accountabilitylab PAKISTAN

# POLICY BRIEF


## Between Hope and Turmoil

An Analysis of Economic Survey of Pakistan 2024-25

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## Executive Summary

Pakistan's economy stands at a precarious crossroads. Despite recent signs of macroeconomic stability, such as declining inflation and a modest current account surplus, the structural foundations of the economy remain deeply compromised. Fiscal stress, premature deindustrialization, underinvestment in human capital, and growing dependence on international financial institutions continue to constrain the country's ability to build inclusive, citizen-centered growth. For millions of Pakistanis, this translates into stagnant wages, rising living costs, and a shrinking social safety net.

Agriculture and industry, once pillars of the economy, have slowed, while speculative real estate investment diverts capital away from productive sectors and contributes to urban sprawl, food insecurity, and environmental degradation. Public debt has surpassed PKR 76 trillion, with debt servicing now crowding out critical spending on health, education, and infrastructure. Meanwhile, reliance on IMF conditionalities has narrowed the state's fiscal policy space, reinforcing a cycle of reactive rather than transformative governance. Despite large-scale social protection programs like BISP, inequality continues to grow, with the top 10% of earners accounting for more than 40% of the national income.

The current model is unsustainable. Without deep, equity-driven reform, Pakistan risks locking itself into a future of low growth, elite capture, and recurring crises. To reset this trajectory, the brief recommends a bold set of policy actions:

- **Progressive Tax Reform:** Bring real estate, retail, and large-scale agriculture into the formal tax net. Curb exemptions and document high-earning sectors to increase revenue without overburdening the poor or middle class.
- **Human Capital Investment:** Increase public spending on education and health, prioritizing under-served regions and workforce-aligned skills development to boost productivity and social mobility.
- **Active Industrial Policy:** Restore competitiveness through targeted export incentives, energy cost rationalization, and public investment in value-added sectors such as IT, textiles, and agro-processing.
- **Urban and Land Reform:** Regulate speculative real estate markets; protect agricultural land from unplanned conversion; and promote compact, climate-resilient cities.
- **Responsible Macroeconomic Governance:** Negotiate IMF terms that protect essential services, while committing to transparent, citizen-facing budgeting processes that build trust and legitimacy.

Economic reforms in Pakistan cannot be claimed through the representation of cherry-picked numbers. They must be rooted in a new social contract, one that reclaims fiscal sovereignty, prioritizes equity over elite entitlements, and reorients the state's economic vision around the needs of its people.

# Introduction

## The Burdens of Destiny

Pakistan remains a fascinating object of study for students of political economy and history. Burdened by predictions of an inexorable march to progress, Pakistan has consistently failed to live up to its supposed destiny. Dubbed an emerging 'Asian Tiger' and touted as one of the top ten economies in a near future that fails to materialize, Pakistan's economic trajectory has oscillated between cycles of boom and bust, relying on periods of excessive consumption and foreign largesse to sustain an unsustainable population growth rate (Zaidi, 2015).

## Global Tumult

An analysis of the 2025-2026 federal budget must thus engage with this larger political economy context and be grounded in the currents of the global macroeconomy. Discourse on the national economy was once again punctuated by tumult in the global political and economic landscape, with the Middle East marred in violent genocide and cross-border conflict, and very real fears of trade wars sending shockwaves in the neo-classical ivory towers of economic decision-making.

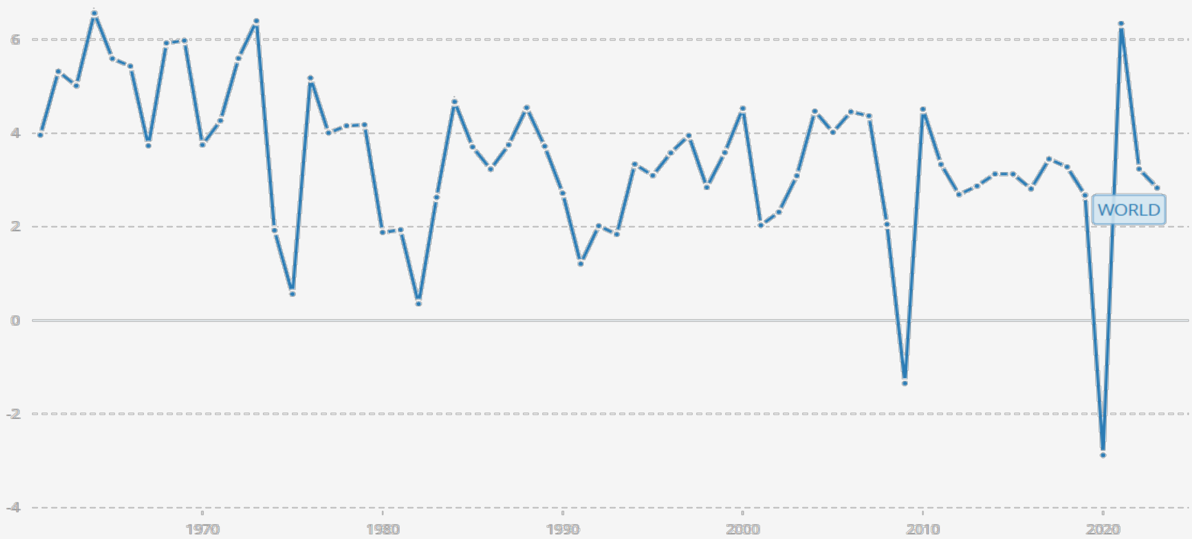


Figure 1: Global GDP (% annual growth)

(Source: The World Bank)

Figure 1 above reflects a common characteristic of the global capitalist economy: sharp and varied fluctuations in global aggregate demand and output.

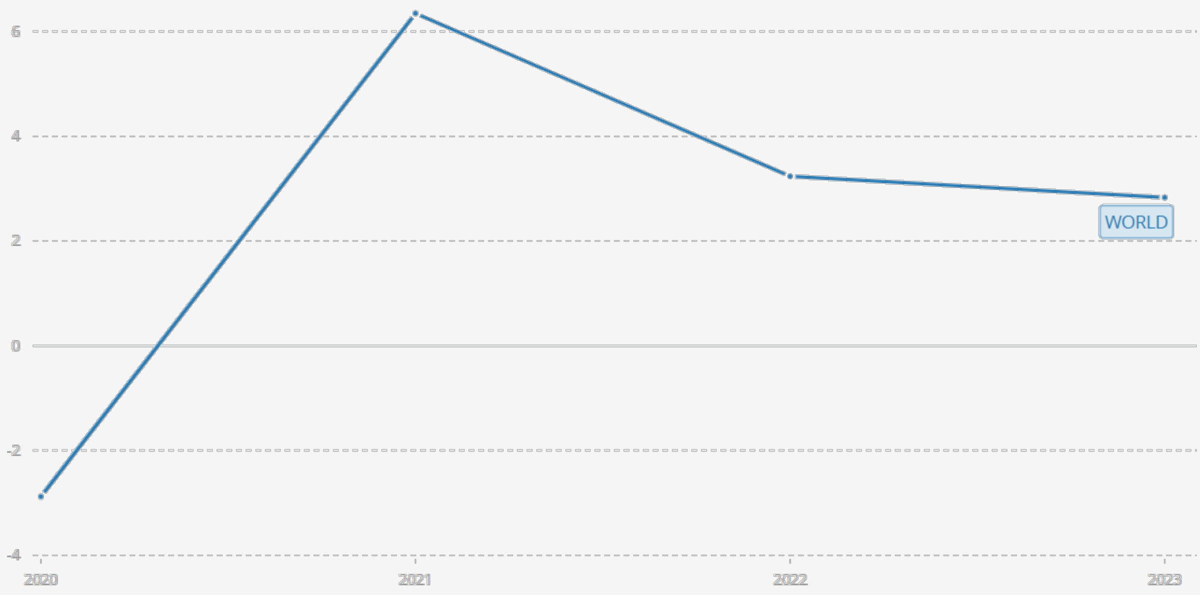


Figure 2: The Post-Covid Global Uncertainty

(Source: The World Bank)

Figure 2 reveals how these fluctuations have been far more pronounced following the COVID-19 pandemic that rattled global supply chains and drastically altered work and consumption patterns. Worryingly for Pakistan and the developing world, this uncertainty has little chance of abating. Trepidation around Donald Trump's import tariffs and a larger global trade war threaten foreign exchange earnings for Pakistan and risk volatility in global financial markets just as Pakistan appears on the verge of stability.

