Pakistan’s Second Sharif Coalition Government from February 13, 2024-May 27, 2024: A Brief Appraisal

On February 13, 2024, the Pakistan Muslim League-Nawaz (PMLN) and the Pakistan Peoples Party (PPP), along with some other smaller parties, announced the formation of a coalition government. In the final tally of the 336-member National Assembly, the PMLN has 122 seats (with 73 directly elected, 34 Women, and 5 Minority members), the PPP 71 (54 direct, 16 Women, and 3 Minority) Muttahida Qaumi Movement Pakistan (MQMP) 22 seats (17 elected, 4 Women, 1 Minority) while in the Opposition, the Sunni Ittehad Council (SIC)/ Pakistan Tehreek-e-Insaf (PTI) has 87 seats (all elected). The latter’s claim for reserved seats was rejected, both by the ECP and the Peshawar High Court. Eight MNAs preferred to continue as Independents. As expected, on March 9, 2024, Asif Ali Zardari, co-chairman of the PPP, was elected as the country’s 14th president defeating Mahmood Khan Achakzai of the Sunni Ittehad Council. On March 10, Zardari took oath as President of Pakistan for a second term. Previously, Prime Minister Shehbaz led a coalition government following the ouster of the PTI-led federal government, while Zardari completed his first five-year term as President of Pakistan in 2013. Seemingly the old guard is back in power in Pakistan.

In the 371-member Punjab Assembly, the PMLN obtained 193 seats while PTI/SIC got 98 seats, the PPP 13, and the PML (Quaid e Azam) (PML-Q) 10 seats. Nawaz Sharif’s daughter, Maryam, was appointed Chief Minister. In Khyber Pakhtunkhwa (KP), the PTI/ SIC had a landslide 87 seats out of 145, with the Jamiat Ulema-e-Islam (Fazlur Rehman) emerging as the next largest party with only 17 seats. The 168-member Sindh house saw the PPP comfortably win again with 84 seats, with MQM-P emerging second largest (28 MPAs). Murad Ali Shah was appointed CM again. The 65-member Balochistan Assembly has a PPP-led (17-seat) coalition government led by Sarfaraz Bugti, comprising 16 PMLN MPAs and five Balochistan Awami Party (BAP) members.

Earlier, on March 3, 2024, PMLN president Shehbaz Sharif, was elected prime minister of Pakistan after securing a majority vote from lawmakers in the National Assembly. Shehbaz secured 201 votes while PTI candidate Omar secured 92. Shehbaz's victory was expected as he enjoyed the support of seven other parties apart from the PMLN. It has the support of the PPP, MQMP, PML-Q, BAP, Pakistan Muslim League-Zia (PML-Z), Istehkam-e-Pakistan Party (IPP) and National Party (NP).

The PMLN president Shehbaz is the younger brother of former three-time prime minister Nawaz Sharif, 74, who sprang a surprise last month after being projected as the party's prime ministerial candidate ahead of the February 8 elections, marred by alleged vote rigging.

Nawaz Sharif, who returned to Pakistan from London in October 2023 to become Pakistan's prime minister for a record fourth time, decided against contesting as his PMLN party failed to garner enough seats in the February 8 elections to form a government on its own. Shehbaz served as prime minister of a coalition government from April 2022 to August 2023 before Parliament was dissolved to hold general elections. 1 Meanwhile, PTI founder Imran Khan is incarcerated in prison.

After the PMLN and the PPP announced to formation of a coalition government in the Centre, the PTI has warned of the ‘worst political instability’ ahead if the nation was forced to accept the “slavery of criminals.” The PTI said “We reject the entire drama of PDM 2.0 after gathering mandate pilferers. The nation gave the mandate to the PTI in the Centre, Punjab, and Khyber Pakhtunkhwa (KP), with a clear majority of 180 seats. The party will resist using all platforms against the theft of the public mandate. Decision-makers must give the majority party its due right to form its government.”2

On February 21, 2024, the PMLN continued its efforts toward government formation by striking agreements with various coalition partners following a recent power-sharing accord with the PPP).

PMLN representatives engaged with delegations from the MQMP, BAP, and Jamiat Ulema-e-Islam (JUI), solidifying their alliances and outlining plans for governance.

It was disclosed that the PMLN and MQMP have reached a consensus to collaborate within the government framework. The agreement underscores a commitment to foster reconciliation and cooperation, with a focus on enhancing political, democratic, and economic stability across the nation.

Central to their discussions was the imperative of ensuring equitable distribution of resources and powers, laying the groundwork for future deliberations on critical issues such as the protection of urban rights in Sindh, particularly in Karachi, and the restoration of the port city's economic prominence. 3

Meanwhile, the Sindh High Court (SHC) has ordered the restoration of all social media apps, including X (formerly Twitter) while hearing petitions against the shutdown of internet services on election day in the country.

A two-member bench, headed by Sindh High Court Chief Justice Aqeel Ahmad Abbasi, heard the petitions on February 21, 2024, expressing concern over the widespread shutdown of internet services during the crucial election period.

The government's fear of dissent forced it to take X as a threat and shut it down without giving any reasons.

It is not the only one, as other social media applications, cellular services, and the internet frequently face blackouts, leaving from the president to experts and media to the common person to question the unannounced disruption and dub it an attempt to silent dissent. The chief justice made sarcastic remarks directed at the public prosecutor, commenting on the alleged irregularities in the election process.4

The proposed new government looks much the same as the shaky coalition that combined to oust Khan in a no-confidence vote in 2022 when Sharif became prime minister for the first time. The PTI has valid reasons to lash out against the PDM 2.0 government agreement and the reiteration of its accusations of foul play. The issue of election rigging is profoundly serious and is tearing the nation apart. Therefore, it must be examined thoroughly and rectified immediately, to the extent possible.

Today, the rigging issue is not going anywhere in the global media is carrying the stories. The article "Shehbaz Sharif: Pakistan's Compromise Candidate Prime Minister," published on March 3, 2024, maintained that: 5

> The Sharif family's military-backed PMLN won the most seats in the election but fell short of an expected majority in a poll that was marred by allegations of pre-poll rigging and vote tampering. Khan's lawmakers won the most seats, despite a sweeping crackdown against his Pakistan Tehreek-e-Insaf party that forced its candidates to run as independents and blocked them from holding rallies.… Sharif's first tenure was defined by a steep economic downturn and a campaign of defiance from popular Khan -- who was jailed and barred from office in the runup to polls. The premiership lasted less than a year and a half before he handed the reins to a caretaker

> government which ushered in elections last month. Unlike his elder brother -- whose relations with the country's powerful military and his opponents were strained -- Sharif was considered capable of compromising even with his enemies. Pakistan's military is the country's most powerful institution and has ruled the nation for nearly half its history -- and pulls the strings even when not governing.

Mohammed Hanif, in his article "Pakistan's 'King of Chaos' Imran Khan keeps winning even behind bars," published in the BBC dated March 3, 2024, said that:6

> Pakistan's recent elections were supposed to bring in a period of stability, desperately needed to deal with crippling inflation and bitter political divides in the country, writes author and journalist. Instead, they delivered a minority government - a shaky, reluctant coalition that looks unsure of its mandate…. The "establishment" - a euphemism used by local media for Pakistan's powerful military - has always believed that general elections are too sensitive an exercise to be left to civilian politicians. This time around they opened their old election playbook and used every trick deployed successfully in the past. The main contender Imran Khan was put in jail. He faces more than 150 criminal and civil charges, all of which he denies. A week before the elections he was sentenced in three cases - in one he was accused of contracting a marriage in a hurry. His party denied its election symbol and a united platform and was forced to contest as independents. Ex-PM Nawaz Sharif was widely seen as having the army's backing. Many were evading police raids instead of campaigning in their constituencies. His main opponents were cleared of many cases against them and given a free hand to campaign. On election day social media and mobile phone services were shut down, apparently for security concerns but to ensure that Khan supporters did not have easy access to the polling booths and would find it hard to identify their candidates on the ballot paper. Khan's supporters showed remarkable ingenuity, formed WhatsApp groups, improvised apps and websites overnight reached polling booths, and managed to find their candidates. His party used AI-generated speeches to convey the message of their jailed leader. Imran Khan's prison ID number was turned into an election slogan. They campaigned guerrilla-style and sprang a surprise on election day. Despite all the claims of rigging against it, his Pakistan Tehreek-e-Insaf (PTI) still emerged as the single largest party in the election. The Khan wave on election day was too strong to be reined in by routine rigging. The establishment used 20th-century tactics to tame a digital-savvy generation - and lost. To the military's tried and tested machinations, the voters' response was polite and defiant: thank you, but no thank you, we are not as ignorant and illiterate as you think we are. We may not be able to take you on in the streets, you have your guns, but here is our stamp on the ballot. Do what you will with it…. Most Pakistani politicians have had to spend time in prison at some point. But no one seems to have had more fun than Imran Khan. Denied every public platform to reach his supporters, he has pulled off an election victory from his prison cell with a communique sent through his lawyers and close family. Last May, when Imran Khan was arrested for the first time after his government's dismissal, his supporters rioted, attacking army cantonments and other symbols of the army's power and prestige. A senior general's house was set on fire, and some rioters even managed to enter army headquarters. Protests broke out after Khan was arrested over corruption allegations. The crackdown that followed was swift and brutal. Most of the PTI top leadership was abducted and pressured to part ways with Imran Khan - some condemned his politics, others quit politics for life. The establishment wanted to send out a clear signal that

> Imran Khan and his party were finished. With Khan in jail, as the election drew closer, the party was taken over by second-tier leadership and local faithful who were crucial in organizing the battered party's campaign to victory. They were certain that their leader would not be allowed to return to power, but they showed through their vote that they wouldn't abandon him just because the army wanted them to…. When his party lost the 2013 elections, he campaigned relentlessly to get the results overturned and laid siege to the capital Islamabad. He was able to do it with the establishment's backing. Now that he is the establishment's enemy number one, he is buoyant after his party's showing at the polls. His party has decided to sit in opposition, but Imran Khan likes to play his politics not in parliament but out on the streets, with public rallies and social media. The current government is already being dubbed as a "coalition of losers" - it is a coalition of parties that were soundly beaten by Khan in the elections. The election was marred by the suspension of mobile phone services.

Shaiq Hussain and Noack in their article "Lawmakers pick Pakistan's leader, but Khan's shadow looms from prison," published in The Washington Post," on March 3, 2024, aptly maintained that:7

> Pakistan Tehreek-e-Insaf (PTI), which appeared to have a commanding lead in unofficial polls released immediately after voting stations closed on Feb. 8. Khan's allies claim that Pakistani officials, shocked by the strong public support for the imprisoned ex-leader, slowed down vote counting and rigged the results — an accusation that the authorities have denied. But even among Khan's opponents, the sentiment that fairness is lacking in Pakistani politics remains widespread.…. Khan's party was almost entirely dismantled after his supporters attacked military installations in the wake of his arrest on corruption charges in May. But subsequent convictions and prison terms in three trials did not break the ex-leader's popularity and may even have bolstered it. Nawaz Sharif is likely to retain a strong influence on his younger brother and the direction of Pakistan's next government, as it seeks to find a response to public sympathy for Khan and his party's appeal. The PTI's savvy use of social media in recent months successfully circumvented efforts to undermine Khan's populist pitches to voters, which largely revolve around disrupting the status quo of Pakistani politics and building a nationalistic European-style welfare state based on Islamic values.… One of the key questions is whether Pakistan's establishment will allow Khan's party to regain a seat at the table, potentially paving the way for Khan's release and political comeback. On the regional level, the PTI appears to have been given some space since the election. Officials did not prevent a Khan ally from being elected head of the government in Pakistan's northern Khyber Pakhtunkhwa province, where his party dominated the elections. While Khan's party still appears far from dominating on the national level, there are signs that last month's vote has upended the status quo.

Vivek Katju in his article "Pakistan: With Shehbaz Sharif set to become PM, the army will use every means to weaken Imran Khan," argues that: 8

> The army was once again seeking to reinforce the message that whatever may be the results of the election, the real protector of Pakistan is the army, and the father figure of the Pakistani people is its chief. The army needed to send out this signal, for it was not able to accomplish its objective of finishing off the former Prime Minister and the founder and leader of the Pakistan Tehreek-e-

> Insaaf (PTI), Imran Khan, in the national elections. The army, from behind the scenes, ensured that the Pakistan Election Commission did not allow PTI candidates to contest elections either for the National Assembly or the Provincial Assembly using the party's 'cricket bat' symbol. They could only contest as independents, which they did. To the surprise of many—and one can conjecture that of the generals too—Imran Khan's independents did remarkably well. They came through as the largest group in the National Assembly and were able to win the majority in the Khyber-Pakhtunkhwa (KP) Assembly…. The struggle between Munir and Imran Khan is not over. Munir will use every arrow in his quiver to weaken Imran Khan, but it will not be easy, for he has evoked the issue of 'gairat'—pride—which is so important in a quasi-feudal society as Pakistan continues to be. As for the new government, its priority would be to put the economy back on the rails. That cannot be a simple job, especially because of Pakistan's continuing irrational animosity towards India. PML-N had been tipped to win this month's polls after securing the backing of the powerful military establishment. But jailed ex-prime minister Imran Khan delivered a surprise result at the polls, with candidates loyal to him securing more seats than any other party despite a crackdown that crippled their campaign.

Reuters, in its report "Pakistan's Shehbaz Sharif to take oath as prime minister for a second term today" published on March 3, 2024, says that:9

"Pakistan went to the polls on Feb. 8 in a vote marred by a mobile internet shutdown on election day; arrests and violence in its build-up; and unusually delayed results, leading to accusations that the vote was rigged".

There was widespread well-deserved criticism of the ECP. An editorial entitled "democracy damaged" published in Dawn on February 28, 2024, said: 10

From its complicity in the failure to hold timely elections for the KP and Punjab assemblies to its role in delaying the general elections over a controversy-ridden census, from its failure to ensure a free, fair, and inclusive environment for electioneering to its flouting of myriad rules and laws governing the electoral process on election day and thereafter — the charge sheet against the ECP has not stopped growing. Have the country's laws not been trampled upon enough? Does the foundation of the 16th National Assembly also need to be laid on a violation of constitutional process? There were immense expectations attached to the democratic process over the past year, with millions hoping it would provide them with a pathway to deliverance from the many crises afflicting the country. Instead, the nation witnessed once again how casually constitutional schematics can be subverted when the powerful decide to rob the public of its voice. Meanwhile, the institution created and empowered to safeguard the country's democratic framework either stood by and watched it be mutilated or became complicit in its weakening through its disdain for the law. It must be asked: is there somewhere that the ECP and its backers intend to draw a line? Most of the Pakistan's population is young and impressionable. What they have seen over the past year cannot engender any hopes for a just and progressive society. Lasting damage has already been caused by the actions of a few. How long will they continue to be tolerated? PML-N had been tipped to win this month's polls after securing the backing of the powerful military establishment. But jailed ex-prime minister Imran Khan delivered a surprise result at the polls, with candidates loyal to him securing more seats than any other party despite a crackdown that crippled their campaign.

Later, three Opposition parties - the Grand Democratic Alliance (GDA), Jamaat-i-Islami (JI), and Jamiat Ulema-i-Islam-Fazl (JUI-F) rejected the results of elections held in Pakistan on February 8 and demanded fresh polls, Pakistan-based Dawn reported. The three parties have warned that they will not remain silent and the protest against the alleged rigging will continue with more force and intensity.

The three parties, which have recently joined hands to protest against the "'manipulated and rigged' elections" announced the setting up of a committee to plan a 'protest campaign' A large number of workers of the three parties gathered outside the Karachi Press Club and held a protest in line a province-wide call for observing the 'black day."

The opposition parties had given the call to observe black day in protest of the police action to scatter their protest planned outside the Sindh Assembly on February 25 over alleged rigging in the elections held on February 8. Carrying placards and banners, the protesters shouted slogans against 'theft' of mandate. Some of the protesters even carried black flags.

Addressing the protesters, GDA's Secretary General Safdar Abbasi said that the people of Sindh will not accept dual-faced democracy with bogus results. He said that people had already rejected the politics of hatred and terror and stressed that those who had imposed criminal elements on the people of Karachi had done a disservice to Pakistan and the people of this country.

Abbasi said, "The Feb 8 elections were not the elections, they were an organized and planned robbery which can never be accepted and forgiven." He said that the polls conducted on February 8 have further deepened instability, according to Dawn's report.

He stated, "Instead of bringing stability and calm, these polls have further deepened instability. If they are accepted and not fixed, they will cause irreparable damage to the country. For the stability of the country, these elections should be declared null and void." Addressing the protest, JI leader Osama Razi said that the people would not extend the scope of the protest if the authorities did not amend the election results according to Form-45s. He stated that the entire country was paying the price for what happened on February 8 in the name of polls.

Osama Razi said the protest will continue till its logical conclusion. He requested the Supreme Court of Pakistan to take notice of the alleged rigging in polls. He said, "Those who are celebrating their fake victories are unable to face the public." Razi said, "Even the formation of the governments in the Centre and provinces has become a challenge for these mandate thieves. Every party which has won doesn't want to share the burden of the government because it knows that any coalition which is based on fake mandate is not going to survive." Meanwhile, Pakistan Tehreek-e-Insaf (PTI) has decided to hold a protest on March 2 against the alleged rigging in the elections held on February 8, Pakistan-based Geo News reported. The party founded by Imran Khan announced that other political parties would also join them.

PTI Secretary General Omar Ayub, who is also the party's candidate for the prime minister's position, spoke about the "large scale" rigging in the elections. He made the remarks in a press conference after he met with PTI founder Imran Khan, Geo News reported.

Ayub said PTI will hold nationwide protests against "rigging" in elections alongside other political parties. He said, "Our seats were stolen with just a stroke of the pen. The people gave the mandate to the former PTI chair. The nation's mandate and our seats have been attacked." He said that PTI will hold protests in courts and assemblies.11

Aljazeera reported that Pakistan's February 8 elections were marred by widespread allegations of rigging and manipulation, with Khan's PTI alleging its mandate was stolen.

