



NATIONAL INSTITUTE OF PUBLIC POLICY

OVERVIEW

During the period under review, several significant developments unfolded across Pakistan's domestic and international fronts, highlighting the government's efforts to address key security, economic, and social challenges. The terrorist incidents in Balochistan and Swat necessitated revision of security measures and cooperation between the provinces and other countries of the region to curb this menace. Government adroitly handled the issues of banning of 'X' over security concerns and mismanagement in the MDCAT exams.

On the economic front, Prime Minister's announcement of a \$7 billion IMF package was a much-needed lifeline for the country's fragile economy, hoping to be Pakistan's last IMF program as the country seeks long-term economic stability. In a bid to curb tax evasion and generate revenue, the government has declared a 'war on cash,' targeting the Rs9.3 trillion in circulation. FBR announced strict measures to eliminate the non-filer tax category and tighten curbs on tax evasion. This bold move aims to improve tax compliance, boost the economy, and eventually pave the way for Pakistan to join the G20.

Pakistan's pro-active approach is evident from its agreement with China to enhance their counter-terrorism cooperation, tapping into Africa's growing markets at a greater pace, and a major sugar export deal with Tajikistan.

At the international level, Pakistan's voice against aggression in Palestine and Kashmir was echoed in the UN, reflecting the country's ongoing commitment to these critical issues. Meanwhile, rising tensions in the Middle East following the assassination of Hezbollah's leader in Beirut are a cause of concern, and Pakistan must remain vigilant to prevent regional instability from spilling over.

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Fiscal Debt

IMF approves \$7 billion EFF Programme for Pakistan

IMF has approved a 37-month, \$7 billion Extended Fund Facility (EFF) for Pakistan, with an immediate disbursement of \$1.1 billion.

The Prime Minister highlighted that swift economic reforms are being implemented, and the government remains committed to economic development goals after achieving stability. He expressed gratitude for China's ongoing support and thanked Saudi Arabia and the UAE for their critical contributions.



Analysis

This marks Pakistan's 25th IMF program since 1958 and its 6th EFF. The loan carries an approximate interest rate of 5%. The primary objective of this new bailout package is to stabilize Pakistan's economy by consolidating public finances, rebuilding foreign exchange reserves, and reducing fiscal risks, especially those tied to state-owned enterprises. The program also aims to create a more favorable environment for private-sector growth. The approval comes as Pakistan faces severe economic challenges following the pandemic and devastating floods in 2022, which caused inflation to peak at 38% in May 2023 and led to the rupee depreciating by 20%.

By September 2024, inflation has dropped to 7.5%, the lowest in five years, and foreign reserves increased to \$9 billion, supported by China, Saudi Arabia, and the UAE. However, the country still grapples with an external debt of \$130 billion, with \$90 billion due over the next three years.

Way Forward

- Continue structural reforms in taxation, public spending, and state-owned enterprises.
- Increase foreign exchange reserves through higher exports.
- Maintain engagement with international allies like China, Saudi Arabia, and the UAE for financial support and investment.
- Implement policies to manage inflation and stabilize the currency for sustained economic recovery

Counterterrorism

Pakistan and China to Collaborate Against Terrorism

Pakistan and China have agreed to strengthen cooperation in counterterrorism, border management, and combating smuggling and drug trafficking. This initiative responds to the increasing terrorism in Khyber Pakhtunkhwa and Balochistan, which has targeted security forces. Both nations will conduct joint exercises involving police and paramilitary forces in Gilgit-Baltistan or Xinjiang and train Gilgit-Baltistan police officers at Xinjiang Police Academy. They also committed to address terrorism as a global issue.

Analysis

Enhancing coordination in counterterrorism will be a force-multiplier in curbing terrorism particularly in KP, GB and Balochistan. It is crucial to safeguarding Pak-China ties. China values its long-standing friendship with Pakistan and is eager to collaborate on security and development initiatives.

The partnership aims to address militant attacks in Balochistan, where insurgents have opposed Chinese investments like the \$26 billion in China-Pakistan Economic Corridor (CPEC). Strengthened cooperation will help mitigate the causes of violence, securing peace and stability.



Way Forward

- Strengthen collaboration with China on counterterrorism to improve safety perceptions and attract more foreign investments.
- Regularly assess security initiatives and policies to adapt to evolving challenges.
- Engage local communities in countering extremism through dialogue and social cohesion programmes.
- Enhance law enforcement with advanced technology for better surveillance and rapid response.
- Improve border management to prevent the movement of terrorists and illicit goods.

International Trade

Engage Africa Policy: Can China Help Pakistan?

A few years ago, Pakistan's "Engage Africa Policy" was launched with the goal of tapping into Africa's expanding markets by building economic partnerships, trade connections, and joint ventures. The policy aimed to bypass intermediaries like Germany, through which African nations, such as South Africa, source Pakistani products, leading to lower profits for Pakistan and higher costs for African buyers.