## Of War-Mongering and Social Spending

In the present rabid and jingoistic milieu, an important undertone went under the radar. In response to Donald Trump's aggressive posturing, both the European Union and the United Kingdom committed to enhancing military spending at the expense of social security and pledges to international aid (Gayle, 2025). Criticisms of the global aid regime aside, this holds important ramifications and threatens to exacerbate national inequality and impact consumption patterns in Europe as people struggle to maintain disposable incomes. This holds a direct bearing on countries that export to Europe and benefit from the region's GSP+ scheme.

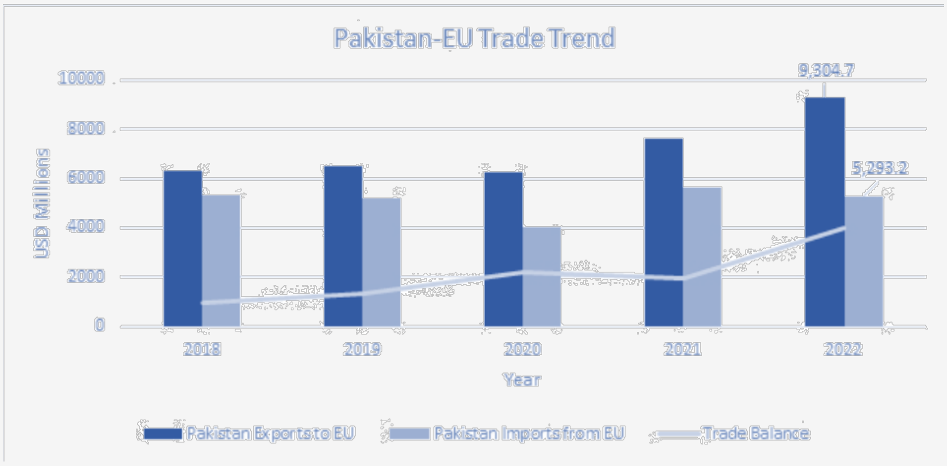


Figure 3: Pakistan and its trade relationship with the EU

(Source: Pakistan Business Council)

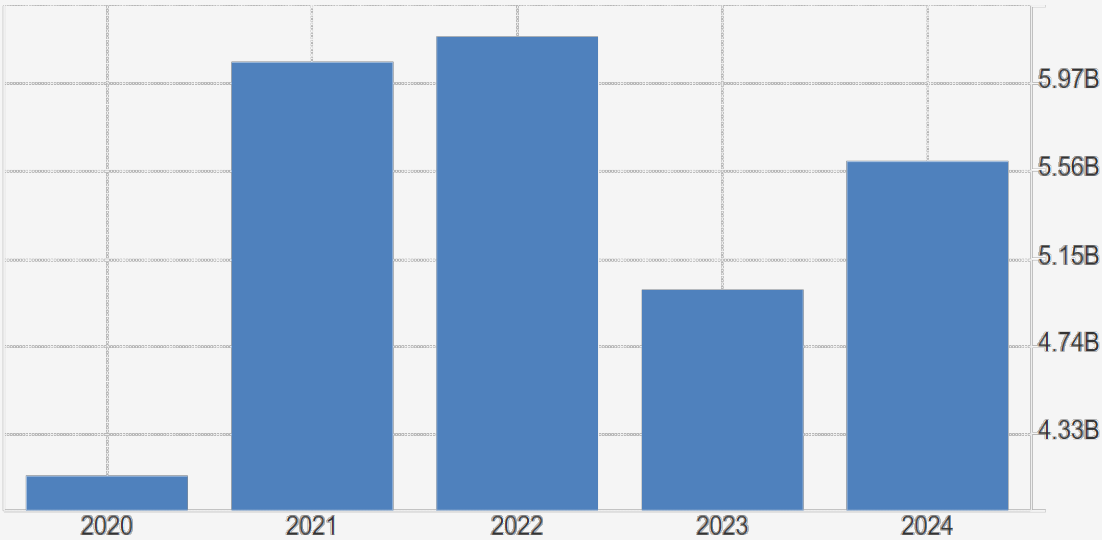


Figure 4: Pakistan exports to the US in USD

(Source: UN Comtrade)

## The Economic Survey: A Document of Critical Import

Economic surveys in Pakistan have remained yearly exercises with little benefit. The document reflects overall economic performance in the outgoing fiscal year but has not served as an effective instrument to shape future economic policy and determine the government's overall economic trajectory. The surveys also reflect constrained temporal horizons, embracing an annual approach instead of representing performance over a medium-term period, for example 5 years. This extended analysis over time would help better analyze government performance and depict the state's economic preference.

The unrealized potential of economic surveys perhaps comes as no surprise and mirrors the overall instability and myopia of governance in the country. This remains particularly true in the preceding 3 years when political instability in Pakistan has been excessively high, spilling over into a precarious security paradigm and heightened economic turbulence. This instability prevents a broader or long-term approach in economic thinking that would entrench sustainable economic growth in the country. Origins of this instability, meanwhile, find their genesis in Pakistan's checkered political history, with interference from non-democratic elements and vested interests preventing democracy from establishing a foothold in the country.

## The Economic Survey: Breaking Down the Numbers

### A Modicum of Stability

Pakistan recorded a modest growth rate of 2.68% in Fiscal Year (FY) 2024, reflecting approaching stability in what have been volatile years. The growth rate itself is unremarkable but follows political and macro-economic instability going all the way back to the 2022's no-confidence motion. Complementing sound macro-economic policies, including a stabilizing fiscal policy and cautious monetary policy, is a general understanding in the powers-that-be to stabilize and embrace sustainable growth. Several reasons explain this ideational shift. First is unrelenting pressure from the International Monetary Fund that has constrained liberty in decision-making circles and forced a circumspect approach (Kiani, 2025). Rich criticism exists on the IMF's role in the Global South, particularly the relationship between the Fund's Structural Adjustment Programs (SAPs) and the erosion of state sovereignty and decision-making capacity.[1] Second, Pakistan realizes the global framework is no longer as amenable to our boom-and-bust patterns of consumption-driven growth[2], accentuating the need to embrace fiscal stability and address structural concerns.

### The Specter of Stagflation and Declining Inflation

Since 2022, Pakistan has witnessed what is dubbed 'stagflation': a corresponding rise in inflation and unemployment. Inflation crossed 30% in the country, with youth unemployment touching 15% (Economic Survey of Pakistan, 2025). Stagflation reflects critical structural issues on both

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[1] Academics such as the economist Michael Hudson and sociologist Walden Bello serve as the IMF's fiercest critics, emphasizing their use of monetary debt tools and liberalization policies to erode decision-making capacity in developing countries. Central to this critique are the prescriptions of the Washington Consensus, a set of policy reforms based on free-market thinking originating in the economics departments of American universities, particularly at the University of Chicago. Nobel laureate, Joseph Stiglitz echoes this criticism, highlighting how the Washington Consensus has very often ignored local contexts, triggered inequality and placed an unjustified and disproportionate emphasis on austerity. In Pakistan's case, the privatization policies of the 1990s under the aegis of the IMF and the World Bank corroborate this strand of criticism, while examples from South Korea, Chile and the Philippines provide further global evidence.