On election day, mobile networks across the country were closed, citing "security concerns," and days after the polls, access to X was also restricted in the country, a restriction that continues to date.

Before the elections, many journalists had maintained that they were asked to impose a near-blanket ban on covering the PTI's campaign.

Political analyst Benazir Shah said that rather than protecting the fundamental rights of journalists, the state "twists vague and broadly written laws" to silence independent and critical voices.12

"No matter who is in power in Pakistan, journalists and the media continue to be viewed as 'enemies of the state.' What does change with each year though is the list of silent spectators from within the state, which increases, and now seems to include even those tasked to protect fundamental rights," she said. Analyst and columnist Cyril Almedia also added that while social media is the last "relatively free space," the state has been trying to create conditions that would lead to "further repression." The sad truth is that there are no more than a handful of fundamentally democratic, principled voices left in Pakistan and [they are] isolated," the analyst said.13

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Meanwhile, PMLN and PPP, which are the second and third largest parties in the elections in terms of numbers, have decided to form the government in the Centre, Punjab, and Balochistan.14 Meanwhile, the PTI has alleged rigging in the polls. Later, on March 2, 2024, staged protest demonstrations against "rigging" in the February 8 general elections, across all the major cities amid clashes with the police. Despite having the biggest number of successful candidates in the polls, the Imran Khan-founded party had given a nationwide protest call against the "stolen" mandate.

During one of the demonstrations, the police baton charged and arrested PTI workers. The party had decided to conduct protests amid heavy police deployment in Islamabad, Lahore Rawalpindi, Gujrat, and Karachi. The PTI claimed that their "peaceful protests" were interrupted by state machinery and law enforcement officials. "The people have taken to the streets to take back their stolen mandate," he added. The party said that "unconstitutional" obstacles in the way of protests show fear and cowardice, adding that they will not accept the "rigged" elections through Form 47. The PTI said that it will continue its struggle to claim its stolen mandate back.15

A day after it launched a fierce crackdown, Lahore police took legal action on March 11, 2024, by registering a case against 38 Pakistan Tehreek-e-Insaf (PTI) workers and leaders for alleged arson and vandalism in Lahore.

The police have been accused of launching a forceful response against PTI supporters and arresting over 100 members during nationwide protests, triggered by alleged rigging in February general election.

The PTI had organized protests to demand the restoration of what it claims to be its "stolen mandate" from the February 8 election, as well as the immediate release of party leaders, including founder and former premier Imran Khan.

The Lahore demonstration initially intended to voice these demands, turned violent as PTI members and supporters clashed with the police. Numerous videos circulating on social media depicted scenes of police officers wielding sticks and forcibly detaining protesters inside police vehicles. Pakistan has now sunk into political instability.

Earlier, on March 11, 2024, a 19-member federal cabinet was sworn in by President Asif Ali Zardari. Earlier, during his 16-month tenure as the Prime Minister between April 2022 and August 2023, Shehbaz had an excessively large federal cabinet, drawing widespread criticism with some describing it as a financial burden on taxpayers amidst economic challenges.

By the end of March 2024, amid rigging allegations arising out of the elections, Pakistan finds itself in a political crisis yet again. 16 Soon after Pakistan's most controversial general elections, the Shehbaz Sharif-led coalition government of the Pakistan Muslim League-Nawaz (PMLN), supported by the People's Party of Pakistan (PPP) from outside, is slowly settling down to tackle the difficult economic crisis facing the nation. As opposed to the bloated cabinet of 84 members in the first Shebaz Sharif government, the current one has only 19 members. In the final tally of the 336-member National Assembly, the PMLN has 122 seats (with 73 directly elected, 34 Women, and 5 Minority members), the PPP 71 (54 direct, 16 Women, and 3 Minority) Muttahida Qaumi Movement Pakistan (MQMP) 22 seats (17 elected, 4 Women, 1 Minority) while in the Opposition, the Sunni Ittehad Council (SIC)/ Pakistan Tehreek-e-Insaf (PTI) has 87 seats (all elected). The latter's claim for reserved seats was rejected, both by the ECP and the Peshawar High Court. Eight MNAs preferred to continue as Independents. As expected, on March 9, 2024, Asif Ali Zardari, co-chairman of the Pakistan People's Party (PPP), was elected as the country's 14th president defeating Mahmood Khan Achakzai of the Sunni Ittehad Council. On March 10, Zardari took oath as President of Pakistan for a second term. Previously, Prime Minister Shehbaz led a coalition government following the ouster of the PTI-led federal government, while Zardari completed his first five-year term as President of Pakistan in 2013. Seemingly the old guard is back in power in Pakistan.

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The PTI was at loggerheads with the Sharif Government during the period March-late May 2024. By May end the PTI and the PMLN were again on a warpath. An editorial “Mercury Rising” published in Dawn on May 27, 2024, best summed it up by stating that:20

> Should we expect a political heatwave this summer? The climate seems to be rather conducive to it. The two largest parties are once again on the warpath, with a slew of troubling developments precluding any hopes for the long-awaited normalization of political temperatures. In Lahore, the chief minister of Punjab has approved the registration of fresh cases against the PTI leadership, this time for “building a hateful narrative against state institutions.” It appears that the PML-N government will rely on the odious defamation bill it recently passed in the Punjab Assembly to go after its chief rival. The provincial information minister, speaking on the matter, explained to the media that the Punjab home department had provided information establishing that PTI leaders were “spreading mischief inside and outside the jail.” She claimed that the party was “spreading hate as part of organized propaganda” to incite the people, destabilize the country, and inculcate hatred against its institutions. Was this anticipated? Unfortunately, yes. Meanwhile, in Islamabad, the PTI has been engaged in a bitter confrontation with the Capital Development Authority, which this week razed part of the party’s central secretariat and later sealed the building under an anti-encroachment drive after issuing several warnings. Twenty-six individuals, including a PTI leader, were subsequently booked by Islamabad Police on various charges, including terrorism, allegedly for violently resisting the CDA operation. Understandably, the party is incensed by its relentless victimization; disappointingly, it has yet to show any remorse for its culpability in similar targeting of its opponents in the past. It has also seemed unwilling to mend fences with its opponents, having set strict preconditions for any negotiations that are unlikely to be accepted in the current situation. It seems in no hurry to see matters resolved and appears to be hoping that the crises engulfing the government will eventually bring about its downfall. These are all worrying reminders that political stability, a prerequisite for the economic stability desperately sought by the inflation-weary citizenry, remains as elusive as ever. With the budget almost upon us and the IMF making it clear it will not consider extending more loans till its painful requisites, the months ahead are likely to see civil discontent explode once again as summer electricity bills and new taxation measures land on the largely unsuspecting public. The country seems to be at the end of its tether. At some point, its leaders need to ask themselves: what is the point of fighting if ashes are all that will be left to rule over after they are done? Each of them is equally responsible for the deep pit Pakistan seems to have fallen into. It is time they stopped digging deeper and started thinking about how to get it out.

The political instability shall continue in Pakistan, and it will affect the economic recovery which will remain weak. Thus, Pakistan faces enormous challenges of a complex nature.

Economic Crisis

Today, Pakistan faces daunting economic challenges. As of late February 2024, Pakistan was facing a large budget deficit and its debt-to-GDP ratio stands at 77 percent. The country's foreign exchange reserves amounted to a low$7.9 billion, sufficient to cover imports for only three weeks. Pakistan was also scheduled to pay back $24 billion in foreign debt and debt servicing by the end of June 2024. It was stuck at an inflation rate of around 40 percent.21

Pakistan urgently needs a fresh IMF agreement to shore up an economy suffering from high inflation, low reserves, and high external financing needs. The debt-ridden economy, which shrank 0.2% in 2023 and is expected to grow around 2% in 2024. It has been under extreme stress with low reserves, a balance of payment crisis, inflation at 23%, policy interest rates at 22%, and record local currency depreciation.

Ahead of the stand-by arrangement, Pakistan had to meet IMF conditions including revising its budget and raising interest rates and the price of electricity and gas.

The IMF also got Pakistan to raise $1.34 billion in new taxes. The measures fueled all-time high inflation of 38% year-on-year in May.22

By March 2024 Pakistan desperately needed the IMF bailout. Earlier, the IMF had struck a 9-month SBA on June 30, 2023, Islamabad received $1.9 billion and was now vying to secure the last tranche of $1.1 billion through the successful completion of the ongoing review. The IMF held talks with the Sharif Government from March 14-18, 2024, to determine whether the country had met conditions for receiving the much-needed final $1.1 billion tranche of a bailout. It needed the funds to overcome one of the worst economic crises in its history which had raised fears the country could default on the payment of foreign debts.23 Later, Pakistan successfully receives the last tranche in April end.

Today, Pakistan has momentous external financing requirements for the next fiscal year, but its quota in the IMF limits the size of the financing to around $6 billion. In the first week of March 2024, the IMF declared that: 24

The fund aims to support the implementation of strong policies to deepen financial stability, address long-standing economic and underlying balance of payments challenges, and restore sustained and inclusive growth for the benefit of all Pakistani citizens… to achieve these objectives there is a need for Pakistan to ensure stronger public finances, through high-quality revenue measures to broaden the tax base while scaling up the support for the most vulnerable.

Thus, the IMF demanded serious structural reforms from the Sharif Government.

The circular debt in line with the revised circular debt management plan (CDMP) would also surface in discussions. The debt servicing bill might require some reconciliation as the government revised upward its budgetary requirement from Rs7,300 billion to Rs8,300 billion, but the IMF estimated it at around Rs8,600 billion.

There might be some points of concern for the IMF review team, including the inability of SBP to raise its foreign exchange reserves to higher levels, which are currently hovering around $7.8 billion on March 1, 2024. 25 Finance Minister Muhammad Aurangzeb stressed the urgent need for digitalizing the FBR to enhance transparency and efficiency in tax collection. These initiatives would focus on enhancing tax collection through improved FBR governance, comprehensive documentation of the economy, and full-scale digitalization. The government is considering strategies to broaden the tax base by incorporating wholesale/retail, real estate, and agriculture sectors into the tax framework.26

The country faces an immense economic crisis and badly needs stability to overcome it. Pakistan has been plagued by crippling boom-bust cycles that have seen it enter more than 20 IMF programs in the 76 years since it won independence.

Pakistan also needs to attract foreign investment to bring in funds to shore up its low reserves, which are critical to meeting large external financing needs, as well as kick-starting its flagging economy.

Meanwhile, the Sharif government also has to work with the powerful military, which has increased its role in recent years in the country's financial decision-making and has a formal role in policy through a powerful economic body of which the army chief is a member.27

Pakistan's debt-to-GDP ratio is already above 70% and the IMF and credit rating agencies estimate that the interest payments on its debt will soak up 50% to 60% of the government's revenues this year. That is the worst ratio of any sizable economy in the world.28

The total external and domestic debt in June 2023 was Rs 60.4 trillion, which increased to Rs 64.8 trillion in January 2024.

The Sharif government has set up a new committee to cut expenditure on pensions and development which hardly covers 16% of this year’s budget and may not result in any major savings. It has not included the defense budget and expenditure on interest payments in the purview of the committee which are the two largest heads that consume nearly two-thirds of the total federal budget. The committee has the mandate to review the pension schemes, as required by the IMF.

The National Assembly has approved the Rs14.4 trillion budget for this fiscal year. Out of this total, the lion’s share of Rs7.3 trillion was allocated for interest payments, with an additional Rs1.8 trillion earmarked for defense spending, excluding special programs.

The committee has been mandated to take stock of all reports commissioned so far, including reports of the National Austerity Committee and the Institutional Reforms committed to reducing the size of the federal government. There are about one and a half dozen federal ministries that are functioning despite these subjects having been devolved to the provinces. A lot needs to be done. The committee has been asked to capture all the progress made so far in downsizing the federal government. The committee will prepare a strategy and implementation plan for all remaining recommendations with timelines.29

The government has allocated Rs714 billion for running the civil government in the budget, a sum that is less than 5% of the total budget. The committee has been tasked to make recommendations related to the

Public Sector Development Program (PSDP) and the pension schemes. For this fiscal year, the National Assembly allocated Rs900 billion for the development and Rs801 billion for the pensions.

Out of Rs801 billion, the cost of military pensions is Rs563 billion, or 70% of the allocation for the pensions.

The exclusion of the defense budget and the interest payments from the scope of the committee has left little space for making any meaningful impact. The finance ministry in February 2024 had upwardly revised the budget deficit target to Rs8.5 trillion, primarily because of an increase in estimates of interest payments during this fiscal year.30

Interest expenses have now been estimated at Rs8.333 trillion, compared to the annual allocation of Rs7.3 trillion.

Pakistan needs debt restructuring and sharp cuts in the interest rates by the central bank to make noticeable cuts in expenditure. During the first seven months of this fiscal year, the government spent Rs4.66 trillion on interest payments, a sum that was more than the federal government's net income during this period. Past austerity policies have not helped achieve fiscal consolidation, often being relaxed after their approval. The former interim premier Kakar had also approved new fiscal austerity measures, including a ban on creating new positions and major purchases. The government has already placed a complete ban on creating new posts under the Public Sector Development Program (PSDP) and the current budget for the fiscal year 2023-24. 31

Pakistan has momentous external financing requirements for the next fiscal year, but its quota in the IMF limits the size of the financing to around $6 billion. The exact financing requirements and the IMF loan size will be determined during the review talks.

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The country faces an immense economic crisis and badly needs stability to overcome it. Pakistan has been plagued by crippling boom-bust cycles that have seen it enter more than 20 IMF programs in the 76 years since it won independence. Therefore, the Shariff government will need to strike a difficult balance between tough reforms and rejuvenating a struggling economy.

Pakistan also needs to attract foreign investment to bring in funds to shore up its low reserves, which are critical to meeting large external financing needs, as well as kick-starting its flagging economy. Therefore, the Shariff government will need to strike a difficult balance between tough reforms and rejuvenating a struggling economy.

Meanwhile, the Sharif government also has to work with the powerful military, which has increased its role in recent years in the country's financial decision-making and has a formal role in policy through a powerful economic body of which the army chief is a member. Efforts to assuage growing public anger at record inflation hovering around 30% will also be challenging with limited fiscal space.34

Pakistan's debt-to-GDP ratio is already above 70% and the IMF and credit rating agencies estimate that the interest payments on its debt will soak up 50% to 60% of the government's revenues this year. That is the worst ratio of any sizable economy in the world.35

Today, Pakistan faces an acute economic crisis and is desperately trying to get a deal yet again from the IMF for the required bailout.

Pakistan has momentous external financing requirements for the next fiscal year, but its quota in the IMF limits the size of the financing to around $6 billion. The exact financing requirements and the IMF loan size will be determined during the review talks.

Pakistan urgently needs a fresh IMF agreement to shore up an economy suffering from high inflation, low reserves, and high external financing needs. The debt-ridden economy, which shrank 0.2% last year and is expected to grow around 2% this year, has been under extreme stress with low reserves, a balance of payment crisis, inflation at 23%, policy interest rates at 22%, and record local currency depreciation.

Ahead of the stand-by arrangement, Pakistan had to meet IMF conditions including revising its budget and raising interest rates and the price of electricity and gas.

The IMF also got Pakistan to raise $1.34 billion in new taxes. The measures fueled all-time high inflation of 38% year-on-year in May.36

Meanwhile, Premier Sharif said that his biggest challenge is to overcome the lingering economic crisis Pakistan and the IMF had struck a 9-month SBA on June 30, 2023, and so far, Islamabad received $1.9 billion and is now vying to secure the last tranche of $1.1 billion through the successful completion of the ongoing review. The IMF is holding a crucial round of talks with Pakistan's newly elected government from March 14-18, 2024, to determine whether the country has met conditions for receiving the much-needed final $1.1 billion tranche of a bailout, Pakistan is likely to get the final installment of $1.1 billion from the IMF under the 2023 bailout deal agreed to by both sides last year. It needs the funds to overcome one of the worst economic crises in its history which had raised fears the country could default on the payment of foreign debts.37

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The total external and domestic debt in June 2023 was Rs 60.4 trillion, which increased to Rs 64.8 trillion in January 2024. The failure of the caretakers to contain the budgeted current expenditure was indicated by the 43 percent rise in fiscal deficit in the first half of the current year compared to the same period the year before as noted in the Finance Division’s February Economic Update and Outlook.46 Undoubtedly, Pakistan’s taxation structure requires urgent reforms - from the current heavy reliance on indirect taxes (to the tune of over 75 percent) whose incidence on the poor is greater than on the rich to direct taxes based on the ability to pay principle which would necessitate widening the tax net and removing all exemptions currently enjoyed by the wealthy (inclusive of raising provincial farm tax on the rich landlords, the builders, the traders, the aartis). The Caretakers consolidated reforms, though they were restrained from their implementation by the Election Commission of Pakistan, which were largely identified during the tenure of previous administrations but never implemented for political reasons. However, they did succeed in making inroads into taking punitive measures against those who did not file their returns or evaded taxes but what is relevant to note is that these reform proposals consisted mainly of administrative measures. Hopefully, the second Sharif government will tackle this problem proactively, which would have beneficial political implications if these tax reforms shifted the burden away from the relatively poorer sections of society towards the rich and influential. So far, no government, civilian or military, elected or caretaker, has taken bold measures to deal with the economic impasse that has deepened over decades of flawed policies, which explains why the budget deficit is high, the current account deficit periodically requires the country to go on, yet another IMF program and the rest of the world is increasingly wary of extending loans without a strictly monitored IMF program.

The Sharif Government has set up a new committee to cut expenditure on pensions and development, which hardly covers 16% of this year's budget and may not result in any major savings.

Prime Minister Shehbaz Sharif has not included the defense budget and expenditure on interest payments in the purview of the committee which are the two largest heads that consume nearly two-thirds of the total federal budget. The committee has the mandate to review the pension schemes, as required by the IMF.

