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Fiscal Vulnerability and Execution Paralysis: A Quantitative Case Study of the Government of Balochistan (2023-2024)

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ABSTRACT

Background: Public Sector Financial Reporting is the cornerstone of accountability and fiscal transparency in government. Structural inequities between budgets and service provision frequently occur at a sub-national level of governance in developing countries. The objective of this case study is to review the fiscal situation of the Government of Balochistan for Fiscal Year 2023-2024, in the context of indicators of revenue dependence, sectoral budget execution variance, and public debt management.

Data Analysis: Quantitative descriptive analysis, and the information was collected from the data of the Fiscal Annual Statement presented by the Auditor General. The analysis was done not in the traditional way, as nominal reporting, but also in real terms, which included measures of real purchasing power and how the provincial expenditure is executed efficiently.

Results: The fiscal system is very reliant on transfers: 75.8% of the income comes from federal transfers and just 4.8% from provincial tax collection. Moreover, the study shows that there is execution paralysis with the systematic approach in all public sectors. The government spent less than its revised budget allocations in key areas such as Social Protection, Education (Rs. Health (Rs. 797 million). Strangely enough, although they could not use the existing funds, new domestic borrowing increased by 112.6% year over year. This surge in borrowings led to rising repayment costs and over-investment in debt, with Rs. $52.6 billion in closing cash balances left unspent.

Conclusion: The fiscal deficit in Balochistan is not due to a shortage of money but to a serious lack of absorptive capacity and administration. Simply pushing more federal transfers and debt-financed allocations doesn't necessarily lead to better public results if that's not accompanied by a broader reimagining of the province's project pipelines and tax-collection systems.

Introduction

The process of financial reporting in the public sector underpins fiscal transparency, organizational trust, and good governance (Tekdemir & Yesil, 2025). The development of well-functioning accounting systems in developing countries is crucial for both combating corruption and channeling government funds to service delivery (World Economics and Finance Bulletin, 2025). Financial transparency is critical for building public confidence; when citizens can clearly identify how funds are allocated and spent, trust in organizational governance increases (Piotrowski & Van Ryzin, 2007; Grimmelikhuijsen & Meijer, 2014). However, one of the persistent problems in subnational governance is the structural issue of budget allocation on paper without proper implementation at the local level (Krynytsia, 2024). In the context of Pakistan, fiscal decentralization, primarily driven by the National Finance Commission (NFC) Award, was designed to empower provincial governments to independently manage their own economic growth and social services (Ahmed, 2014). Yet, this framework has inadvertently fostered severe vertical imbalances. The province of Balochistan presents an acute example of this structural vulnerability. Despite covering nearly half of Pakistan's landmass, Balochistan remains highly dependent on federal transfers for its revenue, operating with a severely limited internal tax-collection apparatus (Awaz Foundation Pakistan, 2025).

Even though there have been signs of heavy capital flows and development expenditure in recent provincial budgets, financial experts and civil society have consistently pointed to an underlying issue: the poor absorption capacity of available resources. Underspending is observed when the government lacks the capacity to undertake development projects in key areas such as health and education (Monsod, 2016; Mukhopadhyay, 2012). What is interesting is that underspending often goes hand in hand with rapid borrowing within the country (Biegon, 2024). Such a situation results in a phenomenon known as the "Liquidity Paradox," characterized by the accumulation of idle money in government coffers and simultaneous high-interest borrowing.

The research focused on empirically exploring the paradox through conducting a quantitative analysis case study of the Government of Balochistan's financial activities in the 2023-2024 fiscal year using the computational data extraction approach to evaluate three major variables: (1) the dependency of the province on its revenues, (2) implementation gaps within the main public sectors, and (3) the fast increase in public debts. It is hypothesized that the fiscal problem in the province arises not from a lack of finances but from poor administrative performance.

Literature Review

The analysis must be set in the wider context of the literature on public financial management to be able to comprehend the nature of the budgetary problem of Balochistan. The literature review is based on three structural problems, which are interrelated: vertical imbalance, absorptive capacity, and liquidity paradox.