[2] Pakistan is increasingly embracing tax reforms that include an expanded tax net and limiting the scope of the undocumented economy, prescriptions rooted firmly in the IMF's more intransigent approach towards debt servicing and economic reform. The author's own research on Pakistan's macro-economy revealed another significant shift from import-substitution to an export-led growth strategy encapsulated in the formation of the Special Investment Facilitation Council (SIFC) which holds the sole purpose of facilitating foreign investment in Pakistan's industry, particularly goods that hold export potential. Regulating the real-estate sector is yet another component of this strategic shift which also explains a lull in real estate prices—a radical break from periods of massive speculation in the 2000s and 2010s.

the supply and demand sides of an economy. For Pakistan, the lasting effects of COVID-19, declining agricultural productivity, the devaluation of the Rupee, and fluctuations in global food and energy prices due to the Russian-Ukrainian war have shaped local price levels, decimating household savings and raising poverty levels in the country.

The inflationary outlook looks far less bleak presently. Prudent monetary policy including unprecedented increases in the policy rate (interests rate touched 22% in the fiscal year), coupled with salutary global developments and administrative decisions saw inflation decline to 0.3% in April 2025 from 20.7 a year prior. Alongside a contractionary monetary approach, the government actively worked to reduce energy prices by negotiating contracts with Independent Power Producers (IPPs) and removed the support price for wheat. The latter was perhaps the greatest factor behind food inflation dropping from 26.8% in FY 2024 to just 1.1% in FY 2025 – though policy experts believe that removal of support price for agricultural products, especially wheat, will be catastrophic for the farming community in Pakistan and will severely affect food security in the country in the medium to longer term. Declining global food prices complemented this development, with reduced global fuel prices and stabilized transport fares triggering a deflation of 1.1% in the transport sector. This deflation juxtaposes sharply with a 21.4% rise in transport prices the year prior. Together, this reflects a radical win for the central government but fears of an inflationary bounce back persist, rooted in global economic uncertainty, the Rupee's weak exchange rate with the Dollar and the Agriculture sector's continued lackluster production (discussed in a subsequent section).

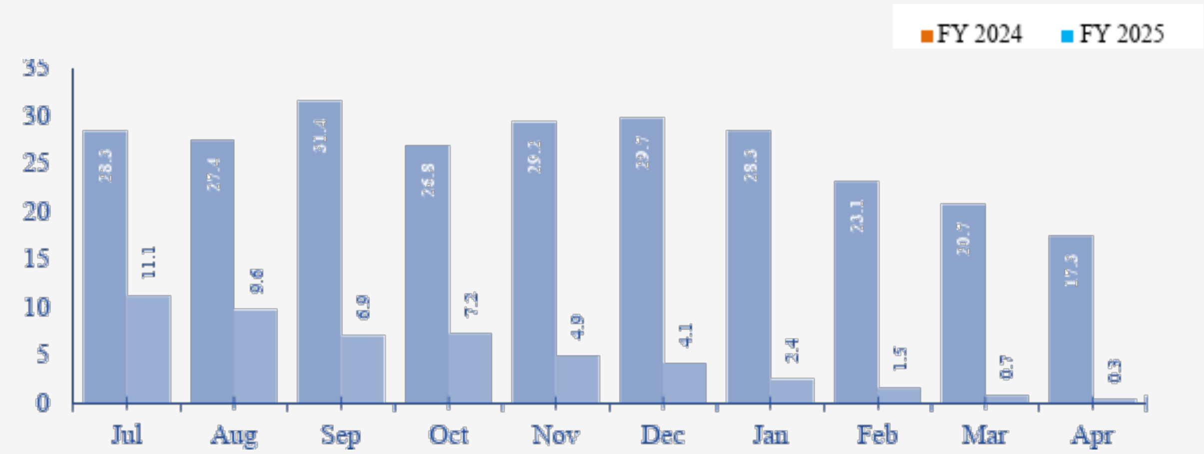


Figure 5: Declining Inflation in Pakistan

(Source: Pakistan Bureau of Statistics)

## The External Front: Recovery or Red Flags?

Pakistan displayed recovery on the external front as well, with the current account witnessing a surplus of US$1.9 billion between July-April of FY 2025. This stands in sharp contrast to the US$1.3 billion deficit in the same period last year. This recovery was mostly predicated on a rapid surge in foreign remittances, which jumped to US$38 billion, witnessing a year-on-year rise of over 31%. Rising remittances carry fundamental question marks that must eventually be addressed. While they point towards more foreign exchange entering the country, it demands scrutiny on why this foreign exchange has increased. The rising remittances could indicate increasing emigration from Pakistan, a worrying trend considering extant fears of rising brain drain.

Questions on the sustainability of external recovery also gain currency, considering the trade deficit increased to US$21.3 billion, with imports increasing by 11.8%. Exports, in contrast, increased by a mere 6.8% YoY. As imports increased, the deficit in services jumped to US$2.5 billion, reflecting a potential return to consumption-driven growth in the country. These figures highlight concerning trends that have consistently plagued Pakistan's economy: consumption-centered growth that encourages rising imports and an uncompetitive exports sector that has struggled to gain a foothold in the international market.

## Sectors of the Economy:

### The Fault in our Agriculture

Known for its agricultural productivity and still characterized as predominantly an agri-producing country, Pakistan has struggled with its agricultural sector in recent years. The previous year witnessed an inconsequential 0.56% growth in agriculture, revealing underlying tensions in agricultural production. The greatest impact has been on crop production, witnessing a decline of 6.82% YoY. Most of this stagnation stems from changing land-use patterns, with large pieces of agricultural land transformed into urban real estate for speculation purposes. This has proved detrimental for cotton production, in particular, devastating the crop's output. Cotton ginning production, for instance, declined by a staggering 19.03%. The yield per hectare of cotton production declined from 717 kg/per hectare to 590 kg/ha. Similarly, despite an increase in cultivated area, overall sugarcane production fell by 3.88% while rice production witnessed a fall of 1.38% despite a 7.2% growth in cultivated area. Maize production also witnessed a sharp decline, seeing production fall by 15.4% from the previous year.

The agriculture's ossified state can be attributed to several factors. Apart from the obvious effects of climate change—which have been particularly devastating for cotton production that witnessed a fall owing to erratic rainfall patterns—a lot of the dismal performance can be attributed to flawed policies, including rapidly changing land-use patterns. Pakistan's obsession with real estate has witnessed rich agricultural land transforming into urban concrete serving speculative purposes. In Gujrat, for instance, 60% of the agricultural land has been transformed into housing land. The concomitant figure for Lahore stands at jaw-dropping 70% (Latif, 2025). Alongside raising housing prices in urban centers, this unregulated sprawl disincentivizes agricultural production as landowners can earn windfall profits by selling land to property developers.

Land ownership patterns have hindered agricultural production as well. Inequities in land ownership—a product of historical inequality in land ownership patterns in Punjab and Pakistan—hinder modernization in agriculture and have given rise to the phenomenon of 'absentee landlordism'. Most cultivators in Pakistan remain either landless or small landowners. Their inability to compete with large landowners in access to capital or cheap inputs further limits agricultural productivity, keeping significant segments of the rural production entrapped in a vicious cycle of poverty stemming from low yields and the inability to modernize production.

Market trends, including the presence of middlemen and the removal of a support price for wheat have further aggravated output in the sector. The presence of arthis—middlemen—in Pakistan's agricultural ecosystem restricts access between producers and consumers, with arthis also often impacting access to capital for small farmers. This added layer in the sector diverts profits away from producers of agricultural commodities and embeds power relations in capital markets in rural areas. The government's recent decision to remove a minimum support price for wheat, meanwhile, has sent shockwaves in the rural economy, once again disproportionately affecting low-income producers who lack the storage capacity that large landowners do. This has also triggered a shift away from wheat production into more water-intensive crops such as sugarcane and rice, exacerbating an already deeply prevalent crisis of water availability. Taken in tandem with rising input prices borne out of a depreciated rupee, capital market volatility, and rising energy, oil, and pesticide prices pose existential threats to agriculture in Pakistan and necessitate a drastic rethink in policies towards the sector.