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Today, Pakistan faces an acute economic crisis and is desperately trying to get a deal yet again from the IMF for the required bailout. An IMF team visited Pakistan from March 14-19, 2024, to hold discussions on the second review of Pakistan's economic program supported by an IMF Stand-By Arrangement (SBA). The 9-month SBA was secured last year to avert a sovereign debt default. As expected, the IMF is asking for serious structural reforms in Pakistan. The Sharif Government has assured the IMF that it is very serious about the issue. Pakistan has assured the International Monetary Fund that it does not plan to allocate additional budget to settle the Rs493 billion dues of Chinese power plants. The global lender is also questioning the efficacy of the power sector's anti-theft campaign.

The Government also faced questions about a record Rs7 per unit increase in electricity prices in March due to the energy ministry's faulty policy of using expensive imported fuels. The Fund is skeptical about the government's claim of restricting losses due to non-recovery of bills to Rs263 billion in this fiscal year, as the amount has already almost reached Rs200 billion in just seven months. This has serious implications for restricting the overall circular debt to Rs2.31 trillion by June this year.50

The IMF inquired about the Government's decision on the allocation of funds for the Chinese power plants over and above the budgeted amount of Rs48 billion for this fiscal year. The IMF was informed there was no plan to approve additional funds for retiring the outstanding debt of the Chinese power plants.

The outstanding dues of power projects of the China-Pakistan Economic Corridor (CPEC) alarmingly increased to a record Rs493 billion or $1.8 billion as of the end of January. The amount was Rs214 billion or 77% higher than June last year.51

The build-up of Chinese debt violates the 2015 Energy Framework Agreement, which binds Pakistan to allocate sufficient money in a special fund to keep Chinese investors immune from the circular debt. However, the government is allocating only Rs48 billion annually with a condition to withdraw a maximum of Rs4 billion per month.52

The IMF appeared skeptical about the long-term success of the government's anti-theft campaign and the military's involvement in monitoring the performance of power distribution companies.

The IMF believes the anti-theft campaign can work only in the short term and the government needs to focus on digital monitoring of the power distribution network. The government claimed it has recovered Rs82 billion in this fiscal year because of its anti-theft campaign, although there is no publicly available breakup about recoveries from private and public sector consumers.

The IMF also did not appear satisfied with the involvement of third parties in monitoring the anti-theft campaign, said the sources. For the global lender, as such interventions could diminish the role of power distribution company management and their boards.53

The low recovery of bills and high line losses contribute annually to Rs589 billion in the circular debt build-up – a sum that the government recovers either through further price increases or budget subsidies.

For this fiscal year, the Sharif Government estimates Rs263 billion in losses due to lower bill recovery by power distribution companies. Despite the anti-theft campaign, in seven months, there has already been an increase of Rs200 billion under this head. Recoveries have increased to 92% of the billed amount, marginally better than last year. They further said recoveries would improve once billing increases during the summer period.54

The Government will release over Rs250 billion in subsidies this month to keep the circular debt flow at the agreed level for this fiscal year.

The IMF was informed that circular debt increased by Rs378 billion during the first half, jumping to Rs545 billion by the end of March. However, the government has agreed to keep the overall debt stock at Rs2.310 trillion by settling the addition through the budget by June this year.

The Sharif Government also faced IMF questions over a sharp monthly increase of Rs7 per unit due to monthly fuel cost adjustments in electricity bills. The sharp increase highlighted mismanagement by the energy ministry, which failed to implement the planned use of various fuels to keep prices low.

The IMF argued there was no justification for the Rs7 per unit increase when the exchange rate was stable and global commodity prices did not change.

The Government explained that it had to seek a price increase due to using expensive fuels during winter for electricity generation. High-speed diesel, furnace oil, and imported gas were used due to a faulty policy of allocating cheaper local gas to other sources. The IMF has also sought a fresh timeline for ending agriculture tube-well subsidies in Balochistan.55

The IMF had emphasized “the need to reassess the NFC award, citing disparities in resource allocation between federal and provincial authorities. The current formula, established in 2010, resulted in provincial shares increasing from 47.5% to 57.5% of total federal taxes, without a commensurate transfer of additional responsibilities. This has led to a sustained fiscal imbalance and a rise in public debt.” The Sharif Government informed the IMF that the provincial shares cannot be reduced without bringing a constitutional amendment and making all the provinces agree to a new formula.56

The 2010 NFC award had been agreed for five years but since then there has not been any consensus to revisit it. The constitutional amendment would be a difficult task for the Sharif coalition government.

Despite possessing a two-thirds majority necessary for constitutional amendments, securing agreement from all four provincial governments remains uncertain, with parties such as the Pakistan Peoples Party (PPP) advocating strongly for the NFC award. The Khyber-Pakhtunkhwa government is controlled by the Pakistan Tehreek-e-Insaf (PTI).57

The Special Investment Facilitation Council (SIFC) has also been making efforts to shift some responsibilities to the provinces with little success.

The IMF also raised the issue of excessive spending by the provincial governments, which can undermine this fiscal year’s primary surplus target of Rs400 billion. The IMF was assured that the Punjab provincial government has taken the required corrective measures that have been taken to fix the excessive spending.58

Despite the federal government's success in achieving the primary surplus target, its expenditure has continued to spiral out of control, primarily due to the high cost of debt servicing. Consequently, the overall budget deficit for the first seven months (July-January) of this fiscal year remained at Rs2.7 trillion, despite the provincial governments generating a cash surplus of Rs432 billion.

During the first quarter of this fiscal year, the provincial current spending increased 57% while development spending increased 61%. Subsequently, the provincial governments amended their memorandums of understanding (MoUs) signed with the federal government to include the estimated federal revenue, annual provincial revenue, and total expenditure plans, in line with the agreed cash surplus.59

The Punjab provincial government has committed through a supplemental MoU to restrict its spending in the remainder of the period of this fiscal year by Rs115 billion to achieve a surplus of Rs336 billion as committed in the MoU associated with this budget.

The IMF team also called for reforms in energy and raised the issue of Power Purchase Agreements signed with the power generation firms, which are near expiry.

Meanwhile, the Sharif Government had stated that in the present circumstances of the economy, 15 to 20 institutions must be privatized immediately. It disclosed that the deficit of PIA over the last 5 years amounts to Rs500 billion, a figure that lacks justification. He emphasized that the privatization of loss-making institutions is not merely about convincing others, but rather it's a critical issue concerning the survival of the country's economy, including the decision regarding Steel Mills.60

Pakistan has seen an improvement in its external sector and informed the IMF that the current account deficit might remain below $2.5 billion this fiscal year, cutting down on the need for some emergency foreign loans.

The finance ministry has shared the revised projections of the current account deficit, economic growth, and external trade with the global lender during the last leg of the $1.1 billion loan tranche negotiations.

The Sharif Government has projected a further reduction in the current account deficit on the back of a steep cut in imports and relatively higher exports of certain commodities, according to government sources.

As against the originally budgeted $6.1 billion current account deficit, the federal authorities told the IMF that it might now fall to below $2.5 billion in the ongoing fiscal year.

The economic growth rate is now projected at 2.6% for this fiscal year by the Sharif Government.61 The central bank was even more hawkish, and it told the IMF that the deficit might remain around $1.5 billion to $1.7 billion. The IMF has not yet shared its final projections for the external sector. However, the Government believed that it might still be higher than the country’s projections.

The Sharif Government has projected an economic growth rate of 3.7% and a current account deficit of $4.7 billion for the next fiscal year as well. This indicates that the Government will not adopt pro-economic growth policies in the fiscal year 2024-25. During the first review talks, the finance ministry gave the current account deficit projection at $4 billion, which it had now reduced to around $2.5 billion. The $2.5 billion deficit is equal to 0.7% of the GDP. The reduced current account deficit will also lessen the need for more foreign borrowings. Pakistan is finding it difficult to arrange fresh loans because of junk credit ratings and estranged economic relations with China. The sources said the IMF had asked the

Pakistani authorities about the non-materialization of foreign commercial loans worth $600 million from China and the delay in lending by the World Bank.62

Beijing is now demanding a plan for the settlement of its over Rs500 billion dues on account of energy payments to the Chinese power plants before issuing fresh commercial loans to the country. However, the Sharif Government has assured the IMF that it would not release additional funds to the Chinese power plants during this fiscal year.

The Chinese ambassador also met with Finance Minister Muhammad Aurangzeb on Tuesday and highlighted the issue of the outstanding payments.

The finance minister expressed his gratitude towards the Chinese leadership for their invaluable support to Pakistan in various sectors, particularly highlighting the rollover of SAFE deposits and the refinancing of commercial loans, which have significantly contributed to the country's economic stability.

Pakistan's $2 billion debt payment was due to China on March 23, which it requested Beijing to further rollover. At the time of the first review of the $3 billion package, the IMF assessed the current account deficit at $5.7 billion.

The IMF had also hinted at lowering the deficit projection, but its exact estimates were unknown. For the next fiscal year, the finance ministry has estimated the current account deficit at $4.7 billion or 1.2% of the GDP. During the first eight months of the current fiscal year, the current account deficit has been narrowed down to $1 billion.

Pakistan is still required to make repayments worth $11 billion in the remaining period of this fiscal year. However, it expects a rollover of $6 billion, leaving behind a requirement of $5 billion.

The finance ministry is hoping that the $1.1 billion tranche received from the IMF as well as some fresh support from the World Bank and Asian Development Bank (ADB) will cover the repayment needs.

The central bank will also buy dollars from the market to support the repayments and at the same time maintain the reserves at their current levels.

The government also sees the average inflation rate at around 11% in the next fiscal year, pointing out that the government will continue the tight fiscal and monetary policies.

The Sharif Government had informed the global lender that the economic growth rate might remain around 2.6% as against a contraction in the previous fiscal year.

The projected growth rate is below the official target of 3.5%.

The Government has been implementing tight monetary policies, adversely affecting the growth rate. The finance minister said it had become difficult to conduct business with a 22% interest rate. However, the central bank decided to maintain the interest rate even though there was significant room available to reduce it.

A major reason behind the low 2.6% growth rate, which is also equal to Pakistan's population surge, was the dismal performance of the large-scale manufacturing sector.

The industrial sector is adversely hurt by a combination of restrictions on imports and high interest rates as well as rising energy prices. The economic growth remained at 2.1% during the first quarter of this fiscal year on the back of healthy momentum in the agricultural sector.

For the next fiscal year, Pakistani authorities expect an economic growth of 3.7%, indicating that the tight monetary and fiscal policies will continue. However, any tightening on the fiscal front is lost because of the increased government borrowings for interest payments.

The finance ministry had adjusted its inflation forecast for this fiscal year to 24%. A key reason for the higher inflation is the continuous increase in the prices of electricity and gas.63

It also sees a further cut in the trade deficit and projected it below $22 billion for the ongoing fiscal year.

The Finance Ministry has further lowered import estimates to a bit over $52 billion as against the budget estimates of $58 billion. The export projections are maintained at $30.5 billion by the finance ministry while it still hopes to attract $28.5 billion in foreign remittances in this fiscal year.64

The IMF had voiced grave concern about Pakistan's political instability and the weakness of the Sharif coalition government. An Editorial Board statement "On the IMF course, on March 21, 2024, stated:65

> As expected, the IMF and Pakistan have reached a staff-level agreement (SLA) over the second and final review of the $3 billion Stand-By Arrangement (SBA) signed last July. The nine-month stabilization program straddling the transition from the previously elected government to the incumbent has thus served its purpose and is set to conclude successfully in about a month. The news comes as a vindication of the hard-nosed policy direction set by Prime Minister Shehbaz Sharif's previous government and followed to the hilt by the caretaker government and an affirmation that all the economic hardship suffered by the Pakistani populace through these months was not in vain. It is also a dead giveaway that the incumbent government remains wedded to the same tough approach to economic reform. The success of the review paves the way for the release of the final tranche of SBA funding of around $1.1 billion following the formal approval of the IMF executive board, expected in late April. However, the markets have responded to the news right on cue, leading Pakistan's two-year bonds to surge to a two-year high, and putting an accent on how important it is for Pakistan to stay on the right side of the IMF. The SBA was designed from the beginning as a stepping stone for the country to a longer-term Fund program with stronger political ownership, and the Fund's mission chief aptly put the state of play in perspective in his end-of-mission statement by acknowledging Pakistan's interest in a medium-term program. And, given how deep in doldrums Pakistan's economy is, a four-year program is the least Finance Minister Muhammad Aurangzeb needs to clean up the Augean stables of an economy riddled with deep systemic distortions like a narrow tax base, an ailing energy sector, a host of cash-bleeding state-owned enterprises (SOEs), unbridled inflation, and an anemic revenue capacity. Worst of all, he is taking the reins of his portfolio at a time when all engines of the economy are stalling. To kickstart economic activity at a near standstill would be a challenge under the best of circumstances, but he has to achieve it at a time when the circumstances could scarcely be worse this side of a total bust. Then, too, he has to negotiate a bleak geostrategic environment and strong global headwinds. The only thing going for the finance minister at this point is the backing of a broad-based political coalition government headed by the same hard-boiled prime minister who architected the original policy that took Pakistan through

> the SBA. From the public's point of view, a lot of the reform on the government's agenda will be inflationary. The SBP is expected to stick with its tight-fisted monetary policy for the foreseeable future to bring inflation and inflation expectations back to manageable proportions. Energy sector reform will inevitably entail investment in distribution and transmission, which, combined with the imperative of cost-recovery energy prices to at least freeze the circular debt, will fuel inflation. Casting the tax net wider will also put an additional burden on the common Pakistani - even without considering the political difficulty of making the rent-seeking farm and retail sectors pull their weight. Then there is the matter of SOEs, weighing down on the economy like so many millstones in its neck. The strain of populism running right through the country's political spectrum will inevitably hinder progress towards unloading their unbearable burden on the country's economy, but this too is a measure that has to be pushed through to rid the country of the terrible drain on its precious resources. On top of it all is the arduous task of managing the unsustainably high debt burden, starting with foreign debt. The government's policy mainstay through these troubled waters should be meaningful fiscal consolidation, careful investment in targeted safety nets, and keeping a tight lid on waste and pilferage - no doubt each a tough ask, especially for a coalition government lacking cohesion as its components jostle for political advantage among themselves. Fortunately, or unfortunately, however, forward is the only direction out of this mess.

The IMF said on March 20 that it had reached a preliminary agreement with Pakistan's newly elected government for the last payment under a $3 billion bailout package.

Pakistan has already received about $1.9 billion from the program, which will expire in April. The IMF acknowledged that Pakistan's economic and financial position had improved in the months following the establishment of the SBA program. However, economic growth "is expected to be modest this year," and inflation "remains well above the target," the IMF said. The IMF confirmed that the Sharif Government had also expressed interest in a successor medium-term funding program "to permanently resolve" the cash-strapped South Asian nation's "deep-seated economic vulnerabilities."66

Pakistan Finance Minister Muhammad Aurangzeb said that the Pakistan government would use the opportunity to make a case for "a longer and larger" loan program under the lender's Extended Fund Facility (EFF).

The Sharif Government was seeking an IMF loan of at least $6 billion, but Aurangzeb did not disclose the size of the additional loan.67

The EFF provides financial assistance to countries facing serious medium-term balance of payments problems because of structural weaknesses that require time to address.

Analysts say that Pakistan's debt-ridden economy is facing severe challenges despite having secured more than 20 IMF loan programs over the years. The economy is "struggling due to the absence of critical reforms, dwindling foreign exchange reserves, a balance of payment crisis, soaring inflation, record depreciation of the Pakistani currency, and persistent political instability."68

The SBA was successfully concluded in April and in May 2024. Pakistan commenced negotiations with the International Monetary Fund (IMF) for a new bailout package in Islamabad from May 10 to May 29, 2024, to review and approve the budget before deciding on a fresh bailout package under the medium Extended Fund Facility (EFF). The Government's negotiations will determine the volume and terms and conditions of the new loan program, budget targets, tax and non-tax revenue, and macroeconomic targets for the fiscal year. However, the IMF has yet to confirm a potential staff-level agreement after negotiations. The end of the negotiations is likely to pave the way to a staff-level agreement under EFF between Pakistan and the IMF.

By mid-May 2024 Pakistan had achieved a measure of economic stability but still faces significant economic challenges. Pakistan's liquid foreign reserves have seen a slight increase, reaching $14.6 billion as of May 10, 2024. This increase was a positive sign for Pakistan's economy, which has been facing challenges in recent times. Commercial banks had deposits of $5.499 billion as of the week ending May 10, indicating a stable banking sector.[69]

While the increase was modest, it was a step in the right direction for Pakistan's economy. The country has been working to improve its foreign exchange reserves, which are essential for meeting international payment obligations and maintaining economic stability.

The SBP's data release provides a glimmer of hope for Pakistan's economic growth, and experts are watching closely to see if this trend continues. With a stable banking sector and increasing foreign reserves, Pakistan may be on the path to economic recovery.[70]

Pakistan is expected to have "modest economic growth," with its GDP projected to expand by 2 percent in 2024, according to a United Nations report disclosed on May 17, 2024. Earlier, Pakistan had entered into a Stand-by Arrangement with the IMF worth $3 billion, the mid-year World Economic Situation and Prospects report said that the program was "expected to help stabilize the economy, increase the country's foreign exchange reserves, and facilitate fiscal adjustment while also protecting crucial social spending".[71]

Meanwhile, by mid-May 2024 Pakistan's debt crisis has reached alarming levels, with interest payments on loans exceeding the government's income by a staggering Rs 205 billion in just nine months. The country's total debt and liabilities have ballooned to over Rs80,086 billion, according to the State Bank of Pakistan (SBP). The IMF has described the heavy interest payments on loans as a burden on the economy and demanded a reduction in government spending.

The Ministry of Finance has revealed that the target for paying interest on loans for the current financial year was Rs7,303 billion, but in the first nine months, the interest bill reached Rs 5,518 billion, exceeding the government's net income of Rs 5,313 billion. The joint estimate of the IMF and the Ministry of Finance is that the interest bill on loans will reach Rs 9,787 billion in the next financial year, a daunting task for the government to manage.[72]

Meanwhile, Pakistan is also seeking a five-year extension in the repayment of Chinese loans worth $15.3 billion, which were obtained for 21 power generation projects through Independent Power Producers (IPPs). If granted, this extension will add Rs 377 billion to the country's debt burden.