Fiscal Federalism and Vertical Imbalances

In Pakistan, the design of fiscal federalism is dictated more or less by the provisions of the National Finance Commission (NFC) Award to distribute fiscal powers between the federal government and the provinces. This system has been used for the purpose of enhancing governance at the provincial level but has been crucial in reinforcing vertical fiscal inequalities. Ara and Sabir (2010) report that most provincial budgets in Pakistan are characterised by transfers from the divisible pool that is provided by the federal budget, and the proportion of provincial tax revenues is often less than 5 per cent of their overall budget. The heavy reliance on transfers seriously hinders the autonomy of sub-national entities. If a province lacks an efficient tax collection mechanism, it will be highly susceptible to economic changes at the federal level of governance (Ara & Sabir, 2010).

Absorptive Capacity and Budget Execution Paralysis

One of the constant problems faced by developing nations in their financial management is the inefficiency in the use of assigned capital, as reflected in the concept of absorptive capacity. The International Monetary Fund (2020) defines absorptive capacity challenges as the institutional, technical, and managerial difficulties that governments face in executing public investment programs. When a government increases spending beyond the institutional threshold, bottlenecks occur. Instead of improving public service delivery, adding more capital to an economic system with poor absorptive capacity leads to execution paralysis, significant project delays, and underspending of funds in areas such as health and education (IMF, 2020). In this case, under-spending is a sign of administrative incompetence at the government level.

Treasury Management and the Liquidity Paradox

Effective management of public finances requires robust monitoring of government cash flows, preferably through a Treasury Single Account (TSA) system. According to Fainboim and Pattanayak (2011), the existence of an integrated set of government bank accounts is a basic requirement for modern cash management to ensure that cash flows are optimally utilized. In the absence of a centralized set of government bank accounts, the government may face a liquidity contradiction, whereby it must pay high interest rates on its domestic debt to conduct its daily operations, even though excess funds lie idle in disconnected public bank accounts.

Methodology

Research Design

The following study is conducted using a quantitative descriptive case study design to measure the financial performance and budget implementation of the Government of Balochistan. The aforementioned research design provides a means for an in-depth empirical study of financial management by specifying financial indicators for comparison with the statutory budget.

Data Collection and Sources

Only financial information obtained from secondary and audited sources has been used in the analysis to enhance validity and reliability. The main source of financial data is from the Financial Statements of the Government of Balochistan for fiscal year 2023–2024 as audited by the Auditor General of Pakistan. The scope of data gathering was confined to the Provincial Consolidated Fund and Public Account.

Analytical Framework and Variables

The fiscal analysis considered three basic financial factors in order to identify the province’s capacity for fiscal structuring:

- **Revenue Dependency Ratio:** This was measured on the basis of the comparative value of taxes from the federal government against taxes and other revenue that the province raises itself.

- **Budget Execution Variance:** This was evaluated using the measurement of differences between the revised budget and cash payments in real terms, focusing on the four key categories of General Public Services, Economic Affairs, Health, and Education. Negative variances were viewed as bottlenecks in execution.

- **Debt and Liquidity Status:** The trend in new domestic debt, interest, and ending cash balances of the government’s public finances was tracked from year to year.

Data Processing and Macroeconomic Adjustment

To protect the integrity of the analysis of the findings, the extracted financial information underwent rigorous variance analysis. Furthermore, a macroeconomic adjustment factor was included in the expenditure evaluation. The reason is that, when looking at the standard financial information provided by the government, all figures are in nominal terms. Evaluation in periods of high inflation within the nation may distort how performance is perceived within the government. Therefore, to prevent the mistaken perception that the rise in nominal expenditures reflects an increase in capacity, a macroeconomic adjustment was made using the current CPI inflation figure.

Results

The investigation of the Government of Balochistan’s 2023-2024 financial operations highlights major weaknesses in its ability to generate revenue, significant problems in implementing the budget, and marked inefficiencies in treasury management. The results are presented in three broad categories: revenue dependence, execution differences, and liquidity management.

Revenue Composition and Federal Dependency

After a detailed scrutiny of the sources of revenue, it is observed that the provincial system is very much reliant on the central government. The total revenue for the Fiscal Year 2024 is Rs. 634,583 million. A total of Rs. out of this revenue was transferred from taxes to the federal government. This represents 481,180 million, or 75.8% of the province's revenue. On the contrary, the Government of Balochistan would collect Rs. of its own taxes. This is equivalent to 4.8% of total revenue, which amounts to 30,610 million.