### Sluggish Industry

Much like agriculture, the manufacturing and industrial sector struggled to register strong growth. The manufacturing sector grew by 1.3% annually, a decline from 3% in the previous year. The slow growth comes as no surprise in the wake of a tight monetary policy and global uncertainty. Investor and producer confidence rests strongly on sound macroeconomic indicators and the overall health of the economy. Large-Scale Manufacturing, in fact, contracted by 1.5 YoY, as did the production of chemicals, mining and quarrying, and food. Apparel and textiles, however, witnessed growth of 7.6% and 2.2% respectively. The variations in output necessitate a nuanced approach to the sector and emphasize the importance of factors such as overall investor and consumer confidence, the health of the economy, Pakistan's exchange rate and the prevailing security situation. Textiles, for instance, witnessed a rise in production at the expense of textile exports from Bangladesh, where political volatility hampered exports to the global market. Imported cotton and a stable exchange rate permitted Pakistani producers to benefit from this gap in supply, capturing more of the global textile market. Falling interest rates also permitted easier access to capital, reflecting how sound monetary and trade policies can trigger growth.

Construction-allied industries, including iron and steel and electrical equipment, witnessed significant drops, with iron and steel production declining by 10.9% and electrical equipment by 15.9%. These sectors are more inward-facing and rely on overall economic activity within the local economy. Prevailing investor uncertainty, particularly in the housing and real estate sectors, constrained these industries, preventing any rise in production. Ancillary factors, including expensive imports, rising violence in Khyber Pakhtunkhwa, which forced the closure of several industrial units, high energy prices, and reduced public sector spending under the present IMF program, are all factors that continue to hamper Pakistan's industrial sector.

A deeper dive in Pakistan's industry reveals how sound industrial policy must contend with both Pakistan's export potential and the benefits a large domestic market offers. Countries like Vietnam and Bangladesh have witnessed significant growth in their textile sectors through embracing outward-looking policies and strengthening exports. Pakistan requires a similar strategy that permits it greater weight in international markets and draws much needed foreign exchange.

A stable macro-economic framework predicated on supportive fiscal and monetary frameworks, low energy and input costs and a trained workforce remain essential ingredients for this. At the same time, Pakistan must benefit from one of the largest domestic markets on offer. This remains most pertinent to the local construction sector which can find impetus in the need for affordable housing and expanding public sector investment projects.

| | |
|---|---|
| LSM Growth Rate | -1.5% ▼ |
| Textile Growth | 2.2% ▲ |
| Wearing Apparel | 7.6% ▲ |
| Food | -0.5% ▼ |
| Coke & Petroleum Products | 4.5% ▲ |
| Chemicals | -5.5% ▼ |
| Pharmaceutical | 2.3% ▲ |
| Mining & Quarrying | -3.4% ▼ |

Figure 6: The Manufacturing Sector

(Source: Economic Survey 2024-25)

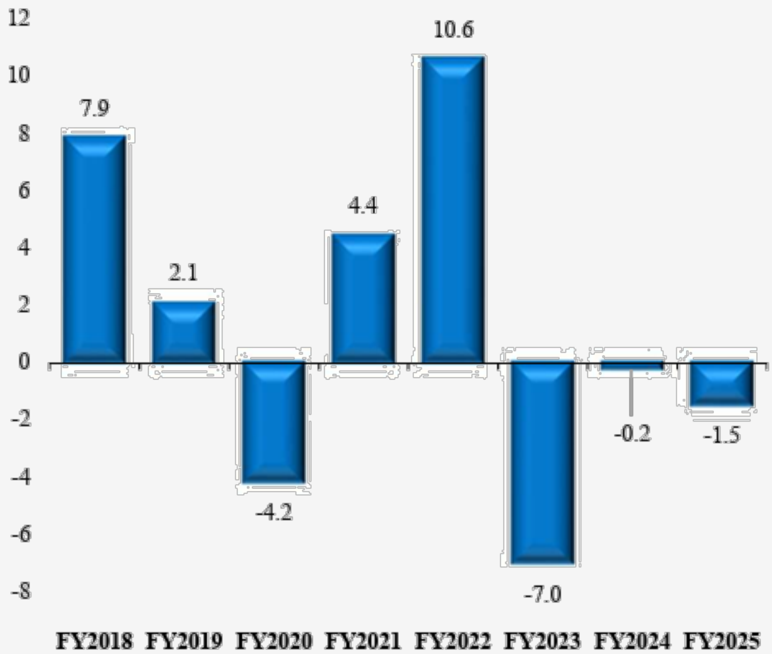


Figure 7: % LSM Growth over the years

(Source: Economic Survey 2024-25)

### Deindustrialization and the Services Sector 2.91%

A common trend in Pakistan's economic trajectory has been the burgeoning services sector. The sector now contributes nearly 60% to Pakistan's GDP and employs nearly 39% of Pakistan's labor force (Economic Survey of Pakistan, 2025). In FY 2024-25, services recorded a growth rate of 2.91%, outstripping both agriculture and manufacturing by a margin. The sector's performance comes on the back of an expanding IT infrastructure supported by conducive government policies. Publicly established software parks now extend from Skardu, Gilgit Baltistan to Khuzdar in Balochistan, providing a critical outlet for growth and earnings for Pakistan's rising youth population. Increased internet penetration and a large amount of mobile users—190 million to be exact—offer a milieu highly conducive to further expansion here.

Ambitions, however, clash with painful realities. Alongside an expanded IT infrastructure, Pakistan has witnessed increased internet censorship in a turbulent and precarious political environment. For months, the social media platform X remained blocked in the country while frequent shutdowns in the internet made Pakistan the country with the highest accumulated losses owing to internet blackouts (Malik, 2025). Internet blockades carry a substantial debilitating impact for service providers catering to clients abroad as their deliverables are delayed and communications are disrupted. The freelancing industry, as this service is called, relies heavily on strong internet connectivity in Pakistan and has become a major source of earnings for 1.5 million freelancers in the country who in FY 24 brought in US$3.2 billion in foreign exchange (Hayat, 2024).

A burgeoning services sector poses structural problems for developing states like Pakistan because it highlights the phenomenon of deindustrialization in these countries. Deindustrialization is an inevitable process that plagued the early industrializing nations as well including Britain and the United States. What differentiates the experience of post-colonial nations like Pakistan and other developing states including Brazil is the level of income at which this deindustrialization commenced (Hamid & Khan, 2015). In contrast to the early industrializing countries, states like Pakistan have witnessed deindustrialization at far earlier income levels. A confluence of factors has accelerated this shift in the Global South. Beyond internal political disturbances, fragile social fabrics and poorly trained labour, an inimical international trade regime that favors the already industrialized nations has been instrumental in triggering this transition. Hence, Pakistan has gone from a predominantly agricultural state to an economy focused on services, missing out on the industrialization pathway that characterized the pioneers of industrialization and which drastically increased incomes and living standards.

## For the People, By the People: An Analysis of the Social Sector

### Education: Much Ado About Nothing

Education has historically remained the bane of Pakistan's narrative of progress. Possessing the second most out of school children in the world, the country has a literacy rate of 60.6%, with

68% of all males and 52.8% of all females being classified as literate. Sharp divergences exist between urban and rural areas, with urban literacy standing at 74%, far beyond its rural counterpart at 51.56%. Spatial economic disparity resonates in educational outcomes as well, with Pakistan's richest province, Punjab having the highest literacy rate of 66.25%. In contrast, Balochistan stands at a dismal 42.01%.

The government spent 0.8% of GDP on education in the FY 2025, declining 29.4% from Rs. 1,251 billion in the previous fiscal year to Rs. 899.6 billion in FY 25. Pakistan has a slightly fragmented approach to education following the 18th Amendment in 2010 which established education as a provincial subject. Despite this, the federal government continues to play a role in education, particularly in higher education. In the Federal Public Sector Development Programmer (PSDP), for instance, Rs. 92 billion was earmarked for higher education.