The Sharif Government has assured the IMF of debt reduction through expenditure control, an expected reduction in the current policy rate of 22 percent, and revenue growth. As a result, the debt ratio is expected to come down to 70 percent from 72.1 percent in the next financial year. However, the road ahead is challenging, and the government will have to make tough decisions to manage the debt crisis.73

Today, Pakistan is drowning in debt. The total debt and liabilities of the federal government increased by 11.6 percent on a year-on-year (YoY) basis in March 2024 as compared to the same period last year. It increased by Rs. 8.4 trillion to Rs.80.8 trillion YoY as of March 2024 compared to Rs. 72.4 trillion in the same period last year. For the period July-March 2023-24, it has spiked by Rs. 4.3 trillion or 5.6 percent compared to Rs. 76.5 trillion recorded by end-June 2023, official data by the State Bank of Pakistan (SBP) revealed on May 15, 2024.74

The domestic debt of the central government increased by 24 percent from Rs. 35 trillion in March 2023 to Rs. 43.4 trillion in March 2024. Gross public debt surged 14 percent to Rs. 67.5 trillion by end-March 2024 compared to Rs. 59.2 trillion in the same period last year and Rs. 67.3 trillion in December 2023. Meanwhile, debt from the IMF remained steady at Rs. 2.15 trillion as of March 2024, compared to Rs. 2.12 trillion in the same period last year.75

Pakistan borrowed $7.142 billion from multiple financing sources during the first ten months (July-April) of the current fiscal year 2023-24 compared to $8.123 billion borrowed during the same period of 2022-23, revealed the Economic Affairs Division (EAD) on May 27, 2024. The data further shows that the country received $237.24 million in April 2024 compared to $358.61 million in April 2023.

The Sharif Government has budgeted $ 2.4 billion from the International Monetary Fund (IMF) for the current fiscal year 2023-24 and received $3 billion under the Stand-By Arrangement (SBA); however, the EAD data does not reflect it.76

Further, there is no mention of the $1 billion disbursed by the UAE. If the IMF and the UAE inflows are added, the total inflows will reach $11.142 billion during the first ten months of the current fiscal year. The $7.142 billion included $2 billion received from Saudi Arabia under the head of time deposit during July 2023.

The Government had budgeted estimates of $4.5 billion from the foreign commercial banks for the current fiscal year 2023-24; however, no money was received under this head during the first ten months of the current fiscal year.77

The Government had budgeted $1.5 billion for the issuance of bonds; however, as the country has yet to issue the bonds, no amount has been received.

It had budgeted $17.619 billion from multiple financing sources for the current fiscal year including $17.384 billion in loans and $234.60 million in grants.

Pakistan received $889.43 million under the head of the "Naya Pakistan Certificate" during the first ten months of the current fiscal year 2023-24.78

It received $2.866 billion from multilateral and $877.76 million from bilateral during July-April 2023-24. The non-project aid was $4.842 billion including $3.697 billion for budgetary support and project aid was $2.300 billion.

China disbursed $508.34 million under the head guarantee for the JF-17 B project funded by China National Aero-technology Import and Export Corporation (CATIC). China further disbursed 67.39 million in July-April against the government budget of $18.54 million for the current fiscal year.

The Asian Development Bank (ADB) disbursed $708.30 million during the period under review compared to the budgeted $2.086 billion for the fiscal year 2023-24.

Saudi Arabia disbursed $595.18 million against the budgeted $600 million under the head of oil facility during July-April 2023-24. Saudi Arabia has disbursed another $62.03 million in the current fiscal year.

The US disbursed $37.02 million in the first ten months against the budgeted $21.60 million for the fiscal year. Korea disbursed $26.61 million and France $41.66 million during the current fiscal year.

The IDA disbursed $1.353 million in July-April against the budgeted $1.489 billion for the current fiscal year and IBRD $171.67 million against the budgeted $840.36 million. The IDB (Short-term) disbursed $200 million in July-April against the budgeted $500 million for the current fiscal year and AIIB disbursed $309.95 million, while IFAD disbursed $26.29 million against the budgeted $42.68 million for the current fiscal year.79

Hafiz Pasha, a renowned economist, in his article "IMF projections for FY 2024-25" published in the BR on May 21, 2024, argued that:80

> The current financial year is expected to close with a low GDP growth rate of 2%. According to the PBS (Pakistan Bureau of Statistics), the GDP growth rate was 2.5% in the first quarter of 2023-24 and only 1% in the second quarter. There is a sharp contrast in the sectoral growth rates. Agriculture has performed exceptionally well, given the low base last year, but industry and services are showing near-zero growth rates. As such, even a GDP growth rate of 2% may not be achieved in 2023-24. The current account deficit is expected to be $3 billion by the end of the year. However, the physical control over imports has led to a virtual elimination of this deficit. Other projections are likely to be close to the actual outcome in 2023-24. The IMF Staff Report has projected a significantly higher growth rate of 3.5% in 2024-25. This may also be difficult to achieve if the next Kharif crop is affected by the financial constraints faced by farmers due to the

difficulty and lower price in the marketing of wheat. As such, a rise in the GDP growth rate from 2% to 3.5% will require a strong recovery in both the industrial and service sectors of the national economy. The most problematic projection for 2024-25 relates to the rate of inflation. The IMF Staff Report expects it to decline sharply from the average monthly rate in 2023-24 of 24.8% to 12.7% in 2024-25. At the end of the period, that is, on June 25, the rate of inflation is expected to be finally single digit at 9.5%. The outcome of the rate of inflation in 2024-25 will depend upon several factors. First, there is the risk of more imported inflation. The underlying projection by the IMF is that by the end of 2024-25, the rupee will have depreciated to almost Rs 329 per US$. This will imply a significant devaluation of over 17% and could be the outcome of a move to a market-based exchange rate policy as insisted upon by the IMF. Second, there is the likelihood of continuing big increases in electricity and gas tariffs in 2024-25 to limit the size of the circular debt. Third, given an ambitious tax revenue target, there may be increases in indirect tax rates and the petroleum levy, especially on motor spirit. Further, inflationary expectations have become entrenched in the economy. Overall, it is more likely that there will be a more modest fall in the rate of inflation to between 16% and 18%, rather than to 12.7%. The IMF staff projections of the budgetary position in 2024-25 do not currently represent a significant difference from the projected outcome in 2023-24. The revenue-to-GDP and expenditure-to-GDP ratios are expected to be close to 12.5% and 20%, respectively, in both years. Consequently, the budget deficit will remain at close to 7.5% of the GDP and the primary surplus at 0.4% of the GDP. However, there is the likelihood that the budget deficit may rise to above 8.5% of the GDP in 2023-24. This may be caused by a significant shortfall in both tax and non-tax revenues for the targets for the current year. Also, the Provincial Governments may not be able to generate the target cash surplus of Rs 650 billion. Therefore, if the projection by the IMF for 2024-25 remains the same despite a worse outcome in 2023-24, then this will imply that it expects a stronger fiscal effort next year. Turning to the current account of the balance of payments, the projection is that the year, 2023-24, will close with a growth rate of 11.9% in exports and 5% in exports. During the first ten months, the respective growth rates were 9.1% and negative 3.8%. Therefore, the IMF Staff projections expect a significant improvement in both growth rates in the last two months of 2023-24. However, the projection is that exports will show a modest growth rate of 4.3% only in 2024-25. This is difficult to accept, given the expectation of a relatively large rupee devaluation, which should increase the profitability of exports. Imports are expected to rise by 10%, given the artificially low base of 2023-24, due to the presence of physical controls on imports. Overall, the IMF Staff Report expects 2024-25 to be a significantly better year for Pakistan. The GDP growth rate will be higher, and the rate of inflation much lower, along with a budgetary primary surplus and low current account deficit. We will need to wait to see if the projections will be changed following the agreement on a new three-year IMF Extended Facility.

Pakistan faces an enormous problem of a black or informal economy. On May 16, 2024, the Federal Additional Secretary of Industries and Production, Asad Islam Mahni, stated that according to a recent study conducted jointly by the Small and Medium Enterprises Development Authority (SMEDA) and the International Labor Organization (ILO), the total size of Pakistan's informal economy was projected to be around $457 billion. The size of the country's formal economy was $340 billion in 2023. This translates into almost 64% less than the size of the informal economy of Pakistan.81

Mahni disclosed that despite being the 43rd largest economy globally in terms of GDP, a significant portion of Pakistan's economy remains undocumented, resulting in a low tax contribution, with the Tax-to-GDP ratio never exceeding 13%, presently at 10.2%, only better than Lao PDR, according to a recent Organization for Economic Co-operation and Development (OECD) commissioned study on the Asia & Pacific Region.82

Upon IMF's insistence, the Sharif Government produced a comprehensive plan on May 20, 2024, to curtail expenses by approximately Rs300 billion in the next fiscal year. The proposed measures also include "a ban on fresh recruitment to vacant posts in grades 1 to 16, no allocation of development funds for parliamentarians, and the introduction of a partnership-based pension scheme". Additionally, the government has outlined plans to "cease funding ongoing provincial development projects and refrain from establishing new universities, with provinces expected to finance their educational institutions independently." Furthermore, pension reforms at the request of the IMF are on the agenda, with a "proposed partnership pension scheme slated for implementation for all recruits, excluding defense and police personnel." 83

Ministry of Finance has highlighted the significant rise in the pension bill, estimating it to reach Rs960 billion in the upcoming fiscal year, compared to Rs801 billion in the current fiscal year.84

The IMF wants maximization of non-tax revenues as the proposal under consideration is to increase the Petroleum Development Levy (PDL) for increasing collection up to Rs1.08 trillion in the next fiscal year or slap a Carbon levy to compensate the zero rate of GST on petroleum products. The IMF has recommended slapping 18 percent GST on petrol and diesel along with PDL. Still, the government is exploring the option to impose a levy so that it should not become part of the federal divisible pool (FDP) under the NFC Award thus not going to be distributed with the provinces.85

The Sharif Government and the IMF have both expressed divergent views on the macroeconomic framework for the next fiscal budget for 2024-25. The IMF has refused to accept the macroeconomic framework of the Finance Ministry. It has its views on the macroeconomic framework for the next budget 2024-25 which calculates real GDP growth rate at 3.5 percent, and CPI-based inflation on the higher side at 12.7 percent. The Ministry of Finance has prepared a macroeconomic framework whereby the GDP growth was envisaged at 3.7 to 4 percent while inflation was kept on average in the range of 11 to 12 percent. For the outgoing fiscal year 2023-24, the provision GDP growth figure may hover around 2 to 2.5 percent of GDP against the official target of 3.5 percent.86

The IMF has projected the debt servicing of Rs9.787 trillion for the next budget for 2024-25. The Ministry of Finance has been working on the total debt servicing figures and it would depend upon the exact primary surplus being generated for the next budget for the next fiscal year.87

On the SIFC, Pakistan's government informed the IMF assessment team that the new investment policy was under preparation which would be announced after conducting due deliberations. The IMF asks for "transparency" in the working of the SIFC. The IMF team inquired about the potential investment in different projects and especially asked for the privatization of PIA and other SOEs.

The IMF asks for tax exemption for the upcoming four SEZs under CPEC. The Board of Investment high-ups informed the IMF team that there were over two dozen SEZs and four were being added to the list. The government is going to incentivize them with similar tax incentives which are being offered to others.

The upcoming investment policy with a special focus on SEZs will be unveiled in due course of time. The IMF has sought a draft of the upcoming investment policy.

On May 2, 2024, the finance minister expressed confidence that Pakistan would be able to clinch the IMF soon.88

There is now a possibility of a total ban on the development funds of members of parliament next year, for which Rs90 billion was allocated this year.89

On May 18, 2024, the finance ministry presented a blueprint of the IMF-dictated new budget to Prime Minister Shehbaz Sharif. It had proposed a nearly Rs18 trillion budget, which is one-fourth higher than this year's due to a record Rs9.7 trillion allocation for interest payments. These were provisional figures as there were disagreements over the actual amount of interest payments, the Federal Board of Revenue's (FBR) tax collection target, and the primary budget surplus target.

As part of the expenditure rationalization efforts, Prime Minister Shahbaz Sharif was also told that the government may also have to wind up 8 to 10 federal ministries. The Pakistani premier has asked to further enhance the proposed Rs12.4 trillion for the FBR as a tax collection target.90

The finance ministry informed the premier that the size of the budget, the target of the primary budget surplus, and the allocations for the interest payments were still tentative due to ongoing discussions with the IMF.

Based on the discussions with the IMF the size of the next year's budget could be around Rs18 trillion – up by 24% over this year's original budget.

The massive increase in the size does not reflect the harsh economic ground realities but the finance ministry's hands are tied due to the IMF's insistence on the Rs9.7 trillion allocations for the interest payments.

The IMF was adamant that around Rs9.7 trillion allocation be considered for the interest payments, 33% higher than this year's original budget. The finance ministry has estimated a lower figure at Rs8.8 trillion to Rs9 trillion as the actual cost of the interest payments during the next fiscal year. The higher allocations would mean that the IMF does not see a major drop in the interest rates that stand at historically higher levels of 22% and suffocate economic growth.

The Ministry of Defense has sought over Rs2.25 trillion for defense spending but the finance ministry has indicated close to Rs2.1 trillion. It will be around 16% higher than this fiscal year. The ministry has also indicated around Rs1 trillion for the Public Sector Development Program (PSDP) spending, which is only 5% higher than this year's original budget. The PM asked to further increase the allocations, as the proposed allocation was not sufficient to finance the ongoing development schemes.91

The pensions are estimated to consume about Rs960 billion –up by one-fifth over this year's allocation. The government is in the process of reviewing the pension benefits, but no final decision has yet been taken.

The Rs18 trillion budget would have a black hole of Rs9.6 trillion. The federal budget deficit is projected to be around Rs9.6 trillion or 7.7% of the GDP. This will be funded by taking more loans from the domestic banks and the foreign lenders.

The projected federal deficit is 28% higher than this year's original estimates. The overall deficit target could be around 6.8% of the GDP or Rs8.5 trillion. The government expects the provinces to show a cash surplus of Rs1.1 trillion or 0.7% of the GDP.92

The primary budget surplus target might be 1% of the GDP or Rs1.25 trillion. Another outstanding issue was the subsidies, which the IMF was asking to keep less than this year's level. The premier was told that the FBR's tax collection target could be Rs12.4 trillion –one-third higher than this year's original benchmark. They said that about Rs1.3 trillion in additional revenue measures must be required to achieve this target. The automatic additional revenue collection without new taxes is estimated at around Rs1.6 trillion, which takes the FBR revenues to nearly Rs11 trillion but then would require massive new taxation to reach the new target.93

There was an urgent need to increase government revenues. However, the Sharif Government was seemingly reluctant to drastically reform the PBR. Pakistan's tax-to-GDP ratio remains one of the lowest in the region, with only 1.3 percent of the population paying income tax. This has resulted in a significant shortfall in government revenues, making it difficult for the government to meet its debt obligations and maintain essential services. The government should prioritize revenue collection by strengthening the tax collection infrastructure and expanding the tax base to include more taxpayers.94 In 2020, there were only 2.2 million income tax returns tax filed yearly in Pakistan, whereas in India the number was thirty-seven million. While India collects around $210 billion every year, Pakistan is collecting around $35 billion. While Pakistan spent only $6 billion per annum on its people, India annually spent $70 billion on its people.95

Meanwhile, Pakistan was planning to seek assistance from China to restructure the massive $15.4 billion Chinese energy debt to lower electricity prices in the country. The Sharif government wants to expand the time for making debt repayments, potentially reducing foreign currency outflows to $750 million annually and slashing energy prices by Rs. 3 per unit. Pakistan wants a five-year extension on the repayment of Chinese energy debt. This extension would increase payment to China by an additional $1.3 billion, bringing the total to $16.6 billion by 2040. This proposal is yet to be shared with China.96

The situation for Pakistan seems dire as the current tariffs require debt servicing in the first 10 years, burdening consumers with higher costs. The Pakistani authorities are of the view that electricity prices will be reduced by Rs. 3 per unit if China extends the debt repayment plan by five years. If China agrees, the repayment period would extend to 2040, with initial relief reducing repayments to $1.55 billion by 2025, saving $580 million. However, the same payments are expected to increase from 2036 to 2040. The proposal has not yet been shared with Beijing.97

Finance Minister Muhammad Aurangzeb on May 12, 2024, stressed the significance of the need to move towards privatization linking it with the country's economic stability. His remarks come amid the federal government's push for privatization of several state-owned enterprises (SOEs) in a bid to address the burden on the exchequer and tackle the prevailing financial crunch driven by various dire economic circumstances.

Stressing that the private sector has been brought on board with the government, the finance czar underscored improved economic indicators including the reduced current account deficit (CAD) of less than $1 billion and a decrease in inflation coupled with "all-time high" stock exchange levels. Revealing that around Rs8 to 10 trillion cash is currently in circulation in Pakistan, the finance minister underscored the need to work on issues about tax and GDP and called on businessmen to come into the tax net by themselves if they haven't done so already. Reassuring that the government will provide all kinds of facilities, the minister reiterated that the authorities will not back down from their stance on the issue of broadening of tax net.98

The Government, in its bid to curb tax evasion, has already ordered the blocking of SIMs of non-filers who do not appear on the active taxpayer list but are liable to file the Income Tax Return for Tax Year 2023. The Government is reforming the administrative structures of the distribution companies (Discos).

On May 11, 2024, the federal government's Cabinet Committee on Privatization (CCOP) declared as many as 24 SOEs "fit for privatization" while seeking recommendations for denationalization of even profitable entities as well — although the forum stressed that the focus is to remain on loss-making SOEs.