Table 1: Revenue Composition (2023-2024)

Revenue Category	2023 Actual (Rs. in Millions)	2024 Actual (Rs. in Millions)	Proportion of 2024 Total (%)
Federal Transfers (Taxation)	387,949	481,180	75.8%
Provincial Own Collection (Taxation)	25,945	30,610	4.8%
Non-Tax Revenue	27,104	43,757	6.9%
Grants and Aid	28,699	40,037	6.3%
Development Surcharge and Royalties	18,234	38,999	6.1%
Total Revenue	487,931	634,583	100.0%

Note: Data derived from the Statement of Cash Receipts and Payments (Government of Balochistan, 2023-2024).

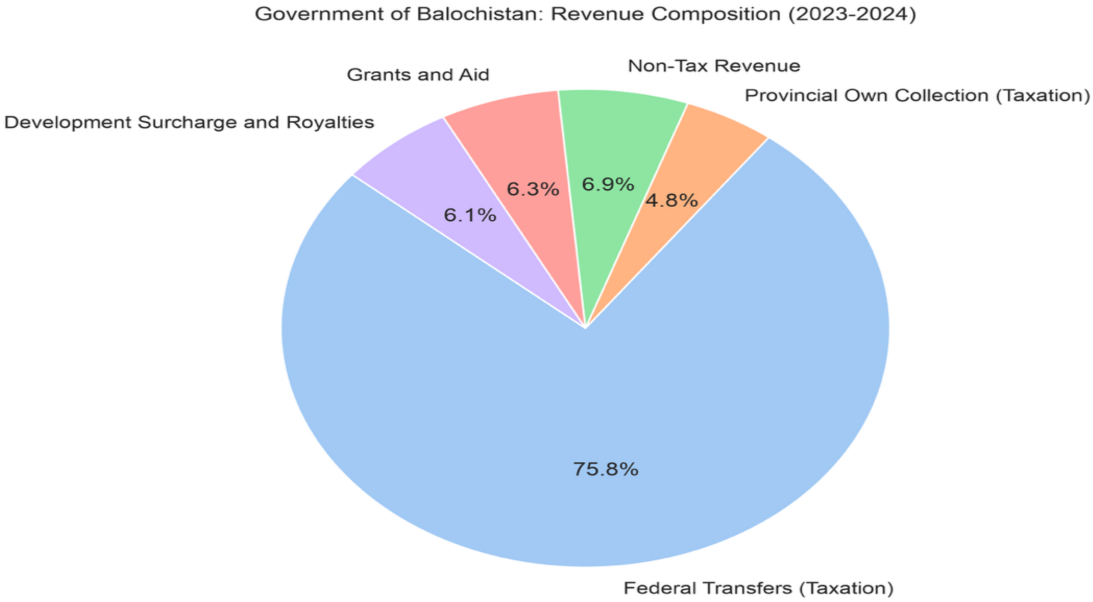


Figure 1: Revenue Composition of the Government of Balochistan (2023-2024). This figure illustrates the proportional breakdown of total provincial receipts, highlighting a 75.8% reliance on federal transfers versus 4.8% from internal taxation. Data derived from the Statement of Cash Receipts and Payments.

Budget Execution Variance and Sectoral Underspending

Implementation is found to entirely paralyse the province's capacity to absorb funds in all the sectors analysed. The variance analysis, comparing revised budget allocations with cash disbursed, shows an overall underspend of the total budget. The most significant absolute underspending has occurred in the General Public Services sector and the Economic Affairs sector, with an underspending of over Rs. 20,000 million and Rs. 7,500 million, respectively. More significantly, bottlenecks were also observed even in the social sectors like the Education sector, which did not spend Rs. It is a fact that it has revised its budget allocation by 811 million, and the Health sector underspent Rs. 797 million.

Table 2: Budget Execution Variance by Sector (2023-2024)

Functional Category	2024 Revised Budget	2024 Actual Expenditure	Variance (Actual - Revised)
General Public Services	122,449	102,415	-20,034
Economic Affairs	57,841	50,248	-7,593
Public Order and Safety Affairs	73,341	69,898	-3,443
Housing and Community Amenities	29,331	26,294	-3,037
Education Affairs and Services	93,399	92,588	-811
Health Affairs and Services	43,453	42,656	-797
Recreation, Culture and Religion	4,591	4,174	-417
Social Protection	11,481	11,133	-348
Environment Protection	627	492	-135

Note: All values in Rs. Millions. Negative variance indicates underspending relative to the revised allocation.