Education in Pakistan is bedeviled by several challenges, with the number of out of school children perhaps its most morbid manifestation. In 2022-2023, 38% of all children of school-going age remained out of school with provincial disparity yet again entrenched in these statistics—69% of all school going children in Balochistan remained out of school. The disparity does not spare gender either, with 42% of all school-going age girls out of school.

Recent statistics highlight the gravity of the situation. Between 2023 and 2022, enrolment in pre-primary classes actually declined by 3.3%. Pre-primary enrolment remains critical for Early Childhood Education (ECE) and the declining numbers could reflect a lack of trust in teacher capacity and services provided. Enrolment at the middle and secondary education levels, however, increased by 7.6% and 5% respectively while enrolment in universities declined by 13%.

Student retention thus remains a critical challenge for the state to contend with. Poor teacher training, derelict infrastructure including the absence of adequate sewage and toilet facilities—particularly for females—and long travel distances negatively corelate with student enrolment and retention. Nepotism-based recruitment, an antiquated curriculum unable to keep up with the demands of society and economy and disparities within the education sector—rural vs urban, private vs public—are all factors hampering education in Pakistan.

Priorities within the education sector have been skewed as well. Recent years have witnessed a strong emphasis on higher education, with the private sector in particular witnessing a substantial increase. As the population boomed and numbers seeking employment increased, private setups capitalized on rising demand, establishing institutions that lack adequate regulation. This has translated into several problems. First are depressed wages as educated labor supply increases, forcing wages across sectors to fall. As living costs jumped, the falling wages sparked a severe cost of living crisis, leading to rising poverty. Second, the unregulated nature of the higher education landscape meant the labor trained in these institutions lack critical skills required by industry or the private sector. Pakistan's total factor productivity (TFP) thus continues to lag behind competitors with little innovation across the economy.

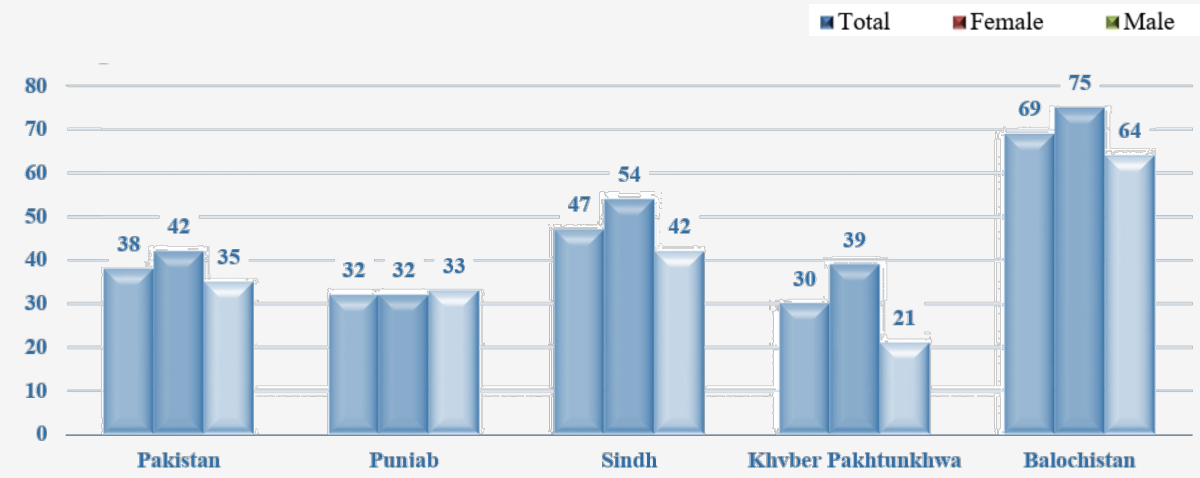


Figure 8: % of out of school children in Pakistan 2022-23

(Source: Ministry of Federal Education and Professional Training)

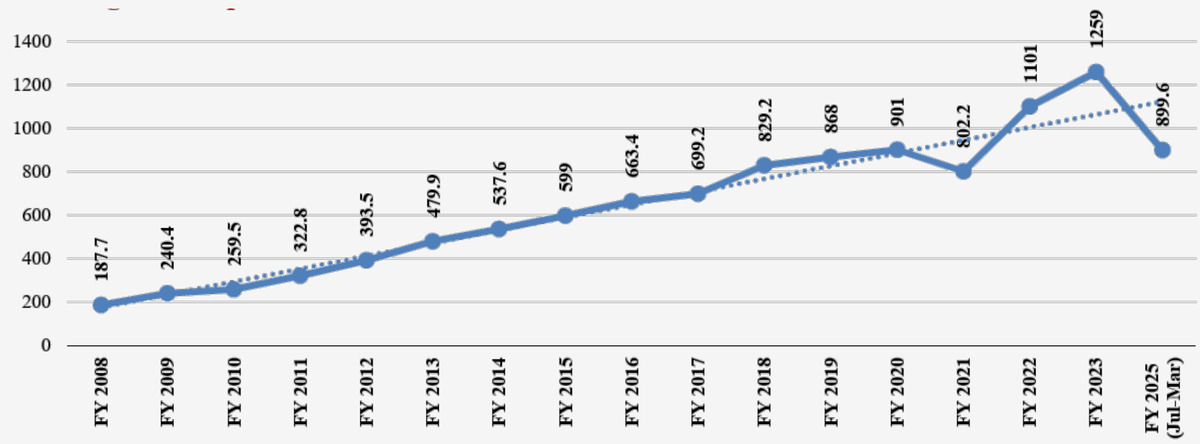


Figure 9: Expenditure on education in PKR Billion

(Source: Finance Division, Islamabad)

## The Sick Man of South Asia: On Health

Indicators on health, much like their education counterparts, do not stand in good light in Pakistan. With a life expectancy of 67.6 years at birth, Pakistan is only 1 of 2 states in the world where the polio virus persists. Maternal mortality in the country comes to a dismal 186 per 1000 as opposed to the average of 120 in South Asia. Pakistan surpasses its South Asian neighbors in infant mortality as well, averaging 51 per 1000 births in contrast to 30.2 on average in South Asian countries (Economic Survey of Pakistan, 2025).

Total public health expenditure in FY 2024, meanwhile, stood at 0.9% of GDP. In FY 2025, Rs. 103.5 billion was allocated to health under the PSDP. A substantial portion of this spending however, sustains current expenditure as opposed to meeting evolving needs. Health establishments, particularly at the grassroots, remain underfunded and lack basic resources. In field research undertaken by the author, another critical issue centered on staff absenteeism and non-merit-based appointments to positions such as medical officers and technicians. This has a direct bearing on service delivery in Basic Health Units (BHUs) and dispensaries that are the first points of contact between citizens and the health infrastructure of the state.

Health, like education, is also a devolved subject with primary responsibility lying with provinces. As the COVID pandemic revealed, however, national and centralized coordination is often necessary. The continued persistence of the Polio virus corroborates this further, perhaps necessitating policies adopted during the COVID pandemic.