The list includes the country’s biggest SOEs: Pakistan International Airlines (PIA), First Women Bank Limited, House Building Finance Company Limited (HBFC), Zarai Taraqiati Bank Limited, Utility Stores Corporation (USC), Pakistan Engineering Company Limited, State Life Insurance Co Limited, Sindh Engineering Limited, Pakistan Re-Insurance Co Limited, Lahore Electric Supply Company Limited, Islamabad Electric Supply Company Limited, Multan Electric Power Company Limited, Gujranwala Electric Power Company Limited, Hyderabad Electric Supply Company Limited, Peshawar Electric Supply Company Limited, Sukkur Electric Power Company.99

On May 23, 2024, in its talks held between May 13 to 23 with Pakistan, the IMF said "significant progress" has been achieved in reaching a staff-level agreement for an extended fund facility.

Tithe IMF team visited the federal capital to talk about Islamabad's plans for a home-grown economic program that can receive support under the money lending institution's Extended Fund Facility (EFF). The IMFs undertook the visit following a request by the Pakistani government.

"The mission and the authorities will continue policy discussions virtually over the coming days aiming to finalize discussions, including the financial support needed to underpin the authorities' reform efforts from the IMF and Pakistan's bilateral and multilateral partners," said the IMF chief in a statement.

Pakistan is likely to seek at least $6 billion under the new program and request additional financing from the IMF under the Resilience and Sustainability Trust.100

Ahead of the discussions, the IMF had warned that downside risks for the Pakistani economy remained exceptionally high.

The official said that building on the economic stabilization achieved through the successful completion of the 2023 Stand-by Arrangement, the IMF and the Pakistani authorities made significant progress toward reaching a Staff Level Agreement (SLA) on a comprehensive economic policy and reform program that can be supported under an EFF. The IMF said that:

> The authorities’ reform program aims to move Pakistan from economic stabilization to strong, inclusive, and resilient growth. To achieve this, the authorities plan to continue to strengthen public finances to reduce vulnerabilities by improving domestic revenue mobilization through

> fairer taxation while scaling up spending for human capital, social protection, and climate resilience; secure energy sector viability, including reforms to reduce the high cost of energy; continue progress towards low and stable inflation by appropriate monetary and exchange rate policies; improve public service provision through state-owned enterprise (SOE) restructuring and privatization; and promote private sector development, by securing a level-playing field for investment and stronger governance.

Porter also praised the Pakistani authorities, the private sector, and development partners for fruitful discussions throughout this mission.101 On May 23, 2024, the UAE committed $10 billion to invest in promising economic sectors in Pakistan, without specifying the areas. The announcement came during Prime Minister Shehbaz Sharif's UAE visit.102

IMF was seemingly imposing tough conditions on Pakistan. Its prior condition was to slap an 18% sales tax on almost all items being sold in Pakistan, including medicines, to qualify for a new bailout package on May 24, 2024. Following a briefing on the IMF's tax-related conditions, the prime minister refrained from immediately greenlighting the implementation of the condition in the budget. Instead, he instructed the finance ministry to go back to the drawing board, according to sources privy to the meeting.

Under the conditions, the Federal Board of Revenue (FBR) would need to set a tax collection target close to Rs12.9 trillion, nearly 40% higher than the expected Rs9.23 trillion collection for the current fiscal year.

The Rs12.9 trillion target implies that the FBR must recover an additional Rs3.7 trillion within a single year, a feat deemed nearly impossible due to the grinding wheel of the economy.

The finance ministry had presented a tax target of Rs12.4 trillion for the upcoming fiscal year to the prime minister, a figure that has now been raised to Rs12.9 trillion.103

Earlier, the prime minister received a briefing from the IMF concerning the overall budget size and expenditure-related conditions.

Additional prerequisites for the forthcoming bailout package include raising electricity rates effective from July, adjusting gas prices, and securing approval for the new budget in line with the IMF's recipe.

The prime minister was informed that should Pakistan implement the condition to withdraw sales tax exemptions, an 18% sales tax would need to be levied on all goods sold in the country, excluding essential food items and those protected by sovereign deals. He received a clear message that securing a deal with the IMF hinged on the withdrawal of all sales tax exemptions. 104

The estimated annual cost of sales tax exemptions amounts to Rs2.9 trillion, with Rs1.4 trillion attributed to exemptions on petroleum products. The proposed solution entails slapping a 5% sales tax on all petroleum products, as the rest of the sales tax impact is being recovered through the petroleum levy.

If the IMF’s condition is implemented in letter and spirit, Pakistan will need to eliminate at least Rs1.5 trillion in sales tax exemptions in the upcoming budget. This would involve removing sales tax schedules

5th, which pertains to zero-rating, 6th, concerning exempted goods, and 8th, listing goods currently taxed below 18%, from the Sales Tax Act of 1990.

The income tax measures, which the government will take in the budget, will be over and above the sales tax measures. The income tax measures include increasing the tax rates for the salaried class, and non-salaried business individuals and ending reduced tax rates on income from the stock market, real estate, and investment in the banks.

The IMF said on May 24, 2024, ay that significant progress has been made towards reaching a staff-level agreement with Pakistan for an Extended Fund Facility, however, its mission returned to Washington without handing over a new bailout package.

The IMF's two-week assessment mission concluded without striking a new deal as Islamabad grappled with the challenges of political instability and enhanced economic vulnerabilities.105

The IMF stated that:

> Building on the economic stabilization achieved through the successful completion of the 2023 Stand-by Arrangement, the IMF and the Pakistani authorities made significant progress toward reaching a Staff Level Agreement (SLA) on a comprehensive economic policy and reform program that can be supported under an Extended Fund Facility (EFF) Implementation of all the conditions would put an extraordinary burden on the people and some conditions carry implications for bilateral relations. In a highly unusual move, the IMF has linked the staff-level agreement with the prior approval of the executive board. Usually, the board's approval is taken after reaching the staff-level agreement.106

The IMF said in the statement that based on the "preliminary findings" of this mission, staff will prepare a report that "subject to management approval," will be presented to its Executive Board for a decision. The purpose of the IMF visit "was to gauge Pakistan's budget preparations and see whether its next fiscal year economic framework was in line with the overall objectives of ensuring fiscal and external sector sustainability."

The finance ministry told Prime Minister Shehbaz Sharif about the conditions of the IMF program, including maintaining a primary budget surplus of 1% of the GDP or Rs1.25 trillion.

The overall budget deficit is projected at 6.8% of the GDP or Rs8.5 trillion. The interest payments are projected at Rs9.7 trillion. However, in case the FBR's target is set at close to Rs13 trillion, these deficit figures would also change.

Today, the Sharif Government is struggling to maintain economic stability amid rising political temperatures. It had hoped to finalize the EFF Program at the earliest, but the IMF has linked any future deal with the approval of the next budget in line with its framework.

The IMF said that:

> To achieve inclusive growth, Pakistan was planning to continue to strengthen public finances to reduce vulnerabilities by improving domestic revenue mobilization through fairer taxation while

> scaling up spending for human capital, social protection, and climate resilience; securing energy sector viability…. The high cost of energy could be reduced by renegotiating the idle capacity payments to power producers. …Pakistan will have to continue progress towards low and stable inflation by appropriate monetary and exchange rate policies; improve public service provision through state-owned enterprise (SOE) restructuring and privatization; and promote private sector development, by securing a level-playing field for investment and stronger governance.

The IMF has in the past highlighted the issue of a level playing field for investment and stronger governance about the legal structure of the Special Investment Facilitation Council (SIFC). It was decided that the IMF and Pakistan will continue policy discussions virtually over the coming days aiming to finalize discussions, including the financial support needed from the IMF and Pakistan's bilateral and multilateral partners.107

Today, one of the gravest economic problems facing Pakistan is the country's energy sector crisis.

The IMF has once again asked the government to empower the OGRA to notify gas sale prices on its own twice a financial year based on the determined prescribed prices, saying that the government should now detach itself from tariff implementation issues. This will help avoid further build-ups in the gas circular debt that increased to Rs 29,000 billion.

It also reminded government functionaries to increase the gas tariff for the Captive Power Plants on a par with the RLNG tariff till January 1, 2025. Earlier, during the caretaker regime, the Economic Coordination Committee (ECC) had approved the decision under which Ogra would be authorized to notify gas sale prices as per determined tariffs, and the government would not interfere and take 40 days to decide which kind of consumers would get subsidized tariff, keeping in view political considerations."108

Currently, the Government does not extend the subsidy to any domestic consumers for using natural gas as it is the industrial consumers or high-end domestic consumers who are giving the net cross-subsidy of Rs110 billion per annum to protected and some non-protected consumers. The IMF also asked government functionaries to ensure gas tariff adjustments twice a year firstly from July 1 and secondly from January 1, so that the new surge in gas circular debt could not emerge further. The circular debt in the gas sector stands at Rs 2.9 trillion. During the ongoing fiscal year 2023-24, the gas tariff was increased twice first from November 1, 2023, by up to 193 percent and then from February 1, 2024, by up to 66.67 percent with the target to collect the estimated revenue of Rs 920 billion against the revenue requirement of Rs 701 billion. Both the gas tariff increases were made during the caretaker regime with an aim at stopping the further build-up in the circular debt in the ongoing financial year 2023-24. The Government will also recover the RLNG diversion cost of Rs 232 billion in the ongoing year because of two gas tariff hikes.

However, the fund, during recent talks, continued to stress the government to ensure perpetuation in gas tariff adjustments twice every next financial year also, arguing that the failure to hike the gas tariff biannually for the last 10 years from 2013 till 2023 caused a massive buildup of Rs 1 trillion in the gas circular debt.109

Coming to the Captive Power Plants (CPPs), the IMF wanted an increase in their gas tariff on a par with the RLNG tariff and as these plants had 30-35% efficiency and most of the CPPs were installed in the Sui

Southern network, the IMF wanted all the plants to be connected with the national grid electricity. The gas tariff for the CPPs currently stands at Rs 2,750 per MMBTU. The said plants, by using natural gas as input fuel, not only generate electricity for their industrial consumption but also sell the electricity generated by the natural gas to electric power distribution companies (Discos).

The IMF was also briefed on government efforts to implement the Weighted Average Gas Tariff (Wacog) formula. Government functionaries told IMF officials that it would take a long time to get the Wacog implemented as there are some constitutional hitches and the central government would have to take the provinces on board for developing the consensus owing to which it is currently not possible to implement it," the officials said.

The IMF was told that Sindh, Balochistan, and KP had opposed the endeavor of the central government to enforce the Wacog, saying that it would be the negation of Article 158 of the Constitution. Sindh is of the view that the import of RLNG is solely for the Tier-II category of natural gas consumers. Under the ring-fenced tariff arrangements and the existing Tier-I, the consumers of natural gas under the Wacog base tariff could not bear the burden of the high cost of imported RLNG. And the RLNG price is ring-fenced, so the implementation of the Wacog formula is quite difficult.

Article 158 says the province where the gas is produced has the first right to use it, and the leftover gas will then be transported to the province where gas is less produced or not produced. The other federating units are of the view that they have ample gas production for their needs. They say their gas is being purchased at lower prices but being sold to them at higher prices.110

The Dawn editorial "More Pledges" on May 25, 2024, has aptly argued that: 111

> The administration's campaign to bring Gulf investment to Pakistan continues apace, with the prime minister wrapping up a one-day trip to the UAE on Thursday. Shehbaz Sharif spent a busy day in the Emirates, meeting UAE ruler Mohamed bin Zayed, addressing a conference on tech collaboration, and exchanging notes with other Emirati officials and businessmen. The meeting with MBZ went well, with Emirati state media saying $10bn had been allocated for investment in "promising economic sectors" in Pakistan. Mr. Sharif has mentioned IT, renewable energy, and tourism as fields that may attract UAE cooperation. The government has also been courting Saudi Arabia, with the prime minister making two trips to the kingdom over the past two months, while Saudi ministers and delegations have visited Pakistan to reiterate Riyadh's commitment to invest here. The Saudis have reportedly promised investment worth $5bn. The pledges from our friends in the Gulf are reassuring, but the multibillion-dollar question is: when will they materialize? Perhaps the Saudis and Emiratis are waiting for the IMF to green-light the next loan to Pakistan before releasing their funds. Though the IMF loan has yet to be approved, Fund officials have described discussions with the government as productive, saying that "significant progress" has been made towards a staff-level agreement. Hopefully, once the loan is approved shortly, the investment agreements signed with Gulf partners will start taking firmer shape. Unfortunately, due to our past financial profligacy and indiscipline, even traditional allies are wary about putting their money in this country and await the nod of international financial institutions. On their part, IFIs also monitor our financial dealings with our foreign partners before writing us a cheque. The government must change this negative perception through better financial management, moving

> the state towards a sustainable economic model. The prime minister, during his brief UAE trip, addressed these unpleasant issues when he announced that the "begging bowl" had been "broken." Over 240 million Pakistanis are hoping this is the case. To truly break free from the shackles of financial dependence, we must put the projected foreign investment to good use, tax the untaxed internally, and learn to live within our means. Decades of living large — with the elite of this country primarily culpable — has brought us to this sorry pass, and the current opportunity to set our house in order should not be wasted. We must keep pursuing foreign investment and give the investors a business-friendly climate free of bureaucratic obstacles. Profit repatriation should also be eased to attract foreign money. There needs to be continuity in economic policies, while development must be focused on bringing prosperity to the masses. Moreover, internal harmony, and undisturbed representative rule, are essential for real stability in Pakistan.

Pakistan badly needed significant structural reforms. Decades of bad governance at every institution and governmental level, short-sightedness, and sheer poor policy planning are the heart of Pakistan's economic crisis. Faran Mahmood, in his excellent article "Pakistan's fiscal policy at a crossroads," published in the Express Tribune on May 27, 2024, nails it well. He argued that:112

> Fiscal policy in Pakistan is usually far from a fine balancing act and is more of a reckless feat. It has long been marked by a contentious debate between austerity and stimulus measures – with the government oscillating between these two approaches, often thoughtlessly. Thanks to these policies, the past three years have been marked by high interest rates – a result of the State Bank of Pakistan (SBP)'s fight with inflation that has crushed the real estate market and raised unemployment numbers. But why Pakistan's policy rate must be as high as 22% for so long remains a burning question. The root of the pensions problem lies in the extravagant expenditures of the government's machinery including salaries, pensions, and other privileges coming in at around Rs5 trillion. These expenditures in the past and as of now have been funded by expensive debt and currently, interest payments alone eat the bulk of the federal budget. To discourage government borrowing and push it towards austerity, the SBP has been increasing interest rates post-Covid. The COVID-19 stimulus package for Pakistan was valued at Rs1.2 trillion, with an additional Rs100 billion supplementary grant for residual/emergency relief. Since then, the SBP has been pushing forward its austerity agenda by setting a high policy rate to discourage further stimulus for the economy and encourage the government to reduce its expenses. Unfortunately, such signals appear to have fallen on deaf ears as far as the government is concerned and the feedback loop is broken. Increasing payroll and pension expenses in the last budget by as high as 35% speaks for itself how serious the government is about taking austerity measures.

Moreover, the irony is that in this budget as well, there are proposals to inflate the payroll expense by another 12%. This staggering uptick in government expenses has not been funded by increased income taxes and revenues, leading to a permanent budget deficit which necessitates further borrowing through the issuance of more bonds at a higher rate to attract investors.

It has indeed become a vicious circle where government expenses are being met by expensive loans from commercial banks, causing persistent inflation and little access to capital for private players. At present, the only way forward for the federal government is to keep another circle of foreign debt and investment running – whether it is the IMF, CPEC, SIFC, or CPEC 2.0. Only then our body politic can fulfill its obsession with GDP growth numbers and keep funding its political schemes and pet projects. Amid all this pessimism, however, we can still opt for a two-tiered approach to fiscal policy that advocates austerity at the center but stimulus at the periphery (provinces) – combining the best of both worlds…. In a nutshell, Pakistan's fiscal landscape necessitates a nuanced approach to reconcile its fiscal deficit and growth objectives. A coordinated federal-provincial strategy, where the federal government implements austerity measures to address macroeconomic imbalances while provinces pursue the targeted fiscal stimulus to boost growth and job creation, can help strike an optimal balance between fiscal consolidation and economic expansion.

Given, the crisis political and economic situation, Pakistan faces the daunting task of undertaking serious structural reforms. An earlier reform agenda remains unfulfilled as yet. Therefore, there is now an urgency to carry it through immediately.

Briefly, a pragmatic and political approach needs to be the focus now. Meanwhile, the political parties are discredited because of their actions, the bureaucracy is demoralized because of bad governance, and society is divided on sectarian, linguistic, and ethnic social cleavages.

The PDM government failed to act boldly and change Pakistan from within. Pakistan does not have the luxury of time. Hopefully, the new government will act immediately. The future of Pakistan depends on such rethinking. A frank and open discussion on these issues must commence immediately. Remember there are no sacred cows within Pakistan. Notwithstanding the opinion of the military brass, the Islamic Republic of Pakistan was the only thing sacred for the citizens of the country and not it is military. Because of past failures, Pakistan was facing an existential crisis that emanated from several internal and external factors. The PDM government was impaired because of massive corruption, incapacity, and endless and unwarranted political bickering with the PTI, its main rival for power. The morale of the people is at its lowest in history. India, the arch-foe of Pakistan, smells blood and is going for the proverbial kill. It is accusing Pakistan of supporting terrorism and is bent on destroying its global image as a responsible military power. Tragically, the PDM government did not have a foreign policy to speak of. It only reacts to events by external powers, especially the US and India. The Army was in charge as far as foreign and defense policies were concerned, virtually dictating foreign policy now. Earlier, Pakistan's dependence on US aid as well as its historic closeness to Saudi Arabia means Iran will continue to be wary of the country. Staying on good terms with the Middle Eastern rivals is a tough diplomatic tightrope to walk in the first place. Earlier, moves in the region might just have made things tougher. However, later in March 2023, the two sides decided to mend their relations in a historic meeting facilitated by China. Relations between the two erstwhile rivals are going to improve soon enough. Much to the surprise of the world. There is a golden opportunity for Pakistan to make the most of the thaw in relations between Saudi Arabia and Iran. It can benefit from the new regional peace only if it becomes organized. However, there is no evidence of that happening anytime soon.