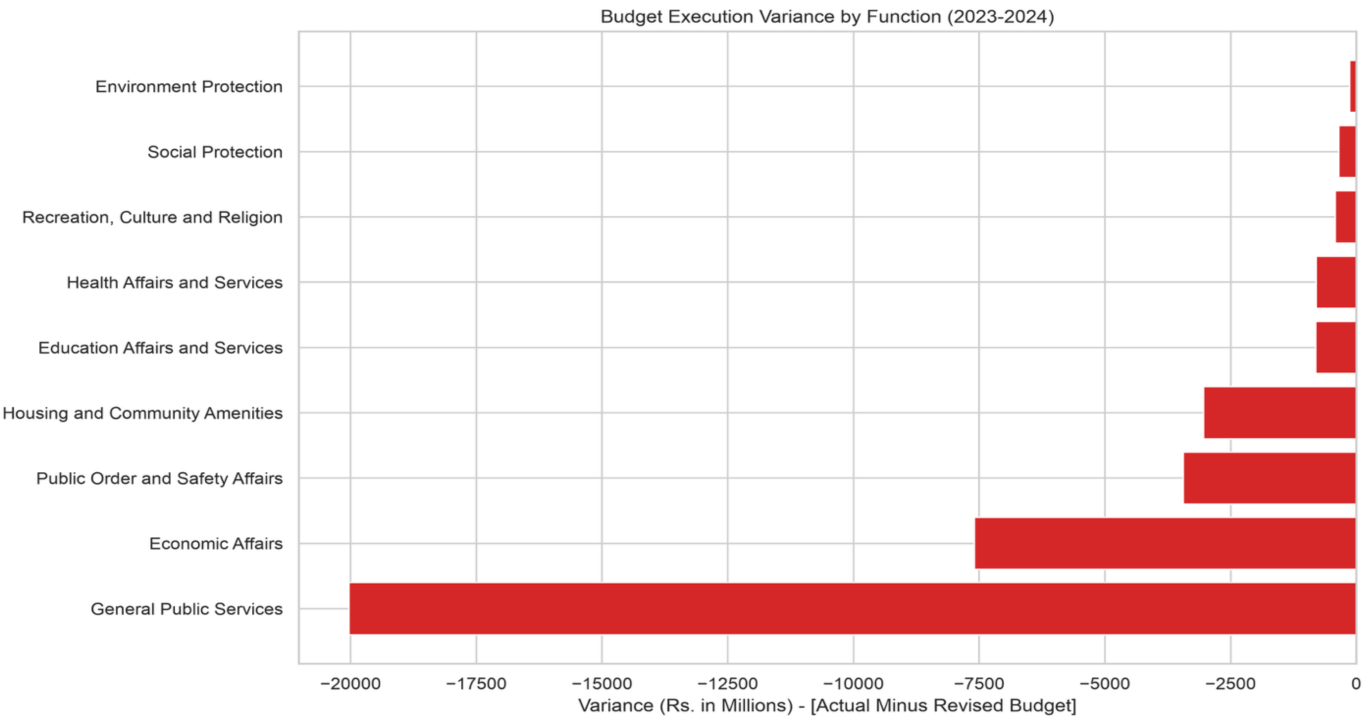


Figure 2: Budget Execution Variance by Function (2023-2024). A horizontal bar chart depicting the negative variance (underspending) across all major functional categories, calculated as Actual Expenditures minus Revised Budget allocations (Rs. in Millions). Data sourced from the Statement of Comparison of Budget and Actual Amounts by Function.

