverty, and revenue indicators within the unchanged NFC framework.

Table 7: Updated Federal and Provincial Shares in Divisible Pool – (%)

	Baseline	Effective	Updated Share	Net Change
War on Terror	1.00			
Federal	42.50	42.08	42.50	0.42
Punjab	29.75	29.45	27.59	-1.86
Sindh	14.12	13.98	13.83	-0.15
Khyber Pakhtunkhwa	8.41	9.32	9.87	0.55
Balochistan	5.23	5.17	6.21	1.03
Total	101.0	100.0	100.0	

Source: Based on President’s Order No. 5 of 2010 and the provincial shares reported in Table 6; authors’ calculations.

Key Observations and Strategic Implications

- *Restoration of Federal Fiscal Space (+0.42 pp):* With the phasing out of the 1 percent WoT “top-slice” and its transition into the updated horizontal framework, the federal share returns to its nominal 42.50 percent. This adjustment provides an additional 0.42 pp of the divisible pool to the federal government.
- *Balochistan’s Growth Realization (+1.03 pp):* Balochistan registers the most notable upward adjustment in effective share, rising from 5.17 to 6.21 percent. This shift reflects the combined impact of the 2023 Digital Census, the updated 2024–25 poverty estimates, and the province’s expanded visibility in revenue-related indicators, including tax-linked activity around Gwadar. For the first time, these factors translate into a proportionately higher formula-based entitlement, ensuring that Balochistan’s demographic and socioeconomic expansion is captured in its actual receipts.

- *The KP Merger Dividend (+0.55 pp)*: Khyber Pakhtunkhwa’s effective share increases from 9.32 to 9.87 percent, a 0.55 pp gain that reflects the full fiscal integration of the Merged Districts. This transition—from receiving a separate 1 percent WoT grant to holding a consolidated, formula-based entitlement—demonstrates that the updated indicator-led approach provides the province with a more durable and predictable fiscal base than a discretionary mechanism.
- *Stability Within the National Core*: Both Punjab and Sindh experience modest reductions in their effective shares (–1.86 and –0.15 pp, respectively). These adjustments reflect mathematical recalibration driven by updated population dynamics and poverty distributions rather than any structural reweighting. Notably, Sindh’s share remains almost unchanged, indicating that its contemporary demographic and socioeconomic profile closely aligns with its historical entitlement under the 7th NFC framework.

3.3. Indicative Revenue Implications: The 2026–27 Fiscal Outlook

To translate the updated NFC shares into a practical budget context, Table 8 applies the recalibrated provincial weights to the Budget Estimates (BE) 2025–26 divisible pool of Rs. 13,791 billion. This forward-looking exercise is not intended to revise historical allocations; rather, it illustrates how the Updated Baseline would alter the distribution of budgeted resources under the existing 7th NFC framework. The purpose is to demonstrate that updating the 2010 baseline is a technical correction—not a renegotiation—that aligns future allocations with contemporary demographic, socioeconomic, and revenue realities.

Table 8: Federal and Provincial Share in Revenue Receipts (BE 2025-26)

Federal / Provincial	As per 7 th NFC Award (Rs. in Billion)		
	Baseline	Updated	Difference
Federal	5,802.6	5,861.2	58.6
Punjab	4,061.9	3,805.0	-256.9
Sindh	1,927.3	1,907.3	-20.0
Khyber Pakhtunkhwa	1,285.7	1,361.2	75.5
Balochistan	713.6	856.4	142.8
Total	13,791	13,791	

Source: Derived from Table 7 and the Explanatory Memorandum on Federal Receipts 2025–26; authors’ calculations.