It was prudent to realize that Pakistan was not only threatened from the outside but also threatened from within. The current political and military leadership now stands discredited and does not have any credibility left. The tragedy of Pakistan does not stop here. The country's political parties are also discredited because of their actions, the bureaucracy demoralized because of bad governance, and the society itself badly divided on sectarian, linguistic, and ethnic social cleavages. Pakistan is now certainly a mess. The country is now among the list of top ten failed states in the world. This is ironic because Pakistan also happens to be one of the strongest military powers in the world today. Pakistan's military strength cannot prevent an implosion of sorts like what happened with the Soviet Union in the late 1980s. The country was now dangerously isolated. It was only China that has shown some support. The people were feeling hapless and disillusioned as never. The country was in a mess with no positive aspect on the horizon. The only good thing happening in Pakistan was the rising awareness thanks to the Information Revolution and the media. This awareness needs to be channeled into a political force of some reckoning.

Pakistan has also failed to make the necessary progress toward a modern and enlightened Islamic state. The country has a constitution that reflects Islamic values, more than any other country. Therefore, all political parties must adhere to it. The state cannot, and should not, allow any violation of the Constitution under the guise of religion. Pakistan is threatened by extremism.

Undoubtedly, previous governments were not up to the task and had failed to protect Pakistan's vital national interests. Plus, both faced an immense image problem because of corruption allegations pending in the courts of Pakistan. Soon, the leadership of both parties will face jail terms for their gross corruption and other misdeeds.

Undeniably, Pakistan has suffered from an acute image problem and must shed its image as a hotbed of international terrorism. It was only now that there was some evidence of a change of direction. Much more needed to be done on this score, however. Pakistan desperately needs a change of direction. The previous civilian governments, both the PPP, the PMLN, and PTI, had miserably failed to boldly act and change Pakistan from within. The second Sharif government was not that good, also. Pakistan does not have the luxury of time. Future governments will be facing a plethora of problems and will have to act immediately. The future of Pakistan depends on such prudent actions and some rethinking. A frank and open discussion on these issues must commence immediately. Remember, there are no sacred cows within Pakistan. Notwithstanding the opinion of the military brass, the Islamic Republic of Pakistan is the only thing sacred for the citizens of the country and not is military.

Because of past failures, Pakistan is facing an existential crisis that emanates from several internal and external factors. In the end, all governments had been impaired because of massive corruption, incapacity, and endless and unwarranted political bickering within themselves. The people are dejected now and India, the arch-foe of Pakistan, is bent on exploiting the situation to its advantage. It was accusing Pakistan of supporting terrorism and was bent on destroying its global image as a responsible military power.

The incumbent PDM coalition government faces enormous and complex challenges. It was hoped that with the emergence of the second Sharif coalition government, the military's power would be gradually reduced. However, the opposite has happened, which is unfortunate, to say the East. The hybrid political system is becoming problematic, to say the least. In the future, only a clean, efficient government that delivers required public services can keep the military in check. Such is the sharp reality of Pakistan's troubled politics. It is hoped that future governments will deliver and earn the trust of the people, and then be able to keep a lid on the military's interventions.

The Issue of Religious Extremism

There are some serious challenges facing Pakistan of Islamic fundamentalism. It certainly does have a tiny lunatic fringe. However, specifying it to a particular region like KPK is not true, as such. More importantly, the role of madrassahs or seminaries as incubators of jihadists is exaggerated and a myth. Islamic radicalism is misunderstood in the West, especially in the US. Anti-Western sentiments are now very pronounced not only in Pakistan but all over the Muslim world. All segments of Muslim societies, including the educated classes, have turned against the West. The distrust between the two peoples is not just at the level of the governments, but at the societal level also. Hence, an urgency to start a frank dialogue. Remember, Pakistanis are a proud nation. Notwithstanding all the problems, they demand respect and some space to resolve their problems. Eventually, the radicals, among the Muslims, will be defeated but not through military means alone.

If the global alliance does not cater to the roots of the Islamic fundamentalist phenomenon, then even with the defeat of IS the problem will not be solved. As explained elsewhere, a "mushrooming effect" takes place, and another successor shall be launched sooner than later. The near elimination of its parent organization al-Qaeda from the region did not end the story and it resurfaced in the shape and form of IS which is growing in Afghanistan today. Therefore, it is prudent to wage a comprehensive global war on Islamic radicalism by employing both tools - military and softer ones. The emphasis in the long term must be on the softer tools. That is but obvious.

Pakistan witnessed as many as 245 incidents of terror attacks and counter-terror operations during the first quarter of 2024, resulting in 432 fatalities and 370 injuries among civilians, security personnel, and rebels, according to a think tank report. Khyber Pakhtunkhwa (KP) and Balochistan provinces, both bordering Afghanistan, accounted for over 92 percent of all fatalities and 86 percent of attacks (including incidents of terrorism and security forces operations) during this period. Individually, the former suffered 51 percent and the latter 41 percent of all fatalities in the first quarter of 2024, according to the security report issued by the Centre for Research and Security Studies (CRSS).113

The Issue of Terrorism

A comprehensive strategy of counterterrorism was desperately needed which composed the military tools with that other societal and political tools. The application of military tools employing force was easier and more immediate while the political approach was by its very nature tedious, slow, and baffling at times. But then, it was far more lasting and viable. A complete rethink needed to be done on the military's militant mainstreaming project now. Pakistan has suffered enough from Islamic militancy and cannot afford it anymore. Hopefully, future governments will consider the matter much more seriously. It is not just the threat of Islamic radicalism which Pakistan faces. It is also challenged by nationalist forces.

Pakistan faces an acute crisis of leadership and capacity at all levels of society and in all institutions of the country.

Going back to the Pakistan movement in the 1940s, one realizes the spirit of being Muslim and the slogans of the Muslim League. Islam has always been part of the Pakistani nation. Any understanding of

Pakistan should place Islam as an integral part of the nation's development. However, Pakistan was far more liberal in the past, as compared to today. This is tragic, to say the least.

Why is religiosity in large parts of the Muslim world, including Pakistan, increasing but not the true practice? The cardinal principles of Islamic society: social justice, compassion, and fair play are not being actualized today anywhere. The basic governing principles are being discarded. The question is why? The people still hope for a just, tolerant, and liberal Islamic Pakistan. Today, Pakistan suffers from a threat of Islamic fundamentalism. There was a lack of political will to tackle the country's mushrooming seminary problem. There was an urgent need to reform the religious seminaries or madrassahs catering to the poorest of the poor. In many of these seminaries, the children are educated in religious subjects only and are heavily indoctrinated in the extremist version of their belief systems. An estimated amount of $1 billion has annually been spent on such madrassahs, out of which 75 percent of the contribution comes from abroad. As per a report by the Pakistan Institute for Peace Studies, there were six Islamic organizations in Pakistan in 1947 that had grown to 239 by 2002. In 2013, in pursuance of UN Resolution 1267, 60 militant organizations were banned. But they kept conducting their activities by changing their names. Around 23 banned organizations were operating as the Punjabi Taliban in Punjab alone. Some 41 out of 64 of them are active online. Banned extremist organizations from across the border are thriving on Facebook. Many banned outfits are hiding in plain sight. Their network is a mix of Sunni and Shia sectarian or terror outfits, global terror organizations operating in Pakistan, and separatists in Balochistan and Sindh.114 These organizations have hundreds of Facebook pages with 160,000 followers and are being used to propagate their extremist ideology, recruit members, and spread updates. Many of these appear to operate out of Karachi and Quetta. The biggest following is for Ahle Sunnat Wal Jamaat (ASWJ), which engaged in a violent targeting of Shia mosques. It demanded that they should be legally declared non-Muslim. The Jeay Sindh Muttahida Mahaz (JSMM), which was a separatist political party that Sindhudesh should be separated from Pakistan, is close behind with a significant Facebook following. Another popular group was the Sipah-e-Sahaba, a violent extremist Deobandi Muslim organization that was banned as a terrorist organization in 2002.115 Another estimate claims that a decade ago, Pakistan had about 25,000 religious seminaries across the country. Now, however, the number is estimated to be around 35,000. Under a madrassa reform process that was approved much earlier by the government of Pervez Musharraf, religious seminaries were required to register and make public their funding resources. However, successive governments since then have not been able to ensure that religious seminaries even register with the government. Pakistan had shut down about 2,327 religious schools nationwide. Out of these, about 2,300 have been shut down in the province of Sindh alone while only two have been closed in Punjab. Earlier, the army chief had stressed that the implementation of the National Action Plan, which deals with the issue, needs to be expedited jointly by relevant stakeholders. Such requests by the military had been made before, with little success. Therefore, madrassa reforms should be prioritized to deal with the issue of rising extremisms.

Among other stark failures of the Muslim world, including Pakistan, is the serious intellectual failure that had resulted in paralysis of both thought and action. Why this has occurred due to the glaring failure of leadership, especially national political leadership. With very few exceptions, the entire Muslim world, including Pakistan, is beset with brutal, corrupt, insincere, and very mediocre political leadership which has prevented the people from growing to their full potential as politically active citizens.

The Sensitive Issue of Pakistan Military's Overdevelopment and Corporate Interests

Given the military's dominance of the Pakistani state and politics, its overdevelopment and corporate interests remain a very sensitive issue. Analysts don't want to discuss it as they are scared of the military's wrath. Democracy is a process and is inherently tedious, and complex. Some analysts are expressing concerns that the military will continue to manipulate politics in the country. The test of the future political leadership is whether it would hold accountable powerful army chiefs such as General Bajwa and General Kayani, who are also deemed to be corrupt like Zardari and Nawaz Sharif. However, it is very doubtful that it can happen though. That is the whole point.

The country's military takes part in business activities like in Egypt, Thailand, and Indonesia. In principle, the military must not be involved in running businesses at all. Savings from cuts in defense expenditure must flow into social security programs for the poorest of the poor in the country. Earlier, the Stockholm International Peace Research Institute found that Pakistan's military-related expenditures for 2021 came to $11.3 billion. Much earlier. Pakistan's government gave the military a nearly 6% funding increase for fiscal 2021-2022, and it increased the fiscal 2022-2023 defense budget by 2.69%. A combination of inflationary pressure, unpaid bills, and falling foreign currency reserves drove the Defence Ministry to request a funding increase to avoid shortfalls that would otherwise have hindered operational capabilities. 116 Later, Pakistan announced a 2022–23 defense budget of Rs1.53 trillion (USD7.5 billion). The allocation was a 12% increase over the original military expenditure in 2021–22 and a 3% increase over the revised expenditure the year earlier of Rs1.48 trillion. Total military spending was not reflected in these figures, as they omitted procurement under the Armed Forces Development Program, pensions, and other military expenditures. Budgetary documents showed that the 2022–23 defense budget contained Rs567.5 billion for employee-related expenses, an increase of 1% over the revised allocation for 2021–22. The budget also consisted of Rs411.1 billion and Rs368.9 billion for physical assets and operating expenses, increases of 6% and 4%, respectively, over the revised expenditure. Official documents did not provide a further breakdown. 117The Pakistan Army would receive Rs724 billion, about 47% of the total defense budget. The Pakistan Air Force (PAF) and Pakistan Navy have been allocated Rs323.7 billion and Rs165.3 billion, 21% and 11%, respectively. Most of the remainder is allocated for defense-wide requirements. Official documents did not detail funding for the Pakistan military through the Armed Forces Development Program (AFDP), which is thought to bolster the procurement expenditure. The AFDP funding has tended to be in the region of Rs50–80 billion. Despite funding constraints, Pakistan's military has benefited from an increase in modernization activity since the start of 2022.118

There is a call for the reduction of the military budget. To reduce non-essential spending, the government should have prioritized cutting down its defense and subsidy budgets. The defense budget was one of the largest items of government spending and reducing it would free up resources that could be used to finance growth-enhancing investments, such as education, health, and infrastructure.119

Pakistan should focus on societal issues and human progress instead of the military's development. Meanwhile, Pakistan advanced three notches on the 2022-23 Human Development Index (HDI) with the country securing 161st position among 191 countries, according to a new UN Development Program (UNDP) report. The HDI is a composite of statistics measuring such factors as per capita income, educational attainment, and life expectancy. In the last (2021/22) HDI ranking, Pakistan was placed at 164, amid a global fall in development set off by the COVID-19 pandemic.

The first UNDP Human Development Report (HDR) was prepared and launched in 1990 under the leadership of the late Dr Mahbubul Haq, a former Pakistani finance minister.120

The latest report, ‘Breaking the gridlock,’ revealed widening disparities between the haves and the have-nots, despite record-high global human development scores in 2023. The 2023 HDI stands at a new high following a steep decline during 2020 and 2021 due to the COVID-19 pandemic, the report said.

India ranked at 132nd on the HDI index; Sri Lanka: 73rd; Bangladesh: 129th; Maldives: 90; Nepal: 143; Bhutan 127 and Afghanistan 180. Switzerland tops this year’s rankings, followed by Norway and Iceland, while the Central African Republic (CAR), South Sudan, and Somalia lagged the furthest behind.121

The Issue of Reform of Pakistan’s Election System

The election system of Pakistan is deficient in many aspects. Change the country’s First-Past-The-Post (FPTP) single-member, plurality election system into the Majoritarian one, like in France. The system would require a second ballot as most candidates fail to win a simple majority. The second competition is between the two highest-polled candidates in the last elections. The FPTP is the simplest possible election system but has a major flaw because it mostly produces minority governments.

Considering an earlier Supreme Court decision, the Election Commission of Pakistan (ECP) is expected to take the requisite steps to ensure transparency in the Senate elections. The citizens of Pakistan want an end to so-called horse trading or corrupt practices in Senate elections. Many have alleged that senate seats had been bought by political parties, namely the PPP and PMLN. The fact of vote buying and military manipulation in the Senate elections is well-known and uncontested by all independent observers of Pakistan politics. The Senate must be elected through open balloting as the process is more transparent. Previously, under the Supreme Court’s judgment, the Senate elections would be held as per Article 226 of the constitution under secret ballot. The apex court has directed the Election Commission of Pakistan to use the latest technology and take the necessary steps to ensure transparency in the polls. The court has also ruled the Election Commission of Pakistan is empowered to take all measures to curb corrupt practices under Article 218(3), and that the secrecy of the ballot is not absolute, meaning that it can be changed through a future constitutional amendment.

Earlier, in August 2017, the National Assembly passed the Election Reforms Bill. The new law discussed the use of technology i.e., electronic voting machines (EVM) and I-voting for overseas citizens of Pakistan in Section 94. Subsequently, the ECP incorporated the use of technologies in its Strategic Plan 2019-23. In October 2018, the Supreme Court also ordered the ECP to form a plan for overseas Pakistanis to cast votes through I-voting in the forthcoming by-elections. Overseas Pakistanis must not be de-franchised, However, given the vicious politics of the country that is not going to happen any time soon.

The Issue of the Establishment of New Provinces in the Federation

Pakistan has only four provinces: Balochistan, Khyber Pakhtunkhwa, Punjab, and Sindh, which are too few given its great size. The present structure of just four provinces is a legacy of the British Raj and needs to be changed. While India had only ten provinces at Independence in 1947, it has thirty now. The creation of new provinces is fundamentally a political issue and function of a country’s political system. They are essentially meant to meet popular political demands, local people’s aspirations for self-autonomy, political identity, and even administrative effectiveness. There is a strong consensus in

Pakistan for the creation of a southern Punjab province. Earlier, on March 25, 2022, the PTI-led government sponsored a bill in the National Assembly seeking the creation of the south Punjab province. Foreign Minister Shah Mehmood Qureshi had given the constitutional amendment bill to the National Assembly seeking to split Punjab into two provinces. South Punjab would be constituted of Multan, Dera Ghazi Khan, and Bahawalpur divisions. Under the draft bill, the south Punjab province would have fifty-six seats in the National Assembly and 119 in its provincial assembly. The creation of the south Punjab province had the support of all three main political parties, the PTI, PML, and the PPP.122

Later, Pakistan must be divided into at least ten provinces. Punjab is divided into three: central, north, and south. Sindh into two: north and south. Meanwhile, there was a move to make Gilgit-Baltistan into a province of Pakistan which would require a constitutional amendment. This makes sense and should be undertaken, immediately. Azad Kashmir be also made into a province much like what India did much earlier in Occupied Kashmir. This action would create an immediate uproar, which would eventually die down. Thus, the Kashmir issue would be resolved permanently.

The Issue of Structural Reforms

Undoubtedly, Pakistan faces profoundly serious governance challenges, and the new coalition government must focus on them. Attention should be paid to delivery alone and not Imran Khan. The people expect relief soon enough as they suffer from inflation and other economic issues. Pakistan must focus on the development of its human resources, sustainable economy, and the eradication of poverty which can only happen if bold policy decisions are taken now. The Sharif government can only fail at its peril. The people hoped for change, and it is now time to deliver. Sharif's second coalition govt is expected to make bold decisions to stabilize the economy and thereby strengthen the country. The new Sharif government is a déjà vu of earlier failed democratic experiments by the Pakistan military. From a hybrid democratic system, Pakistan has descended to an authoritarian system of governance much like the Central Asian republics and like the many Mukhbara police states in the Middle East. There is little hope for a transformation of Pakistan from an authoritarian system towards even a semblance of democracy. That is Pakistan's tragedy.

The military's footprint has drastically increased in the last year with the establishment of a super body named the Special Investment Facilitation Council (SIFC), an initiative of the current army chief. It was set up as an emergency response of sorts to usher FDI from friendly states in the Gulf region, as promised by General Syed Asim Munir, the army chief, earlier. At best, the SIFC is an ad hoc arrangement to meet Pakistan's economic emergency. The Sharif Government is on board the idea of an increased role of the military in the country's economic management.

The SIFC, a joint body run by both the military and civilians, was established through an Act of Parliament by the Sharif Government with "an aim to boost the country's low investment and remove bottlenecks hindering economic growth." The highest body of the SFIFC is the apex committee, chaired by the Prime Minister and composed of the Chief of Army Staff, members of the federal cabinet, chief ministers, and high-level government officials. The second level is the executive committee which meets regularly and is composed of both military and civilian officials.