The Liquidity Paradox: Debt Accumulation vs. Cash Hoarding

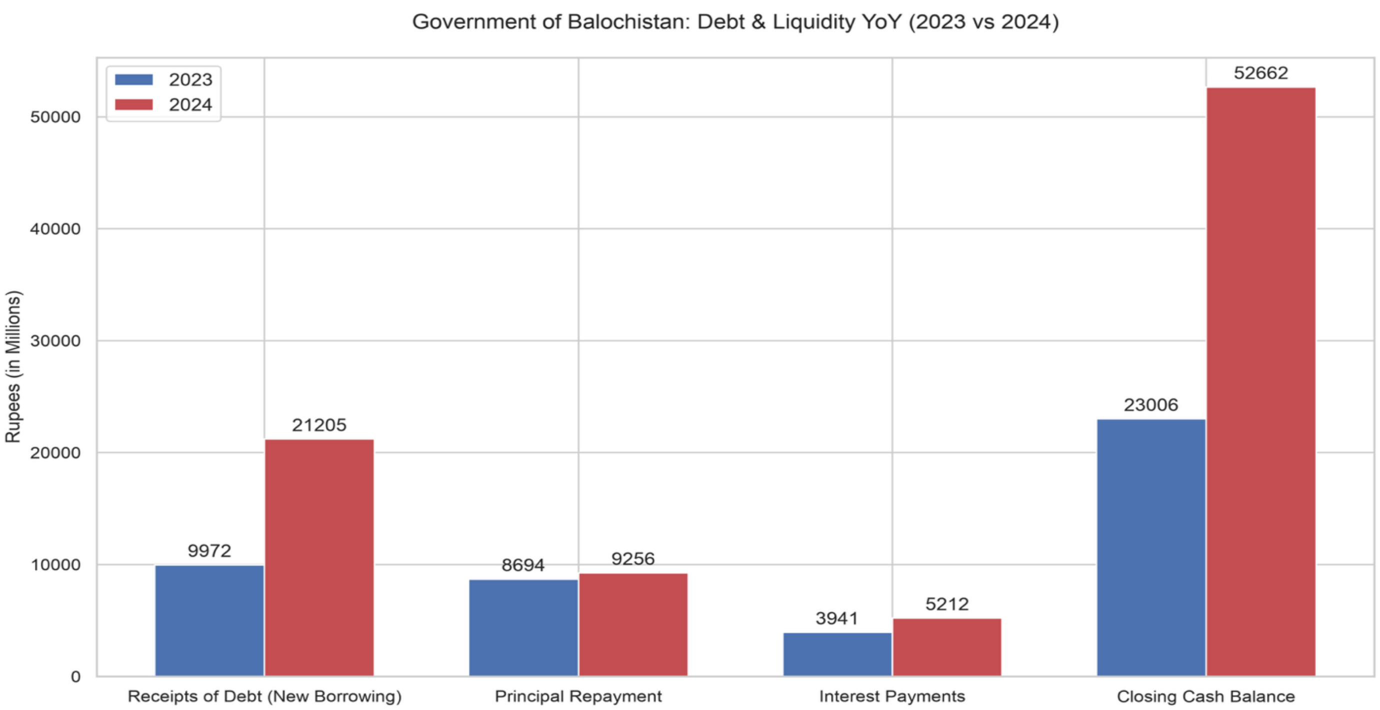
An inverse relationship between the trend in the government's use of cash and the trend in government borrowing is one of the anomalies identified in the financial statements. Inability to meet the allocated budget has been a constant feature, as observed in Figure 2, but there is a definite rise in the debt burden of the province. There has been an increase of 112.6% from Rs. 9,972 million in 2023 to Rs. 21,205 million in 2024. The irony of this is that the government hasn't spent this money on the poorly utilized development projects, but it has stowed it away. The total cash position has increased by over 2X by the end of FY24. 52,662 million. The government has been continuing to pay high borrowing rates on domestic debt and keeping a lot of cash.

Table 3: Debt Servicing and Liquidity Position

Financial Metric	2023 Actual	2024 Actual	Year-Over-Year Growth (%)
Receipts of Debt (New Borrowing)	9,972	21,205	+112.6%
Principal Repayment of Debt	8,694	9,256	+6.5%
Interest Payments	3,941	5,212	+32.3%
Closing Cash Balance (Public Account)	23,006	52,662	+128.9%

Note: All values in Rs. Millions.

Figure 3: Debt and Liquidity Year-Over-Year Trends (2023 vs. 2024). A comparative grouped bar chart illustrating the 112.6% surge in new borrowing, the corresponding rise in debt servicing, and the massive accumulation of unspent closing cash balances (Rs. in Millions). Data derived from the Statement of Cash Receipts and Payments and Public Account balances.



The Fiscal Illusion: Macroeconomic Adjustment and Real Purchasing Power

If accounting is done only nominally, and inflation is high, this provides a budgetary illusion of disguising the fact that the purchasing power of a government has been lost. Inflation rates in Pakistan are currently approximately 25% for FY 23-24. To gauge the actual performance of the provincial service delivery trend, nominal spending amounts are deflated to obtain real spending growth. As such, the actual amount is a bit skewed due to mishandling of the protected spending. Real growth in nominal expenditures on Education Affairs and Services is 2.2 percent, while real growth in expenditures on the services is 2 percent. Similarly, the real figures (in inflation terms) show a significant decline in Economic Affairs, which is 21.1 percent. Despite the 25.3 percent nominal growth, Public Order's real growth is stagnant at 0.2 percent, according to its records.