Fiscal Impact Assessment

- *Federal Resource Recovery (+Rs. 58.6 billion)*: Under the Updated Baseline, the Federal Government regains Rs. 58.6 billion in annual fiscal space through the restoration of the standard 42.5 percent vertical share. This recovery is particularly important in the current macro-fiscal environment, where external shocks—such as rising global oil prices and heightened regional geopolitical volatility—have increased pressures on the federal budget. The restored fiscal space strengthens the Centre’s capacity to absorb these shocks and meet national-level obligations without encroaching on provincial constitutional shares.
- *Balochistan’s Demographic Dividend (+Rs. 142.8 billion)*: Balochistan emerges as the largest beneficiary of the Updated Baseline, with an estimated Rs. 142.8 billion increase in its divisible pool allocation. This adjustment is a direct outcome of the province’s substantial population increase recorded in the 2023 Digital Census and the updated 2024–25 poverty estimates, which place deprivation levels at 47 percent—the highest among all provinces. The revised share aligns Balochistan’s transfers more closely with its current demographic footprint and development needs, providing a stronger fiscal foundation to respond to persistent welfare gaps and service delivery challenges.
- *Khyber Pakhtunkhwa Merger Integration (+Rs. 75.5 billion)*: For Khyber Pakhtunkhwa, the Updated Baseline translates into an additional Rs. 75.5 billion. This increase reflects the formal incorporation of the Merged FATA Districts into the provincial entitlement structure. By shifting from a grant-based “top-slice” mechanism to a formula-driven allocation, the Updated Baseline provides KP with a predictable and transparent fiscal stream—critical for supporting long-term stabilization, service delivery expansion, and development planning in the former FATA regions.
- *Data-Aligned Recalibration for Punjab and Sindh*: Punjab (–Rs. 256.9 billion) and Sindh (–Rs. 20.0 billion) experience downward adjustments in their indicative revenues under the Updated Baseline. These shifts represent a data-aligned recalibration that corrects distortions caused by reliance on 16-year-old demographic and poverty data. For Sindh, the adjustment is minimal. These changes should therefore be understood as technical adjustments rather than losses, reflecting the updated distribution of population, poverty, and revenue across the federation.

4. CONCLUSION AND PROPOSED TECHNICAL PATHWAY

The deliberations of the 11th National Finance Commission (NFC) are a constitutionally significant process intended to address the federation's long-term fiscal responsibilities and structural needs. However, while these high-level negotiations continue, the immediate preparation of the Budget 2026–27 requires a pragmatic, technically sound, and evidence-based baseline that reflects the federation's contemporary demographic and socioeconomic realities.

Applying the 2023 Digital Census, the poverty estimates based on HIES 2024–25 and the FBR 2023–24 revenue distribution to the unchanged 7th NFC formula offers a feasible and constitutionally consistent interim approach. This data-aligned recalibration ensures that the upcoming budget captures the post-merger administrative structure of Khyber Pakhtunkhwa, reflects the significant population growth in Balochistan, and aligns with current patterns of deprivation and revenue generation, while at the same time avoiding any prejudgment or constraint on the 11th NFC's eventual mandate to review the underlying formula once consensus is achieved.

In this sense, an Updated Baseline is not a substitute for the next Award; rather, it is an evidence-driven bridge that preserves fairness, transparency, and constitutional fidelity during the transition period.

4.1. Proposed Implementation Pathway for Budget 2026–27

Drawing on administrative precedent—particularly the 2002–03 adjustment when the NFC Secretariat updated shares using the 1998 Census without requiring a new Presidential Order—the updating of horizontal indicators can be operationalized as a routine technical alignment. To ensure predictability and transparency for all stakeholders, the following pathway is proposed:

- *Technical Notification of Updated Shares:* The NFC Secretariat may issue a technical notification to the Federal and Provincial Finance Departments, communicating the updated shares presented in Table 7. This would maintain the mathematical integrity of the 7th NFC Award, ensuring that officially notified statistics—census, poverty, and revenue—are accurately reflected in the horizontal distribution.
- *Vertical Realignment for Budget 2026–27:* To streamline implementation, the Federal Government may incorporate the 1 percent WoT top-slice into the baseline, thereby adopting the effective 42.5 percent federal share shown in Table 7 and eliminating the need to apply the top-slice separately each year. This approach enhances transparency, simplifies budget accounting, and eliminates the need for special-purpose deductions outside the constitutional framework.

4.2. Concluding Note

This technical recalibration does not replace the 11th NFC Award. Instead, it provides a stable, transparent, and evidence-aligned baseline that allows budget formulation to proceed without perpetuating outdated demographic maps or obsolete socioeconomic assumptions. This data-driven alignment strengthens the NFC process by enabling the 11th NFC to conduct its deliberations with a clearer and more accurate understanding of the federation's current landscape, without altering the original formula.

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Social Policy and Development Centre

G-22, B/2, Park Lane Clifton Block 05, Karachi

+92 316 1113113 | +92 21 3587 3405

Email: spdc@spdc.org.pk | Website: www.spdc.org.pk