The tenth apex committee meeting was held On May 256, 2024, in Islamabad. The meeting was convened to "review various initiatives and projects under its ambit." It took stock of the progress on ongoing economic collaborations with friendly countries and lauded the recent spike in trade and investment engagements with efforts spanning government-to-government and business-to-business frameworks.123

PM Shehbaz said that "the focus of the SIFC was to attract investment and trade instead of getting aid to address the long-standing economic issues of the country, saying all provinces fully trust the forum." He said that the "significance and performance of the platform has silenced its critics."

Earlier, the Sharif Government declared that "SIFC is a lifeline as well as a redline, the apex committee reviewed progress on various projects and policy initiatives under SIFC and presented plans to meet the milestones set in the future."124

The government declaration has come on the heels of a recent news report which stated that Pakistan's investment ratio has plunged to its lowest level in 50 years, falling to just 13.1% of the size of the economy in the outgoing fiscal year, despite efforts by the SIFC.

According to the official statement, the committee "exhibited profound satisfaction with the overall progress achieved so far and appreciated the role of federal ministries, provincial governments, and associated departments in realizing the envisioned dividends. It appreciated the facilitation provided by the platform of SIFC for improving the macroeconomic conditions of the country. The committee also gave directions for an efficient follow-up mechanism to transform these commitments into tangible projects and economic dividends, at a fast pace.125

It reviewed the progress on the privatization of SOEs, "expressed satisfaction with the ongoing process and urged the timely accomplishment of various privatization milestones in collaboration with relevant stakeholders."

The forum "reiterated the commitment to improve the investment ecosystem and gave directions to make it more investment-friendly through sustainable policy initiatives."126

During the meeting, the army chief "reassured the firm resolve of the Pakistan Army to backstop the government's initiatives for the economic prosperity of the country and the socio-economic well-being of its people."

PM Shehbaz also "appreciated the role of SIFC and affiliated stakeholders in steering the investment and privatization drive, in a befitting manner. He gave directions to fast-track various initiatives through a 'whole-of-government' approach and played a constructive role towards the economic stability of the country."127

It was decided that investment promotion through the SIFC forum would be bolstered at both the federal and provincial levels. Seven desks will be established within SIFC to promote investment and trade. The special desks will be established for the United Arab Emirates, Saudi Arabia, China, Qatar, the European Union, the United States of America, and the Far East.

The SIFC's executive committee meetings will also be held regularly.128

Notwithstanding its pious declarations, the second Sharif government simply does not have either the will or the capacity to implement the reform agenda. However, a comprehensive reform agenda is desperately needed. It has now become the rallying cry of the times without which Pakistan cannot get out of the serious mess in which it is stuck today.

Because of past failures, Pakistan was facing an existential crisis that emanated from several internal and external factors. The PDM government was impaired because of massive corruption, incapacity, and endless and unwarranted political bickering with the PTI, its main rival for power. Pakistan is faced with complex internal and external challenges, not easily resolvable. On the domestic front, Pakistan faces poor governance, corruption, extremism, insecurity, violence, strained civil-military relations, military supremacy, and overall poor national leadership. Poor governance and incapacity are the norms and not the exception in Pakistan.

Undoubtedly, the country's public administration system has deteriorated over time. It has become too politicized as nepotism and corruption have eroded it from the inside out. The military is the only functioning institution left in Pakistan. Hence, the profound influence of the military as an institution that is comparatively intact and functioning. This was not in any way a justification for military interference in politics, however. The tragedy of Pakistan is that its civilian administration has malfunctioned and is thereby not able to deliver the required public services.

Pakistan has now sunk into political instability. By May 2024, the country faced a profoundly serious economic crisis. The country has lurched back and forth from multiple crises in recent years, the current economic hardships are especially acute. There was widespread discontent and despair. Given the precarious nature of Pakistan's economic crisis, the Sharif coalition government was supposed to undertake bold reform measures. But the Pakistan it was paralyzed into inaction, unfortunately.

On May 256, 2024, a high-level committee, constituted by Prime Minister Shehbaz Sharif to recommend austerity measures, has proposed a set of measures that will be announced as part of the upcoming budget. The committee, which was set up recently, was assigned to look into the report of the austerity committee that was created during Shehbaz Sharif's last tenure as PM.

That committee had recommended a comprehensive set of austerity measures to save up to Rs1 trillion per year in the medium term but most of its recommendations were ignored. The previous committee had 15 members. The prime minister during his present tenure constituted a seven-member committee to present a practical plan for reduction in government expenditures.129

Most of the committee members were part of the earlier austerity. The present committee has done detailed work on the recommendations of the 2023 committee. Upon its recommendation, nearly 70,000 posts in the center will be abolished whereas around 80 federal government entities will be merged, restructured, or shut down to save public money.130

The Sharif Government wasn't serious about structural reforms and was ignoring the recommendations of its committees set up for the purpose. The present setup is dominated by the military but cannot deliver. It is too weak and compromised to carry out any meaningful reform.

THE FUTURE REFORM AGENDA

Pakistan faces great political instability because of which all previous reform agendas have remained unfulfilled. A proposed future one should have the following elements:131

Uphold the Rule of law and the country's Constitution, which is paramount in any democracy, and it must be adhered to at any cost. The nation desperately needs across-the-board accountability now. The government must be obliged to haul up all the corrupt, regardless of background or profession. Meaning that all are under the accountability net, which includes the military and judiciary. No sacred cows are to be left as this is the pious wish of the people. Earning the trust of the people first is essential. No other option is available.

Engage with all political parties, including the ones in Opposition, to formulate a pragmatic policy to henceforth keep in check the powerful military. The supremacy of the civilian leadership over the military must be established eventually as it is the cardinal principle of democracy.

Focus on serving the people through a comprehensive reform plan to deliver effective publics through good governance, and clean government.

Concentrate on the development of its human resources, sustainable economy, and the eradication of poverty.

Immediately reduce non-essential state spending, through prioritized cutting down defense and subsidy budgets. The defense budget is one of the largest items of government spending and reducing it would free up resources that could be used to finance growth-enhancing investments, such as education, health, and infrastructure. Similarly, subsidies for essential commodities such as electricity and gas have increased the government's debt burden and need to be re-evaluated to ensure that they are targeted toward those who need them the most.

Emphasis on the reform of the civil services through a well-planned reform agenda to improve the performance of the civil bureaucracy and enhance its service delivery. Given the dysfunctional nature of most public services in the country, there is an urgency to adopt a modernization agenda for ability building to deliver the required outcomes. It is important to adopt a comprehensive approach to the modernization task. The plan will be spearheaded by the Modernization Unit created for the Prime Minister's office. A detailed Action Plan will be devised for each state sector (such as education health, commerce, communications, and agriculture) both at the federal level and the provincial level. The entire effort will be backed up by a think tank working for the Prime Minister's office.

Immediately focus on the formulation of a Digital-Pakistan strategy for a revamped and robust IT ministry. The application of modern technology is essential to integrate the work of the entire government of Pakistan, both at the federal and provincial levels. An urgent effort needs to be made to modernize the state's entire IT infrastructure. The present structure is inadequate to meet the future requirements of the government of Pakistan. A reputable global company should be given a five-year contract for this purpose.

Measures like reforming the policy of posting state officials. Giving tenure protection of postings for at least three years, and immediately stop the shuffle dupe of endless postings as it causes service inefficiency and disruption.

Social sector reforms must be prioritized. Focus on the development of its social sectors. The HDI ranking needs to be improved as it is very low.

Reduce federal expenditures, especially wasteful ones, as recommended by the earlier austerity committee set up by the current premier. Most of the recommendations were not fulfilled. There is an urgent need to cut many federal outlays, including defense, and thereby help the poorest of the poor in the country. Given scarce resources, cut defense expenditures, as the real threats faced by the country are mostly internal, not external. It must also nationalize the military's corporate interests in Pakistan.

Rapid urbanization and overall residential growth are ruining Pakistan's historical architectural legacy. Preserve the classical national heritage of historic buildings and monuments while it can. Time to act now before it is too late. A national conservation policy is desperately needed.

Concentrate on reforms in both the public sector and private educational systems. The galling failures were responsible for a large youth body that was very poorly educated and poorly trained to accept any meaningful jobs in the growing economy. The entire education sector was in shambles with very few exceptions. Strict measures to stop the massive corruption rampant in the private education sector. Excessive fees at the school level are a national issue. Diploma mills in the higher education sector have lowered standards of education to the bare minimum. Rote learning is a national curse.

To meet the housing crisis in Pakistan, a massive house-building scheme be launched through a public-private business model. An overall plan be prepared by hiring international consultants experienced in the field.

New cities need to be built to ease the immense pressure. Start a crusade against land-grabbers or the “qabza” mafia in Pakistan. The worth of these land grabs would be in trillions not billions, mind you. The people will cooperate in finding these land grabs. Swift action will yield hundreds of billions of rupees. Such crime spread today. Today, an unprecedented accountability drive needs to happen in Pakistan. Elevated levels of corruption in the past three decades have eroded not only the state structures but also the social fabric of the nation.

There was a need to galvanize the public for a new era of austerity, challenging work, discipline, and sacrifice. The government should have focused on reviving a faltering economy and ending a years-long chronic energy crisis that has crippled industry. Decades of corruption and bad governance by the rulers of Pakistan have severely eroded Pakistan from within. Reversing the trend would need time.

Prioritize madrassa seminaries reforms should tackle religious extremism now, as it is becoming a threat to the country's progress.

To enhance Pakistan’s soft power, a comprehensive plan of mainstreaming of erstwhile jihadist elements be conducted on a priority basis in collaboration with the military.

Change the country's FPTP to the Majoritarian one.

Reform the Senate elections procedure through the requisite steps to ensure transparency in its elections and end once and for all times the so-called horse trading or corrupt practices in Senate elections. The Senate must be elected through open balloting as the process is more transparent.

Create the South Punjab province at once as it has developed a national consensus. The PPP, PMLN, and the PTI have all promised to do so. Later, Pakistan must be divided into at least ten provinces. Punjab is divided into three: central, north, and south. Sindh into two: north and south

The formation of a new think tank inside the Prime Minister's Office to function as the heart of the whole reform agenda. It will conduct research and guide the Government using the Next Steps approach and acting as a consultancy. Form a steering committee of experienced professionals in various areas to guide the government on various issues. These groups will manage the actualization of public policy in various areas. A Modernization Unit to be set up in the office of the prime minister be tasked to formulate Key Performance Indicators and metrics for all public sector agencies and departments. A Key Performance Indicator (KPI) is a quantifiable value that decides how effectively an organization is reaching key goals. The KPIs are employed by organizations to calculate their success at achieving the established targets. The federal government is combined into a smaller and more effective administration. Some public agencies are bloated and need to be cut. Some departments may need to be merged or even dismantled. A review be held for this purpose. A Task Force be set up to restructure vital public enterprises like WAPDA, PIA, Steel Mills, NHA, and Railways. A restructuring exercise be conducted to improve efficiency in collaboration with the Modernization Unit in the Prime Minister's office.

A detailed reform plan for the education sector. Technical schools be set up in the pattern of Germany, preferably with the help of the German government. The purpose is to impart skills to youth not able to get a regular college education. Free quality public education, along with free health services, is envisaged in the concept of an Islamic welfare state. Free education like free health services will be a costly endeavor. Therefore, distribute 5% of GNP to the education sector, as recommended by UNESCO.

Revival of the Musharraf era Local Government System, as it showed promise. Despite shortcomings, some important developments did take place in this area and there were some success stories at the local level. A national crusade against the "qabza" mafia and encroaches must be conducted. This is an endemic problem in Pakistan and has grown in the last decade. Not just private space but also public space is threatened. That is most unfortunate. Public space is a sacred trust.

Reform the national curriculum. The erstwhile PTI national curriculum agenda was a good beginning. Therefore, it is advanced with input from all stakeholders. It must be flexible though to incorporate regional diversity. A framework would be formulated with a common core for the entire nation (1/3) and then a regional section to be the responsibility of the provinces (2/3). The purpose is to create national unity and cohesion. The framework will set up the teaching units in terms of syllabi, timetables, modules for class instruction, total study period, and testing.

Control the mushrooming growth of housing societies in the past decade or so. Most of these are frauds and people have lost billions of hard-earned savings. The State must come to the rescue of the public and take these swindlers to task. It must then simply nationalize these societies and put them under the control of various state authorities. Nationalization would be considered the last resort since it would require an act of parliament.

A National Health Service on the pattern of the UK. The founding principle shall be that the service be comprehensive, universal, and free at the point of delivery. However, patients would be required to pay prescription charges with a range of exemptions for the poorest of the poor. This is a costly endeavor and will require immense allocations of budgeted money. This measure, along with health, is one of the fundamental aims of the Islamic welfare system. Therefore, 5% of GNP to the health services sector

Emphasis on the performance of police services. Depoliticize them at once, especially in Punjab and Sindh. Employ technology to improve police efficiency. A detailed plan is needed to revamp the police services and stop political interference at once. The public has a low opinion of the police service except for KP. Establish a task force for Improving Police Services with input from capable retired police officials and foreign experts.

Efforts to improve the parliament's performance. The oversight function of the parliament is inadequate, at best. There is nothing more political than passing the budget as it deals with the allocation of scarce resources. Therefore, present the budget at least two months in advance of its passage date. The budget be discussed on the floor of the National Assembly in the first reading and then sent to Select Committees to be debated in detail with department heads, outside experts, and witnesses. The budget be agreed upon within these committees along with recommendations. The budget then was again debated on the floor of the house and eventually passed.

Establish a separate television Parliament Channel within PTV to broadcast live the workings of the parliament. The purpose is to improve the quality of deliberations in the legislature.

Increase the retirement age of the state employees to sixty-five.

Give life tenure to the higher judiciary so that the judges can concentrate on their jobs.

Apart from the construction of the Diamer Bhasha and Mohmand dams, much smaller dams on the Indus River system.

Amend the constitution to establish Azad Kashmir and Gilgit Baltistan as Pakistan's new provinces.

Revamp the FBR on a priority basis. The government's primary challenge was to increase revenue collection by broadening the tax base and improving tax administration. Change the emphasis from the unfair regressive indirect taxation system to the direct tax, which is more progressive, and fairer.

Expand the services of the Benazir Income Support program immediately. Ensure prompt delivery of income support to the poorest of the poor.

Reduction of national holidays.

Standardization of weights, measures, and the like. For example, stop using the local *arubs*, *crores*, and *lakhs* and use the universal system that employs hundreds of thousands, millions, and billions. Similarly, discard the use of the local *tolas* and *maunds* and use the universal grams and kilograms instead. Nearly all of the world has shifted to these measurements, and so should Pakistan.

Formulate a detailed Plan of Action within a month to strengthen key national institutions like the State Bank, FBR, AGP, NACTA, IB, FIA, NAB, and FPSC.

Initiate social, cultural, and educational activities like those done by the BJP's Sangh Parivar group in India. Some activities can be arranged in collaboration with effective NGOs working in the field already. For example, a Razakar Force for young men and women trained in martial arts; monsoon tree plantation campaigns in collaboration with agriculture departments, adult literacy centers, libraries, and urban clean-up campaigns using volunteers.

Given the great public demand and the notoriety of the NAB, close it down.

Introduce electronic voting machines (EVM) and I-voting for overseas citizens of Pakistan.

Formulate a plan to address easing a way out of the security situation and tension between Pakistan and India. Revive very low-key mechanisms like Track II talks for the purpose.

The state should stop the setting up of the prices of essential goods and commodities. Let the market determine which is more efficient and effective.

The current political and economic crisis demands that all major political parties, across the divide, immediately agree on a common minimum Economy Charter. Partisan politics can be postponed for a while till the approval of the charter. This would be a very prudent act by them. Time to step back and reflect on the crisis. Serious introspection is needed for a way out of the crisis.

As demanded by the IMF, transparency and a level playing field be established in the working of the SIFC.

All political parties in Pakistan should formulate a Democracy Charter which ends the military control of the ISI, the very powerful intelligence agency. In the past political parties have colluded with ISI to come into power. Therefore, the ISI is civilianized and the military officers manning it are returned to their institution. The role of the ISI in domestic politics has thereby ended. Perhaps, this is the most critical of all reform measures and is very difficult to enact.

Given the recent spate of terrorism in the country, focus on revamping the country's counterterrorism strategy and institutions with outside assistance from friendly countries.

In sum, a bold reform agenda is immediately needed to meet the country's complex and serious political, economic, and security challenges with no easy solution in sight. The second Sharif government will have to formulate a reform agenda to tackle these challenges head-on to avert political chaos and anarchy in the country. Can Pakistan come out of the grave political crisis on its own? No chance at all. Now it is up to its friends to step in and resolve the conflict tearing the country. Given the grave economic crisis, Pakistan has little time left for that to happen.

Given Pakistan's tragic history, it bears repetition that a military has no role in a country's politics. Can the political parties of Pakistan create an alternate political system.? There is no evidence that they can. They have no democracy within them. There are opportunities now available for rapid economic growth because of recent Saudi Arabia's rapprochement with Iran.

Very recent developments in the Gulf vis a viz Saudi Arabia and Iran have occurred which can surely benefit neighboring Pakistan. But first Pakistan must put its own house in order. Will that happen anytime soon? There is little evidence of that yet. The ruling elite is not up to the task, to say the least. That is unfortunate for the people.

There is an urgent need to adhere to the country's constitution for workable solutions to the current crisis. It bears repetition that the military has no role in Pakistan's political system at all. Let constitutional law prevail for once. Not likely to happen though.

Future Directions?

Pakistan faces complex challenges, internal and external with no easy solutions in sight. Pakistan's challenges include weakened political leadership, the poor overall performance of state institutions, poor public services, massive poverty, burgeoning population, rampant urbanization, continuing military control of Pakistan's foreign and security policy framework, bad governance, the impact of continuing conflicts with India, Afghanistan war situation, increased militancy, and endemic corruption allegations.