One category increases in real terms: General Public Services (Administrative activities) (+16.4 percent). This difference suggests that education and economic services have been highly vulnerable to the negative impact of the sluggish macroeconomic performance, while the government was able to protect its administration spending from inflation.

Table 4: Macroeconomic Adjustment of Core Expenditures

Functional Category	2023 Actual	2024 Nominal	2024 Real (Adjusted)*	Real Growth (%)
General Public Services	70,394	102,415	81,932.0	+16.39%
Health Affairs and Services	31,041	42,656	34,124.8	+9.93%
Public Order	55,797	69,898	55,918.4	+0.22%
Education Affairs and Services	75,769	92,588	74,070.4	-2.24%
Economic Affairs	50,958	50,248	40,198.4	-21.11%

Note: All expenditure values in Rs. Millions. The 2024 Real values are deflated using an estimated 25% inflation rate to match 2023 purchasing power.

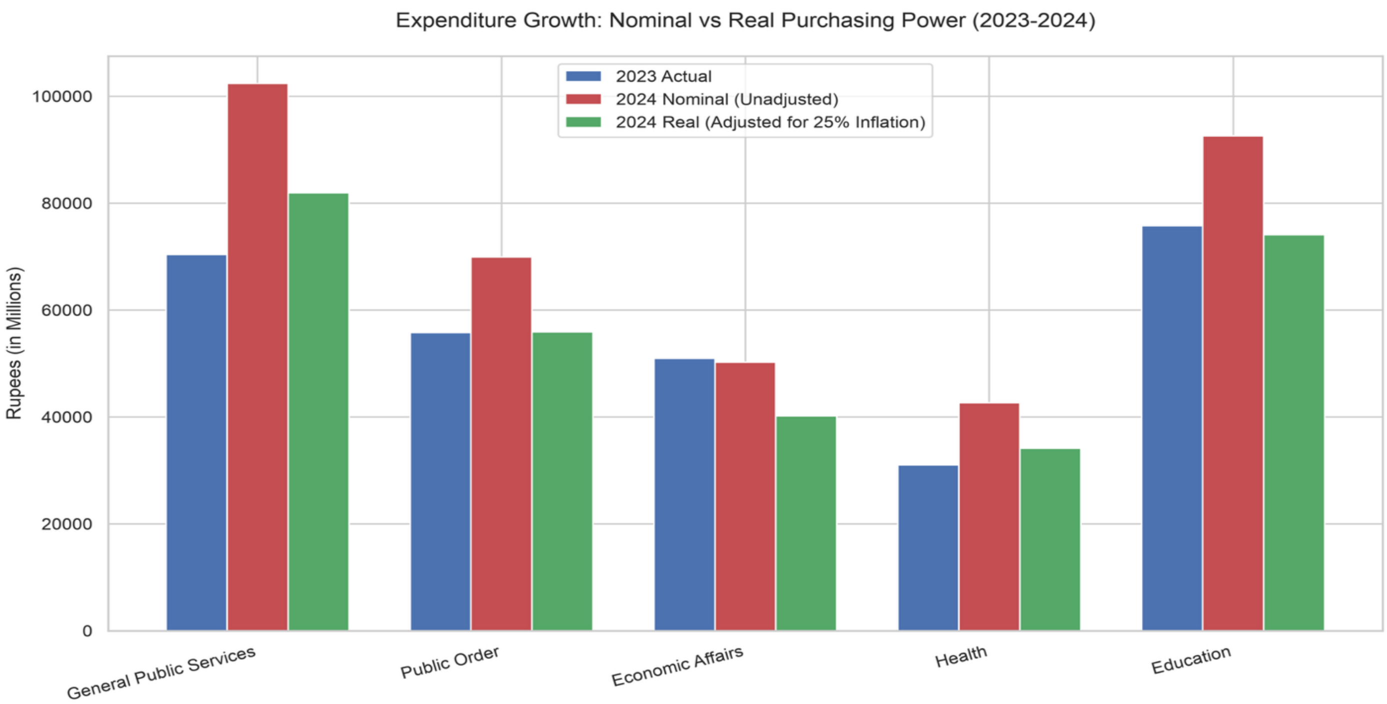


Figure 4: Expenditure Growth: Nominal vs Real Purchasing Power (2023-2024). A comparison of absolute spending across core functions, demonstrating how a 25% inflation adjustment reveals real contractions in Education and Economic Affairs despite nominal increases.