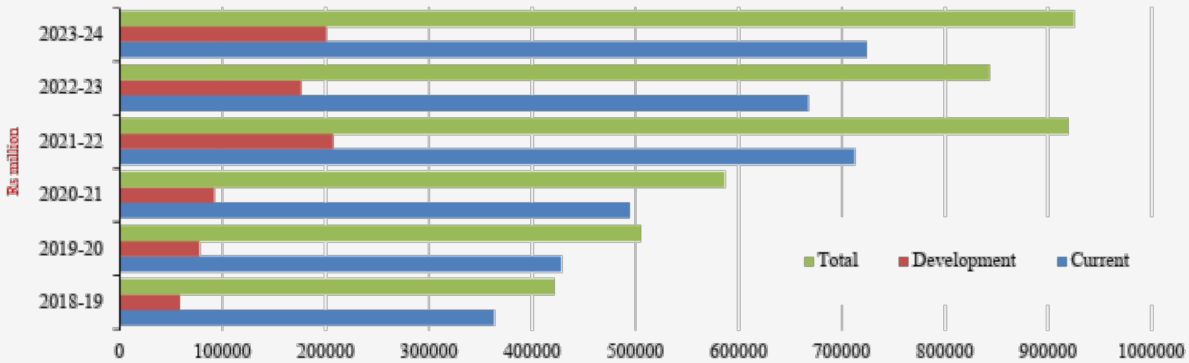

Figure 10: Expenditure on health (Source: Economic Survey 2024-25)

### Social Security, Inequality, and Poverty

Pakistan has witnessed a sharp increase in social spending in recent years. Initiatives like the Benazir Income Support Program (BISP)—morphed into the subsequent Ehsaas program—have helped mitigate the debilitating impacts of the cost-of-living crisis and provided a much-needed safety net to the lower income strata of society. In FY 2025, expenditures under the Poverty Reduction Strategy Paper (PRSP) stood at Rs. 4,256 billion—almost 3.43% of GDP, with BISP accounting for 8.76% of this expenditure. BISP boasts almost 9.87 million beneficiaries with PKR 592.48 billion allocated to BISP in the current FY (Economic Survey of Pakistan, 2025). The federal and various provincial governments are taking different measures to mitigate inequality, including providing soft loans to purchase land and the previous regime's health card program. Economic theory reveals how social security measures are critical to mitigate income inequality (Harvey, 2005). Sharp increases in inequality witnessed in the United Kingdom, the US, and Chile, in fact, corresponded directly with a privatization of social security and the erosion of welfare nets (Klein, 2007) (Raworth, 2017).

Pakistan affords yet another fascinating case study in this regard. Despite the presence of welfare systems like BISP and Ehsaas and free healthcare, Pakistan has witnessed rising inequality predicated on inequitable tax policies and rising inequality in land ownership (Zaidi, 2015). This is the object of analysis in the succeeding session. This sub-section scrutinizes poverty levels in Pakistan and their relationship with social security. In FY 2025, the national poverty rate stood at 25.6% placing it above India's rate of around 18% (Bank, n.d.). Pakistan also witnessed exacerbating income inequality, with data revealing that the highest incomes in Pakistan exceed the lowest incomes by a multiple of more than 16. The corresponding ratios for Bangladesh are 7.5 and 8.6 for India (Burki, 2023).

Macro-economic instability, rising costs, and reduced economic activity explain the high rates of poverty and inequality, directing focus on interventions that can both mitigate these challenges and trigger sustainable economic growth.

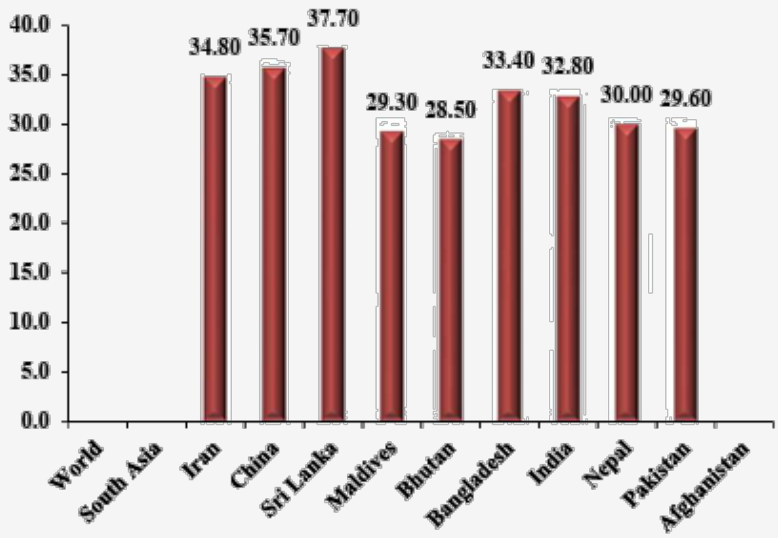


Figure 11: Inequality-adjusted Human Development Index (2010-2023)

(Source: UNDP)

## Like Quicksand: Real Estate and Productive Investment

The 2000s were a curious period in Pakistan's history. As the country reeled from the impact of 9/11, its positioning as America's front-line ally in the War on Terror permitted it easy access to foreign funding and debt write-offs (Zaidi, 2015). The economy grew, reaching growth rates of 7%. The middle class burgeoned as a consumption boom catalyzed the services sector and permitted access to imports. A managed dollar, coupled with a conducive global framework owing to our close relationship with America, meant imports were cheap and standards of living rose accordingly. A concomitant outcome of this was a real estate boom as expatriates and those with rising disposable incomes diverted investment into a rapidly rising and profitable real estate bubble. In fact, land became the preferred destination of investment in Pakistan—a trend that continues up till now (Ahmed, Jawaid, & Khalil, 2021).

This holds drastic consequences for Pakistan's economy. First, a productive investment that can catalyze industry or manufacturing shifts into real estate as investors look for safe options and quick returns. This has directly contributed to the deindustrialization witnessed in Pakistan over the years. The drawbacks of this are obvious. Real estate is a 'dead' investment, holding no impact on employment or output in the economy. This constrains productivity in the economy and shifts resources from manufacturing to real estate. Second, investment and speculation in real estate create land bubbles, sharply increasing land prices. This triggers a crisis of affordable housing, exacerbating the rise of slums and informal settlements. Finally—and this has been increasingly witnessed in Pakistan—as real estate becomes the preferred source of investment, agricultural and green land transforms into concrete through suburban-style housing schemes.

This has impacted both agricultural productivity in the country and heightened the impacts of climate change in Pakistan through urban heat island effects and other debilitating outcomes.

The government has historically struggled to regulate this sector, with influential stakeholders shaping the state's policy on real estate, particularly taxation. The IMF's relentless insistence on increasing public revenue, however, has cast sharp scrutiny on windfall profits in real estate and efforts are underway to bring the sector under the tax regime. This promises to both substantially increase public revenues but also unlock investment trapped in the sector towards productive segments of the economy.

## Fiscal Woes and The Monster of Debt

The crisis of real estate also lies at the heart of another fundamental issue in Pakistan's political economy: a perennial fiscal crisis and burgeoning debt. The total public debt recorded at the end of March 2005 stood at a mammoth PKR 76 trillion, of which 51 trillion is domestic (Economic Survey of Pakistan, 2025). The remaining is external debt amounting to nearly PKR 25 trillion. Pakistan's debt-to-GDP ratio, meanwhile, comes to around 66% of GDP, highlighting the sheer fiscal challenge the country faces.

Poorly designed taxation policies—including on real estate and agriculture—coupled with a large undocumented economy, make fiscal responsibility and mitigating the public debt a significant challenge. Realities of political economy further undermine this effort as elite capture and vested interests resist documentation and taxation. Real estate, the retail sector, and large agricultural landowners serve as cases in point.

Dwindling public resources have a direct bearing on social security and the ability of the state to provide essential welfare services, including health, education, public transport, and housing. Poorly funded and equipped public sector institutions face dereliction and eventual calls for privatization to make them more 'efficient'. What follows has been dubbed the 'hollowing out of the state': a replacement of critical state functions such as social security by privatized services that both limit access to these services and cause windfall profits for those offering them (Harvey, 2005). The result is increasing inequality and strains on the social fabric of society. This inequality occurs across significant social fault lines that include racial and ethnic minorities, the urban poor, and women.