Notwithstanding the Opposition's outlandish political rhetoric, it should be allowed to continue with it. The Opposition protests can be a great nuisance but certainly not wreck the Sharif coalition Government. Democratic norms and political maturity require that the Opposition blasts, sometimes without merit, be tolerated only because Pakistanis still aspire to live in a democracy, and not an authority setup, where the military dominates. Unfortunately, the military and the Sharif coalition government are bent on overreaction to Imran Khan's protest politics. Such overreactions will create more political instability, chaos, and anarchy in the country. Tolerance must be shown and let politics play out without military intervention. Wisdom must prevail. Therefore, the military brass and the Sharif government must only focus on delivering good governance. They do not have to be obsessed with the Opposition, as it will be bad for the government, and the country. Political instability is leading to a serious economic crisis.

Given the precarious nature of Pakistan's economy, the Sharif coalition government has no choice but to adhere to IMF conditionalities, no matter how tough. Other lenders are watching to see whether the Pakistan government does so, as promised. Today, Pakistan needs to gain the trust of the international community to ensure a good deal with the IMF, and other international financial institutions. The country needs foreign help to stabilize its economy and therefore must take quick action in this area. Notwithstanding the Sharif government's claims, Pakistan will not receive the required FDI from friendly countries any time soon. This is because of Pakistan's strained reputation of bad governance and military domination which is known to all.

Pakistan faces a complex internal challenge: weakened political leadership, the poor overall performance of state institutions, poor public services, massive poverty, burgeoning population, rampant urbanization, continuing military control of Pakistan's foreign and security policy framework, bad governance, the impact of continuing conflicts with India, Afghanistan war situation, increased militancy, and endemic corruption allegations.

Pakistan continues to suffer from an ineffective and inefficient bureaucracy and most importantly a sheer lack of political will to see a comprehensive agenda of reforms through to completion. Notwithstanding its pious declarations, the current Sharif coalition government simply does not have the will to implement the reform agenda. Populist measures, though understandable, will not work. Pakistan faces profoundly serious governance challenges, and the new Sharif coalition government must focus on them. Attention should be paid to delivery alone and not Imran Khan. The people expect relief soon enough as they suffer from inflation and other economic issues.

Pakistan is a mess. The country is facing an acute image problem. Today Pakistan was misunderstood and was, therefore, being unfairly treated by the U.S. and other Western powers for its perceived connections to global terrorism. It was more complicated now. However, there is indeed a need for a foremost reappraisal of Pakistan's domestic and foreign policies. Pakistan should strengthen its system of democracy because it was very deficient in countless ways and not functioning at all.

The political paralysis was a result of these systematic faults. Islamic fundamentalism, poor governance, absence of democratic norms, intolerance in society, and inertia were the principal causes of the situation. Lack of political will to reform both state and society may be the single biggest reason for the mess. There is a need to examine the deeper problem of bolstering the deficient, undemocratic decision-making structures. Due to the disinterest towards institutionalized decision-making by Pakistan's rulers, it was hardly surprising that policy and decision-making of national importance remained personalized and incoherent. It was this very flaw that prevented the Government of Pakistan from conducting a truly national strategy. Until and unless there was an institutional decision-making process Pakistan would continue to lack intellectual content the country would always be faced with a crisis. Pakistan faced much larger challenges because of this poor policymaking. The county's past was haunting it now. Reckless decisions like the infamous U-turn of Genera Musharraf after 9/11 where Pakistan became an ally of the U.S. without weighing the full consequences of this abrupt departure of foreign policy. The Army's earlier support of Jihadist entities like the Jaish-e-Mohammad, Haqqani network, and Quetta Shura. The main reason for this was the personalist nature of rule in Pakistan. The civilian leaders do not follow democratic norms of decision-making. This empowered the Army even more and provided further leverage to it to influence Pakistan's decision-making. Neither the Cabinet nor the Parliament is fulfilling their given roles assigned to them. Even the Judiciary is compromised and very deficient, especially at the lower levels. The Parliament does not properly fulfill the legislative and oversight in Pakistan, as was the norm in the system of democracy. The Cabinet does not properly; deliberate as was needed for the proper administration of the state institutions. Pakistan has long become a national security state where the notion of national security is the primary driver of Pakistan's national interest, thereby giving significant leverage to the military. The military itself had a deficient national security paradigm and a very narrow focus on the regional situation, let alone the global one. It was obsessed with its enmity with India, the historic rival. The military as an institution, like all others, is necessarily focused on fighting wars and winning them, and not working for peace, a job of the foreign ministry. Meanwhile, Pakistan has lurched back and forth from multiple crises in recent years, the current economic hardships are especially acute. There was widespread discontent and despair. Given the military's dominance of the Pakistani state and politics, its overdevelopment and corporate interests remain very sensitive issues. Analysts don't want to discuss it as they are scared of the military's wrath. Democracy is a process and is inherently tedious, and complex. Some analysts are expressing concerns that the military will continue to manipulate politics in the country. Because of past failures, Pakistan was facing an existential crisis that emanated from several internal and external factors. The PDM government was impaired because of massive corruption, incapacity, and endless and unwarranted political bickering with the PTI, its main rival for power. Pakistan is faced with complex internal and external challenges, not easily resolvable. On the domestic front, Pakistan faces poor governance, corruption, extremism, insecurity, violence, strained civil-military relations, military supremacy, and overall poor national leadership. Poor governance and incapacity are the norms and not the exception in Pakistan.

Meanwhile, Pakistan faces a serious problem of image. The U.S. and other Western powers continued to consider Pakistan through an Indian or Afghan lens. The erroneous view of Pakistan, in which security remained the paramount national interest for the U.S. and other powers, had exaggeratedly increased Pakistan's domestic political problems. India was now employing territory in Afghanistan for deploying the Tehreek-e-Taliban Pakistan (TTP), and other dissident elements against Pakistan. The TTP is an umbrella group of dozens of Sunni Islamists and sectarian militant groups. It aims to overthrow the government and replace it with a harsh brand of Islamic law. In clear contrast, to the criticism of Pakistan's support of some Jihadist entities that had an external focus, there was not any disapproval by the U.S. and other Western powers regarding India's brutal repression of the Kashmiri independence movement and its policies towards Pakistan. Indian interference in Pakistan's internal affairs and support of Baluch insurgents, MQM, and TTP was well-documented but remained ignored by the U.S. and other Western powers. On the contrary, there were powerful voices in the U.S. that were producing legislation punishing Pakistan. The reason for this biased approach was obvious. The U.S. had tilted towards India in an incredibly significant manner because of perceived commercial gains and other economic interests. The two counties had grown remarkably close in the last few years or so. The U.S. now considered India as a strategic partner and the nefarious role of India in destabilizing Pakistan was conveniently ignored. The TTP and these anti-Pakistan groups based in Afghanistan and operating from Afghanistan's territory were not targeting the U.S. or other Western powers. Hence, they turned a blind eye to their nefarious activities.

Earlier, Pakistanis had a soft corner for Afghanistan and believed that the country's bankruptcy was in no one's national interest. Therefore, pragmatic action was needed to meet the emergency in Afghanistan. Therefore, the Taliban be given a chance to set up their Emirate. They were hopeful that Biden's promise to chart a new global reset of American power would be effective in the region. Today, the earlier romance with the Taliban is over as Pakistanis are disenchanted with the new regime in Afghanistan. After a long lull, the TTP has stepped up attacks inside Pakistan. Pakistan's northwestern tribal regions have long served as sanctuaries for extremist groups. For years, the military conducted massive operations to clear the area of militants and many fighters crossed into Afghanistan and hid there in the mountainous terrain. The TTP is one of Pakistan's most feared jihadist terrorist groups that has waged war against Pakistan in which many thousands of people have been killed, including civilians as well as soldiers, paramilitary, and police personnel. In a bloody campaign, the group has attacked security installations, public venues as well as places of worship.

There has now been a spike in suicide attacks on security forces in the last month as neighboring Afghanistan fell to Taliban rule. Scores of Pakistani civilians and soldiers have been killed in Baluchistan and Khyber Pakhtunkhwa from TTP attacks, all emanating from Afghanistan. The Government of Pakistan had arrested 11 Islamist militants who were involved in the suicide bombing that killed five Chinese engineers in March in the north of the country that borders Afghanistan. The announcement was made on May 26, 2024, by Pakistan's counter-terrorism chief Rai Tahir along with Interior Minister Mohsin Naqvi. The arrested men belong to the TTP.

The investigation and evidence show the militants had been taking instructions from TTP leaders in Afghanistan, he said.

The Pakistani military had already said the attack was planned in Afghanistan and that the suicide bomber was also an Afghan national, a charge Kabul denies.

Kabul previously said rising violence in Pakistan is a domestic issue for Islamabad.

Relations between Pakistan and Afghanistan have soured in recent months. Islamabad says Kabul is not doing enough to tackle militant groups targeting Pakistan.

The minister said legal assistance will be sought from Kabul to arrest another three main members of the TTP who were directing the attacker and his facilitator from Afghanistan.

Pakistan faces a complex situation with multiple challenges, internal and external. Another complexity was the nature of the new terrorist threat engulfing Pakistan and the region. The threat of Islamic jihadist networks was destroying the region's peace and security. Pakistan demands that the Taliban neutralize the TTP inside Afghanistan. However, the Taliban are reluctant to do so as they are preoccupied with meeting their enormous economic and governance challenges. Therefore, the Taliban are understandably reluctant to conduct further fighting missions inside the country. Meanwhile, the strained relations between Pakistan and the US because of the Afghan war are coming to an end. With the rise of terrorism activities emanating from Afghanistan, the US is concerned about the threats. The regional terrorism issue has created a convergence of national interests between the US and Pakistan. In the future, Pakistan will cooperate with the U.S. in its quest to end the terrorist threats from Afghanistan territory.

Meanwhile, Prime Minister Shehbaz Sharif will visit China on June 4, 2024, to join the formal launching of the second phase of the CPEC. Infrastructure and energy projects were part of the CPEC's first phase. In CPEC-II, both countries will focus on agriculture, Main Line-I of Pakistan Railways, businessmen-to-businessmen deals, realignment of the Karakoram Highway (KKH), and other areas. Thus, Pakistan's relations with China continue to be strengthened as the two embark on the second phase of the CPEC grand project. China seems to be the only permanent great power friend of Pakistan today.

The country was expected to improve on the economic front thanks to the new emergency SIFC initiative, though it is an ad-hoc and short-term arrangement at best. In the long term, the sheer negligence of the ruling establishment to tackle the issue of social justice and enlightened Islam will draw it back from reaching its true potential. The anarchy unleashed by Islamic fundamentalists must be checked in Pakistan before it engulfs the whole region in further chaos. Much depends on timely action taken by the ruling establishment of Pakistan to get its act together to achieve the true prospects of economic development presented to the country by the SIFC initiative. Bad governance is still the norm in Pakistan and is not an exception. Desperately needed reform measures still await the nation. The nation is poorer because of its poor leadership, both military and civilian. It is hoped that a turnaround yet happen. Pakistan has enormous potential in its youth but lacks the leadership to make full use of the potential. The leadership is bickering among itself, complacent and corrupt. Too bad for the country. There was also a bright side to the country's dismal picture, however. Pakistan can indeed have a great future and be on the road to success and sustainable peace. Pakistanis are the most resilient nation. Pakistan can indeed position itself in the region as a massive trade corridor that will catapult this country to economic prosperity and a symbol of geostrategic integration. Pakistan as the regional trade, industrial, and economic hub will be in a position of strength and the world will endeavor to improve relations with Pakistan. Pakistan believes in cooperation, instead of competition. Pakistan is carving out a trajectory of progress for the region by way of economics, which the world needs to recognize and acknowledge. Pakistan faced an existential crisis of a daunting magnitude. The primary threat was from within the country.

The time was to go back to the liberal message of Islam and propagate the Sufi version of it where the principle of Sulh-i Kul or peace with all must become the new societal paradigm of governance and mutual conduct of communal affairs. The message of peace and tolerance in the liberal version of Islam must be adopted by both the state and society in Pakistan. Given the sorry situation in Pakistan, there was little choice in the matter. It was time to act. Bold measures were needed and enlightened leadership at the helm of affairs in the country.

Much depends on the future leadership of the country not only at the governmental level but also at the societal level, especially the intellectual level. It was hoped that Pakistan would indeed make the best of the excellent opportunity made available by the SIFC national project and turn around the country towards a path of economic development, prosperity for all, peace, and national security. Thus, the SIFC could help address an urgent political and economic predicament of Pakistan as well. The SIFC initiative could have a regional impact that will promote connectivity and economic activity in it and beyond. The SIFC initiative would make the country a manufacturing and commerce hub. It could improve infrastructure in the entire region.

The growing tensions between Pakistan and both India and Afghanistan, two neighbors, are not only straining Pakistan's precarious politics and the civil-military equilibrium harmony but also hindering its economic development. In the past, the daunting failure of Pakistan's government to stop Pakistan-based militant groups from launching attacks against its neighbors was hurting political and economic ties. Later, a rethink of Pakistan's foreign policy was made, and the attacks were stopped.

Meanwhile, Iranian-Pakistani relations had been strained for quite some time, especially after the recent tit-for-tat strikes. However, there has been a thaw in relations between the two neighboring countries and the Rasi visit. Experts say that Islamabad's alleged support to Sunni militant groups, most of which operate freely inside Pakistan, was one of the reasons behind the deteriorating ties. Iran was not the only country in the region that was unhappy with Islamabad's handling of Sunni militants. Recently, improved relations and rapprochement between Saudi Arabia and Iran have had a positive effect on Pakistan-Iran relations as their hostility was spilling over into Pakistan earlier. Prospects of improved relations between Pakistan and Iran are a distinct possibility. Given China's increased regional influence, Pakistan-Iran relations may become more stable soon.

India-Pakistan relations are increasingly strained because of the historic Kashmir despite. Without resolving the Kashmir lingering dispute peace in the region is impossible. Given the nature of the region's history, a settlement of the Kashmir dispute is exceedingly difficult but possible.

Tensions between Pakistan and India continue unabated. Yet, there may be a thaw in the relations. Pakistan and India, being members of SCO, are dedicated not to undermining the organization's work despite disputes.
Diplomatic relations between India and Pakistan have been beset by decades of distrust and occasional bouts of open conflict. But they have been especially contentious since 2016 when militants attacked an Indian army base in Kashmir. India blamed the attack on Pakistan, which Islamabad denied.

In February 2019, tensions between the two countries had escalated after Pakistan claimed to have shot down two Indian fighter jets a day after India said it launched airstrikes in Pakistani territory in the first such incursion by Indian air force planes since the India-Pakistan war of 1971. The immediate trigger for the 2019 confrontation was a suicide car bomb attack in Indian-controlled Kashmir, which killed 40 Indian paramilitary soldiers. India blames the militant group Jaish-e-Mohammed (JeM) for the attack, the deadliest on security forces since the beginning of the insurgency in the late 1980s. Finally, in August 2019, Pakistan announced it would downgrade diplomatic relations and suspend bilateral trade with India after New Delhi stripped the disputed state of Jammu and Kashmir of its special status.

Despite India’s continuing persecution of Kashmiri Muslims in IOJK, Pakistan must try its best to improve relations with India. India is a neighbor with an exceedingly long tense border with Pakistan. Peace with India will decrease the tensions in South Asia and provide Pakistan with access to the growing Indian market. It is time for a new beginning. Indeed, a new era can begin in Pakistan. For that to happen bold policy measures and out-of-the-box thinking are now urgently required. Pakistan should focus on the development of its human resources, sustainable economy, and the eradication of poverty which can only happen if bold policy decisions are taken now. However, given the military dominance of Pakistan’s politics today such development is ridiculously hard to imagine. Pakistani leadership can only fail at its peril. The people hope for change, and it is now time to deliver. It is imperative to set the right direction. There is still hope in Pakistan.

Undoubtedly, Pakistan’s current policy of permanent Indian enmity and conflict was going nowhere. Pakistan was a security state because of this approach. The Pakistan military was adamant about confronting India. A change in direction was required now. Given the complexity of the regional situation, more robust diplomacy was urgently to get Pakistan out of the current morass and crisis. The Pakistani government was not up to the task and had miserably failed to protect Pakistan’s vital national interests.

The current Sharif Government and its military brass partners must now reappraise the country’s policy framework. Pakistan desires peace in the region which is desperately needed for its stability, progress, and economic development. However, it is hampered from achieving its desired goals by a corrupt political system and weak leadership. Bold leadership is missing in the country. The Army which still oversees foreign and security policymaking is still myopic in its views and is obsessed with the enmity of India. Thus, Pakistan was moving closer to China, and Russia as its mortal enemy — India — moved remarkably close to the U.S. For the military establishment in Pakistan, it was a zero-sum game. Pakistan must make efforts for peace with its neighbors but is challenged to do so by its weak leadership at the helm of state affairs.

The Sharif coalition government should plan to have friendly relations with all countries, especially neighbors. Reiteration of Pakistan’s desire to normalize relations with all, including India, the U.S., and

Afghanistan. Pakistan to become a better member of the global community by increasing participation in UN activities. Pakistan will take part more in international regimes under the UN umbrella which is aimed at eradicating global crime networks of several types, like global money laundering, smuggling, global financial crime networks for tax evasion purposes, human smuggling, global drug, and narcotic smuggling. Pakistan to emphasize strengthening of relations within the frameworks of ECO, SCO, SAARC, and OIC as a priority.

To expect Pakistan to turn direction at once was simply expecting too much. This was not going to happen any time soon. However, a peace deal between India and Pakistan and a solution to the Kashmir dispute can turn things around in the desired direction. Here the U.S. can play a key role. Unfortunately, neither the military leadership nor the PDM government was up to the task and was failing to protect Pakistan's vital national interests. Plus, it faced an immense image problem because of the current political instability confronting Pakistan. Pakistan is a mess. There is a crisis of leadership in Pakistan. There is no stateman guide. That is the real tragedy of the country. Nevertheless, Pakistan must move on, hoping for the best.

The people of the country deserve better.

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