Discussion

The empirical data extracted from the 2023-2024 financial statements presents a sobering reality regarding sub-national fiscal governance. The results show that financial capital constraints are not to blame for the structural problems in the

Government of Balochistan, but rather for a severe constraint on institutional absorptive capacity and structural disincentives to revenue generation.

The Dependency Trap and Fiscal Disincentives

The excessive dependence on federal transfers (75.8% of provincial revenue to 4.8% from internal taxation) indicates a major problem with the current fiscal federalism system in Pakistan. The provinces were afforded a great deal of autonomy and were assured shares of the federal divisible pool after the 18th Constitutional Amendment and the 7th National Finance Commission (NFC) Award. This structure of guaranteed revenue has inadvertently introduced a "non-flexibility" which has reduced the provinces' willingness to mobilize taxes (Pakistan Institute of Development Economics [PIDE], 2025). The federal government's structural obligation to support provincial governments' operations does not provide any incentive for provincial governments to modernise their tax machinery or broaden their tax bases (Ahmed, 2014; PIDE, 2025). This means the province remains highly vulnerable to federal-level shocks that could significantly affect the basic operations of the provincial government.

Execution Paralysis and Absorptive Capacity Constraints

In all core sectors, there is underspending, including deficits in Education and Health, which cannot be considered fiscal prudence. This is a textbook example of a developing economy with low "absorptive capacity" (World Bank, 2016). Absorptive capacity is defined as a government's institutional, technical, and managerial capacity to implement its plan and convert money into actual public services. Whereas the misallocation and execution bottlenecks have been repeatedly identified as the key factors affecting health and social systems in Balochistan, and not a lack of funds (Green et al., 2000).

In addition, recent studies on the financial management of the provinces in Pakistan show a significant mismatch between development intent and implementation, with repeated implementation issues that consistently hinder social and infrastructure initiatives (SDPI, 2024). The finding is compounded by the macroeconomic adjustment adopted in this study, which not only led to underspending of government funds but also caused a decline in the real spending power of key sectors such as Education and Economic Affairs due to a 25% inflation rate.

The Irrationality of the Liquidity Paradox

The most shocking result from this research is the irrationality of the province's treasury management. A strong public financial management (PFM) system is based on reliable budgeting, effective risk management, and robust expenditure control mechanisms (Anjum and Khan, 2024). The data, however, reveal that the government incurred new debt in the tune of 112.6%, thereby creating upward pressure on debt servicing costs; on the other hand, it has increased its stockpile of Rs. 52.6 billion in unspent cash balances. This liquidity is ironic because it's when company treasury systems are misaligned, or planning departments are misaligned with execution agencies. The government is paying high interest on money that it can't spend while it is also taking spending funds from budget years that it will not need.

Conclusion

Government financial reporting has been designed to ensure that citizens and other stakeholders have a clear transparency of government performance. On a quantitative and scientific level, the financial situation of the Government of Balochistan for last two years 2023-2024 reveals the serious condition of the Government. The province is governed by an apparent contradiction: it's given huge amounts of federal money and desperately takes on new debt, yet it is never able to meet its budgetary obligations for essential services such as health care, education, and transportation.

The fiscal budget's apparent increase in government spending is an illusion because it does not truly reflect the real amount that the government invests in social and economic infrastructure. The storage of Rs. It is important to note that there was 52.6 bn in idle cash, and that new borrowing has gone up by 112.6% is a major failure in public financial management. The findings of this research are consistent with the findings of other studies, which indicate that the province's development problem cannot be solved with the injection of more federal dollars through transfer or the domestic capital market.

Overall reform of the structure is required to alter the direction. The province should do more to streamline tax collection and less to rely on the federal government. Secondly, there is a need for a comprehensive audit of how processes are being implemented within the Health and Education departments to eliminate any bureaucratic constraints that limit absorptive capacity. Finally, there should be a moratorium on fresh domestic borrowing until a framework is available to make the most effective use of the government's accumulated cash balances, through what is known as a Treasury Single Account (TSA). Any additional capital inputs, pending until the execution machine is fixed, will add to the debt burden without providing any public benefit.

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