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Pakistan's debt quagmire, IMF dependence, and Budget FY2025-26

Dr. Haider Ali | 09th July, 2025

With a total public debt of over PKR 76 trillion (roughly $267 billion), or nearly 65% of total income (i.e., GDP), Pakistan's economy is in a crippling debt trap. Although this debt-to-GDP ratio is slightly lower than last year, it continues to strain the country's fiscal space in subtler but persistent ways.

The government has been forced to repeatedly seek bailouts from the International Monetary Fund (IMF) due to the crippling constraints imposed by this debt load. This pattern has become all too familiar, as Pakistan has participated in 24 IMF programmes since 1958.

Pakistan's dependence on the IMF has reached a critical juncture. The prevailing $3 billion Standby Arrangement (SBA), which was approved in 2023, carries tough stipulations that are significantly affecting the structure of Budget 2025–2026.

These requirements include tax reforms, austerity measures, and the privatization of state-owned businesses. It turns out that Pakistan's debt crisis has so severely undermined its economic sovereignty that its national budget needs what amounts to external authorization, raising serious concerns about the country's ability to steer its economy.

Decades of fiscal mismanagement, lax tax administration, and an unsustainable spending pattern have been the main causes of Pakistan's current predicament. The low tax-to-GDP ratio of 11 percent is due to both political resistance to taxing wealthy elites, especially those in the real estate and agricultural industries, and policy shortcomings. Meanwhile, 48% of federal revenues are currently used for debt servicing, leaving a small amount for social services or pertinent development expenditures.

The circular debt in the energy sector, which has grown to PKR 5.4 trillion, is a prime example of the structural weaknesses in the economy, which include a mix of poor governance, pricing distortions, and long-standing inefficiencies that have been ignored by succeeding administrations.

External shocks, such as the uncertainty surrounding US tariff policy and regional geopolitical tensions, have exacerbated these structural issues. As a result, Pakistan's economy is caught in a vicious cycle: high debt necessitates IMF support, which imposes austerity that constrains growth, which in turn makes debt repayment more difficult.

However, the IMF-mandated austerity alone will not resolve Pakistan's challenges. Initiatives like URAAN Pakistan and the government's 5Es Framework (Exports, E-Pakistan, Environment, Energy, and Equity) are necessary to address the fundamental root causes of Pakistan's economic vulnerabilities. The framework aims to increase foreign exchange earnings and cut reliance on external debt by giving exports priority.

Through extensive ICT integration, E-Pakistan hopes to bring about a digital transformation that promotes creativity, effectiveness, and accessibility. In order to maintain long-term ecological and economic stability, the environment component places an enormous value on climate resilience and sustainable resource use. A focus on energy seeks to guarantee clean, affordable, and dependable power to support social and industrial advancement.

Last but not least, equity aims to build inclusive human capital through equal opportunity and high-quality education, establishing the groundwork for a society that is just and knowledge-based. When taken together, these pillars show the way to a Pakistan that is advanced, resilient, and forward-thinking. In order to end Pakistan's economic stagnation cycle to establish a more just and productive economy, these reforms are crucial.

Pakistan must acknowledge that external imposition alone is insufficient to address these structural problems as it negotiates its financial future with the IMF. Domestic political will and societal agreement on economic reforms are essential for real change.

To mitigate the effects of reforms on the impoverished, the upcoming budget offers a chance to start this challenging transition by preserving and even growing social safety nets like the Benazir Income Support Programme (20% increase compared to the previous fiscal year).

Instead of continuing the consumption-driven model of the past, it should place a higher priority on investments in human capital and export-oriented industries that can produce sustainable growth. Additionally, it must commit to multi-year reform programmes with transparent accountability and benchmarks, signaling a real break from the cycle of crisis and stopgap measures.

Hardly could the stakes be higher. Without significant structural changes, Pakistan runs the risk of being stuck in a crippling cycle of debt and dependency for good, losing control over its economic future. The alternative—a persistent dedication to modernization, sound governance, and fair growth—offers the possibility of both macroeconomic stability and true prosperity. Initiatives such as URAAN show that there are answers; the political will to put them into practice on a large scale has been lacking.

Given the nation’s current economic juncture, Budget 2025–26 should be more than just another crisis management exercise; rather, it should signal the start of Pakistan’s massive economic revolution.

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