Modern developing nations like Pakistan are thus in the throes of a fundamental dilemma. Mainstream economic theory finds a large public sector anathema to growth, even though on-ground research reveals how public sector institutions have remained profitable in Pakistan (Munir & Naqvi, 2017). To mitigate the effects of supposed inefficiency in the public sector, developing countries are forced to privatize and establish 'business-friendly milieus' that often include low taxation and reduced social spending on education and health. Low taxation levels further exacerbate the crisis of public debt, while reduced social spending aggravates inequality and access to growth opportunities.

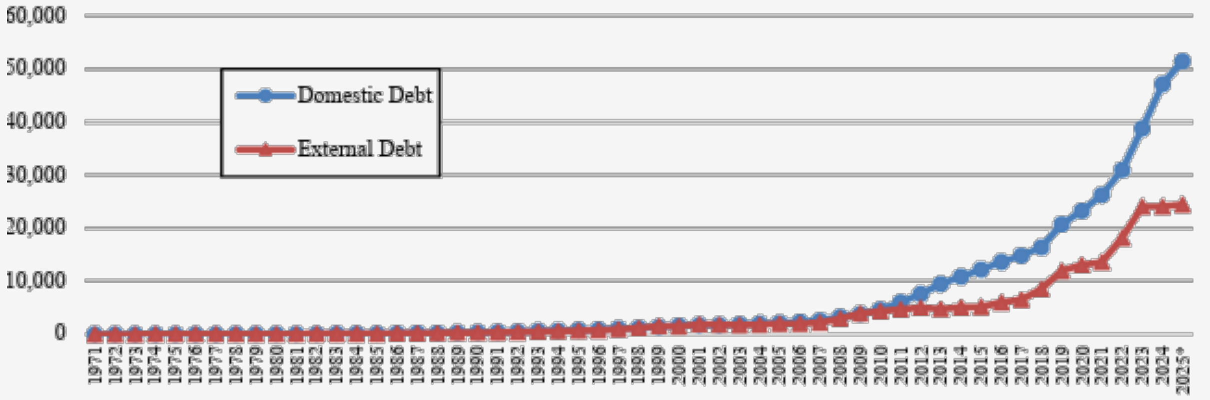


Figure 12: Pakistan's debt across the decades in PKR Billions

(Source: Debt Management Office)

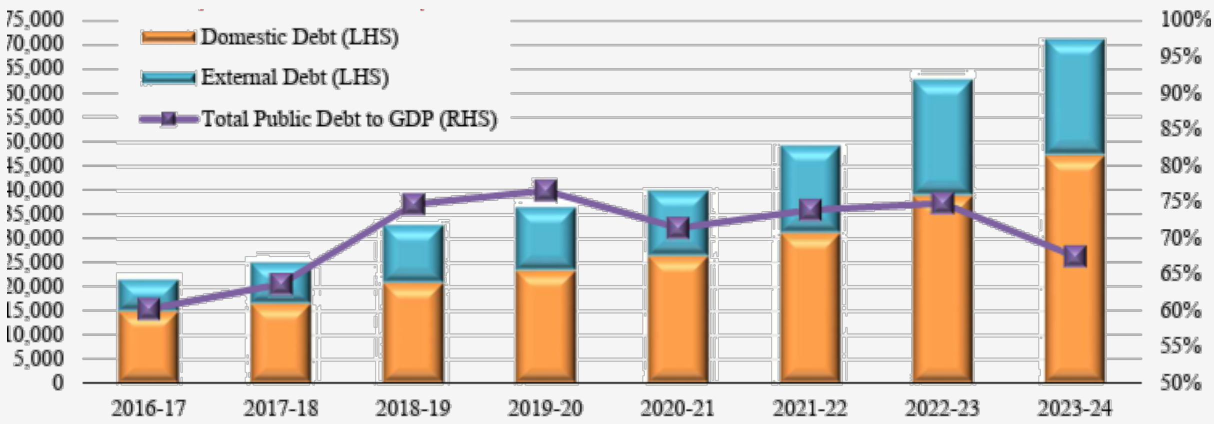


Figure 13: Breakdown of Public Debt

(Source: Debt Management Office)

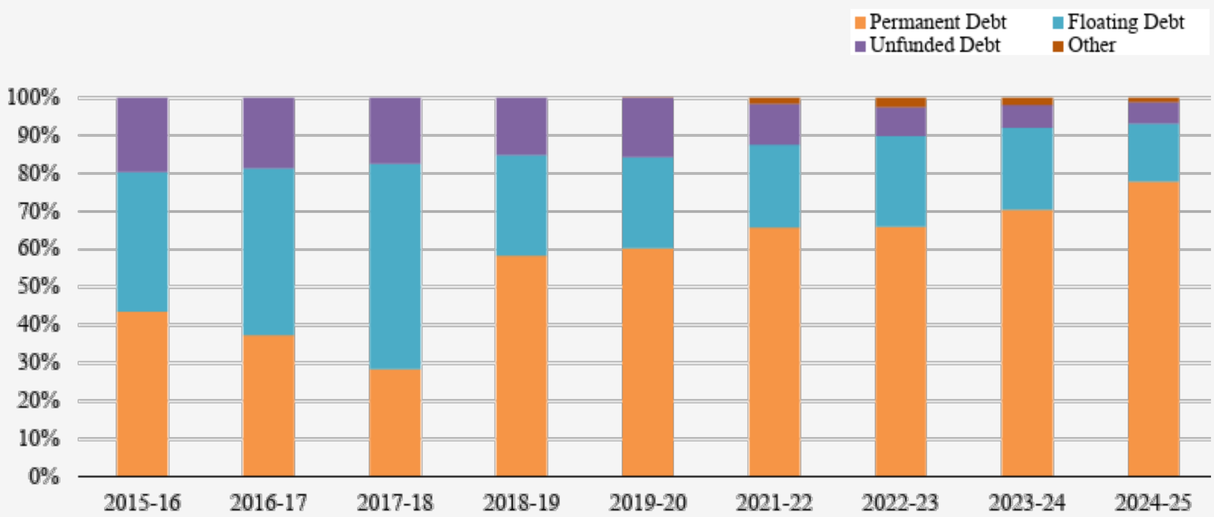


Figure 14: Domestic Debt Profile

(Source: Debt Management Office)

## Of Debt and Paralysis: The IMF and Pakistan

Pakistan's elaborate and prolonged relationship with the IMF enters the analysis in this rich political economy backdrop. With over 20 programs spanning 50 years connecting the international lending agency with Pakistan, the IMF has been a constant presence in the discourse on Pakistan's economy. Under the present 37-month-long Extended Fund Facility (EFF) agreement, the IMF has played an explicit role in shaping policy in Pakistan, particularly around public debt, tax measures, energy pricing, and social security. Critical decisions, including tax relief for segments of the economy and energy subsidies, have been vetted and even vetoed by the IMF, revealing how ineffective the incumbent government remains in shaping domestic policymaking. Several reasons underpin this inability, including a crisis of legitimacy stemming from the controversy around the 2024 elections, but also shifting global geopolitical realities that have lifted the unfettered patronage the US extended to Pakistan.

The IMF's preponderant role in Pakistan's corridors of power harkens to a rich critique of modern economic thinking dubbed 'neoliberalism' by its critics (Harvey, 2005) (Davies, 2017). Neoliberalism, per this body of criticism, envisions minimal state interference in the economy, permitting market forces to run rampant and provide services and goods, including social security. Efficiency, not equity, becomes the paramount benchmark, necessitating an exclusion of those unable to afford privatized social security. Inequality increases, and the state, constrained by ideological and physical barriers limiting intervention, imposes this inequitable structure in the guise of efficiency and 'good governance'. Countries like Chile, South Korea, following the 1997-98 Asian Financial Crisis, and Iraq post-2003 are touted as examples, drawing attention towards the need to engage ideationally and ideologically with fundamental tenets of mainstream economic thinking.