Analysis

Africa, rich in resources and a large consumer market, presents a valuable opportunity for Pakistan to boost trade. Despite the policy's potential, Pakistan has been unable to take sufficient practical steps to leverage opportunities in African markets. The lack of a structured framework to assess market dynamics, stakeholders, and diplomatic relations within Africa has hindered progress. Thorough market analysis is needed to understand key players, challenges, and opportunities in the African market, which will be crucial to the policy's success.

Way Forward

- Conduct market research to identify the demand for Pakistani products and understand African

market trends.

- Pursue trade agreements with key African nations to facilitate direct trade and reduce tariffs.
- Organize trade missions to foster relationships and promote Pakistani products at trade fairs.
- Leverage the Pakistani diaspora in Africa to build business networks and trade connections.

Pakistan-Tajikistan Agree on Sugar Export Deal

Pakistan and Tajikistan have signed a key agreement for the export of 40,000 metric tons of sugar to Tajikistan, facilitated by Pakistan's Trading Corporation, the Pakistan Sugar Mills Association, and Tajikistan's State Material Reserve. Both nations also agreed to create a joint working group (JWG) to strengthen trade relations, especially in food commodities. Plans to establish border warehouses to ease trade flow were also discussed.



Analysis

This agreement is expected to boost economic cooperation between Pakistan and Tajikistan and create new trade opportunities. The JWG will focus on trade facilitation, including storage facilities near the border. According to the Economic Coordination Committee (ECC) and data from the Pakistan Bureau of Statistics (PBS), domestic sugar prices have been declining, and current stocks are sufficient to meet local demand until January 2025. Even with exports, adequate sugar stocks will remain for the new crushing season.

Way Forward:

- Leverage the Joint Working Group to streamline food commodity trade and address trade challenges.
- Identify key export sectors such as textiles, pharmaceuticals, and agriculture for Tajikistan's market.
- Pursue trade agreements that reduce tariffs, eliminate trade barriers, and enhance sectoral cooperation.

Tax Reforms

FBR to Abolish Non-Filer Category, Tightens Curbs on Tax Dodgers

The Federal Board of Revenue (FBR) has announced plans to abolish the non-filer category as part of efforts to improve tax compliance and expand the tax base. Restrictions will be placed on non-filers, preventing them from purchasing property, buying cars, investing in mutual funds, opening current accounts, and engaging in international travel (except for religious purposes). These measures will be enacted through an ordinance, with the FBR working closely with the law ministry to finalize regulations.



Analysis

The new policies aim to make tax evasion more difficult by prohibiting non-filers from accessing standard banking services, while basic accounts for low-income individuals remain exempt. To combat smuggling, the FBR is enhancing automation and increasing manpower at key entry points. FBR's restrictions for non-filers will be implemented gradually. The board is pushing for digitalization and formalization of untaxed sectors while introducing penalties for tax evasion. With Pakistan's tax-to-GDP ratio at just 9%, far below the 19.3% average of Asia and the Pacific (OECD), expanding the tax base is crucial for improving revenue generation.

Way Forward:

- Simplify the tax code to improve understanding and reduce compliance costs.
- Invest in digital platforms to streamline online tax filing and payments, reducing tax evasion.
- Foster transparency to build trust, ensuring tax revenue is used efficiently for public services.
- Introduce incentives for timely and accurate tax payments, such as reduced penalties or rewards for compliant taxpayers.

Policy Nuggets

Incident/ News	Impact	Recommendation	Priority
Diplomatic convoy comes under attack in Swat; TTP 'denies' involvement.	A hair breadth escape; a cop martyred; who else if not TTP was involved.	Security lapses of this level can have gruesome repercussions; perpetrators must be tracked down.	Highest
'X' banned over security concerns Minister Information Tarar	Militants, separatists and anarchists were using it to propel malicious propaganda and spreading disinformation.	Security of state is paramount; Rules to regulate social media; freedom of expression to be ensured.	High
Doubts about fairness as over 160,000 appear in MDCAT.	Allegations of paper leaks, cheating and mismanagement undermine credibility of entry exams in medical colleges.	Conduct an independent investigation, penalize the culprits; explore alternative MDCAT methods.	High
PM brings good tidings of \$7bn IMF package.	A critical boost to the country's ailing economy.	Should be country's last IMF programme, as hoped by the PM.	Highest
Aggression in Palestine, Kashmir must stop now: PM	A resounding reminder in the UN that is in line with the Quaid-e-Azam's stance on Palestine.	Pakistan must avail such opportunities to highlight the Palestine and Kashmir issue on international forums.	High
Mideast on edge as Hezbollah chief Nasrallah's killing in Beirut confirmed.	It has the potential to spread and engulf countries outside the Gulf.	Pakistan must watch the developments very carefully and keep its guards up.	High

Seven labourers from Punjab killed in Balochistan.	Frequent killing of Punjabis by BLA is a sinister strategy to create dissensions between the provinces.	Effective measures must be adopted to counter this streak and ensure security of workers from other provinces.	Highest
Govt declares 'war on cash' to rein in tax evasion.	A strategy to tap into over Rs9.3 trillion money in circulation/ maximise revenue potential/ to join the G20.	High time to ensure permanence to macroeconomic stability through structural reforms.	Highest



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