Present global structures constrain alternatives to IMF borrowing. This stems predominantly from the United States' and the IMF's preponderant position in the international monetary regime. Alternatives are, however appearing on the horizon. The Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB)—formerly the BRICS bank—are multilateral options that will gain traction and offer viable alternatives in the near future. Pakistan already relies significantly on bilateral loan options, including debt rollovers from friendly countries like China and Saudi Arabia, which have offered respite in the recent past.

Pakistan can also think beyond conventional methods of financing, including commodity-linked bonds raised in international markets. These bonds are tied to commodities and their prices in the global market, which adds uncertainty to return but moves away from fixed interest payments. Pakistan can tie commodity-linked bonds to its own exports or commodities, witnessing rising international prices that ensure a stable return to investors. Mexico did this successfully in the 1970s when it launched 'petro bonds' tied to oil production, with a 1,000 Peso bond linked to 1.95 barrels of oil (Kazim), permitting the country to hedge its oil production against fluctuations in price while raising new funding at low costs. For Pakistan, the associated commodity could be cotton, rice, or natural gas.

## The Perils of Climate Change

The year 2024 reaffirmed how climate change remains the greatest global existential threat. 2024 was the hottest recorded year in the human history, with 22nd July classified as the hottest day in history (NASA, 2024). Increasing evidence reveals that the world is set to miss the 1.5 °C rise established in Paris in 2015, posing catastrophic consequences for the global community.

Pakistan sadly finds itself in the eye of the storm. Despite only accounting for 0.88% of all global emissions, the country ranks in the top 10 most at-risk countries per the Global Climate Risk Index. Recent events attest to this reality. The 2022 floods in Pakistan were some of the worst in global history, affecting more than 33 million people, including 1,700 fatalities and causing US$15 billion worth of damage. A preceding heatwave and unusual monsoon—243% higher than the average monsoon rains in the previous year—triggered the floods, wreaking havoc at a time of political and economic vulnerability in the country.

2024 remained equally unkind to Pakistan. The country received 31% more rainfall than usual, while the average annual temperature recorded at 23.52 Degrees Celsius was 0.71 degrees higher than the average.

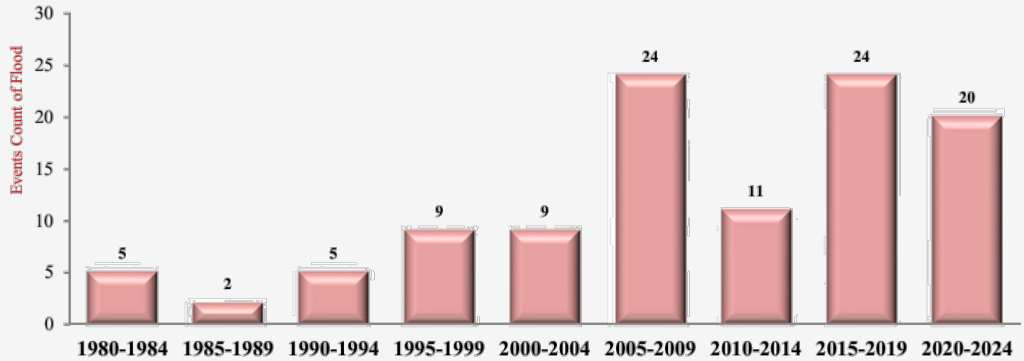


Figure 15: Frequency of floods in Pakistan

Source: The International Disaster Database


Figure 16: Mean monthly rainfall in Pakistan

Source: Pakistan Meteorological Department

Fortunately, the powers-that-be remain cognizant of this threat. On 21st October 2024, Pakistan passed the 26th amendment to its constitution, entering Article 9A into the constitution, which recognizes the right to a clean and healthy environment as a fundamental right for all Pakistanis. The flaws of the amendment aside, this is a significant development to entrench respect for the environment within the collective national conscience. Pakistan was also a vocal participant at COP29 in Azerbaijan, urging the Global North to recognize its role in propagating and mitigating climate change and the need for effective, timely, and adequate climate financing. Pakistan and the Like-Minded Developing Countries (LMDC) group advocated for a US$1.3 trillion annual commitment to climate finance, far above the US$300 billion eventually accepted. Pakistan also managed to secure US$1.4 billion from the IMF as part of its Resilience and Sustainability Facility (RSF) Fund that will strengthen disaster risk preparedness, water resource management, and climate policy coordination between the federal and provincial governments.

On the domestic front, Pakistan has made significant strides in climate finance. The previous fiscal year witnessed the country launch its first-ever green sukuk bonds. Targeting an initial PKR 30 billion in funding, the investments will be geared towards sustainable and environmentally-friendly projects. The federal government has also established an internal mechanism of 'green budgeting' that prioritizes and gives added weight to environmentally friendly projects in budget-making processes. Complementing this are further local initiatives, including the country's first carbon market policy, the creation of a Pak Green Building Code to regulate urban development and construction, and the institution of the Environmental Protection Agency (EPA) in Punjab.

The battle against climate change, however, lies beyond simple financial instruments. It requires a critical rethink of the very models of production and consumption that underpin our economy and how these patterns of consumption and production decimate the environment. Climate change also has a localized and spatial dimension, with some areas disproportionately affected. Gilgit Baltistan (GB) is a case in point. Remedial measures addressing the depredations of climate change in GB will not be fruitful unless they are grounded in the unique cultural, social, and indeed, political, realities of the region. We must accord similar scrutiny to patterns of development in our urban areas as well, where the unregulated real estate sector has significantly contributed to smog and urban heat island (UHI) effects in Pakistan's cities.

## Where Do We Go From Here? Suggested Reforms

1. **A progressive and inclusive taxation policy that targets real estate, retail, and agriculture**
   Taxation holds a direct bearing on inequality and income distribution within a country, alongside providing the largest source of public revenue to the state. Real estate, retail, and agriculture have so far evaded adequate taxation, triggering inequality and hampering the state's ability to provide critical services, including education and healthcare.

2. **Emphasizing an increase in total factor productivity (TFP) by training labor and enhancing the quality of human capital**
   Economic theory, going as far back as Robert Solow's growth model in the 1950s, captures the importance of human capital as a critical input in the production function of economies. Increases in this human capital—through rising productivity—are instrumental to triggering growth, particularly for countries like Pakistan, which are aiming to catch up to the First World.
3. **Moving towards an active industrial policy that emphasizes export promotion**
   Robust industrial policies supported by active state intervention have been critical to the growth of the American, British, Korean, and Japanese economies (Chang, 2002), a reality Pakistan must embrace and utilize to trigger its own path to progress.
4. **Responsible fiscal and monetary policies that encourage investment and strengthen our export regime**
   In line with the previous recommendation, Pakistan must complement its industrial policy with a supportive trade policy that strengthens its export sector, particularly in products it has enjoyed a traditional comparative advantage. At the same time, Pakistan must push for value addition in exports, which will shield it from global market volatility and fluctuations. IT exports could be one such area.
5. **Strengthening social security with a key focus on the urban poor, education, health, and underserved regions of the country**
   The diversity underpinning Pakistan's social fabric requires acute attention towards regional, ethnic, and income inequality, with a key focus given to social security programs like BISP that mitigate this inequality. An uninhibited obsession with growth will compromise social equity, further straining Pakistan's social fabric at the seams.
6. **Arresting the uninhibited transformation of agricultural land into urban concrete through a rethink in urban development**
   This recommendation addresses multiple problems: the crisis of agriculture in the country and the disastrous horizontal sprawl that has come to characterize Pakistan's cities. A rethink in our urban development model would mitigate the unhindered transformation of agricultural land into urban concrete while encouraging vertical, mixed-use, and sustainable development in our urban areas.
7. **Embracing the IT revolution and benefitting from Pakistan's youth bulge through conducive digital and financial policies, which promote a culture of innovation and digitization**
   Pakistan holds a strong advantage in terms of a large youth population connected to the digital world and datasphere. Effectively harnessing this potential can provide much-needed youth employment, earn foreign exchange, and establish an ecosystem that embraces technology and artificial intelligence to trigger growth in the country.

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