



WEEKLY

POLICY PULSE



Vol. 3 Issue No. 41

10 – 16 June

2025

NATIONAL INSTITUTE OF PUBLIC POLICY

OVERVIEW

This week's *Policy Pulse* captures Pakistan's evolving policy posture as it navigates domestic pressures and volatile regional undercurrents. The *Pulse* reflects a government recalibrating its fiscal and security strategies whilst catering to IMF conditionalities, issues of youth unemployment, and regional conflict escalation. From revisiting the NFC formula with climate lenses to launching Pakistan's first virtual blood bank, the country's institutional machinery shows signs of both adaptation and strain in equal measure.

At the centre of this issue is Pakistan's fiscal pivot—from tax net expansion to rate hikes—as authorities struggle to meet IMF benchmarks. Simultaneously, surging youth unemployment, wage non-compliance in industrial units, and an overstretched informal economy raise alarms over structural inequality. On the foreign policy front, Pakistan's planned acquisition of advanced Chinese military systems and its vocal condemnation of Israeli strikes on Iran underscore its strategic recalibration in a shifting global security matrix. Meanwhile, renewed friction with India—over Kashmir mediation and Indus water flows—points to a potentially dangerous uptick in bilateral hostilities.

These developments are unfolding against a backdrop of regional upheaval. Israel's Operation Rising Lion against Iran risks broader Middle East conflagration, with implications for global energy prices and diplomatic alignments. Pakistan's strong support for Iran and calls for legal accountability highlight its evolving role within the Muslim world. Domestically, the federal proposal to reframe the NFC Award using climate resilience metrics indicates a long-overdue recognition of ecological vulnerability and fiscal equity—a step that could redefine centre-province relations.

The *Policy Nuggets* reinforce critical themes: economic reforms, climate urgency, digital enforcement, and strategic diplomacy. From economic issues to counterterrorism cooperation, they spotlight the need for adaptive governance and smarter institutional design. For policymakers, this *Pulse* issue reiterates that Pakistan's path to resilience lies in policy foresight, regional diplomacy, and a whole-of-government approach that balances innovation with accountability.

Inside This Issue

- ✦ After expanding the net, new budget will focus on increasing tax rates
- ✦ Shares of Chinese arms makers surge: Pakistan plans to buy J-35 jets, KJ-500 aircraft, HQ-19 missiles, says report
- ✦ India 'trying to sabotage Trump's peace efforts' on Kashmir issue
- ✦ India is disrupting Indus water flows, says minister
- ✦ Illegal aliens again told to voluntarily leave the country
- ✦ Budget highlights alarming youth unemployment and skills gap
- ✦ Over 80pc industrial units don't give minimum wage to workers, Sindh's PAC told
- ✦ Punjab launches country's first virtual blood bank
- ✦ Israel hits Iran nuclear facilities, missile factories as Tehran vows revenge
- ✦ Centre proposes climate-based criteria for next NFC award
- ✦ Pakistan condemns 'illegitimate' Israeli aggression against Iran
- ✦ OIC emergency session urged over Israel's belligerence
- ✦ Policy Nuggets

After expanding the net, new budget will focus on increasing tax rates



- Pakistan's upcoming federal budget is expected to shift focus from tax base expansion to raising tax rates. This comes after initial efforts to broaden the tax net showed limited results.
- Authorities aim to boost revenue to meet IMF benchmarks and address fiscal deficits.
- However, concerns grow over the burden on existing taxpayers and potential inflationary impact.

Analysis

While revenue enhancement is critical, raising tax rates without structural reforms risks overburdening compliant sectors and fueling inflation. This approach could discourage investment and widen the gap between the formal and informal economies.

Way Forward

- Apply higher rates selectively on luxury consumption and high-income earners to protect lower-income groups.
- Offer tax credits or simplified filing for small businesses to encourage transition into the formal economy.
- Improve compliance through data integration, audit efficiency, and digital tracking to widen the real tax base without blanket hikes.

India 'trying to sabotage Trump's peace efforts' on Kashmir



- The US State Department has reiterated President Donald Trump's resolve to work on the Kashmir dispute.
- However, Pakistani delegation led by Bilawal Bhutto Zardari during their visit to UK has stated that India is trying to sabotage President Trump's peace efforts but stated that India has been forced to accept that Kashmir is a bilateral issue.
- Speaking on the Indus Waters Treaty issue, he said that it remains intact.

Analysis

With the US President Trump's involvement in Pak-India relations, the Kashmir issue has once again come into the international forefront. Whilst India may resist third-party involvement on Kashmir issue being a supposed 'internal matter', the US offer of mediation is a clear signal that it is a global issue and needs a swift resolution for regional peace and stability.

Way Forward

- Pakistan should sustain and expand multilateral engagement through UN, OIC, EU, and US Congress.
- Pakistan should leverage US mediation offers strategically and publicly as well as privately support and encourage US mediation initiatives.
- Pakistan should strengthen legal diplomacy and empower Kashmiri voices by providing platforms to Kashmiri leaders and civil society to speak globally.

Shares of Chinese arms makers surge: Pakistan plans to buy J-35 jets, KJ-500 aircraft, HQ-19 missiles, says report

CHINA'S OFFER TO PAKISTAN



- The Government of Pakistan announced its plans to acquire a Chinese defense package including 40 J-35 fifth-generation stealth fighters, KJ-500 AEW&C aircraft, and HQ-19 anti-ballistic missile systems.

Analysis

This marks China's first export of a J-35 stealth jet and reflects deepening military ties amid heightened Pakistan-India tensions. This news triggered an increase in Chinese defense stocks reflecting the repeat of a trend that was seen during May 2025 when Pakistan downed Rafale jets.

Way Forward

- Pakistan should ensure that its budgetary practices viz-a-viz defense are balanced to ensure fiscal sustainability, especially with regards to maintaining debt to GDP ratio within the limits of Fiscal Responsibility and Debt Limitation Act, 2005 limits.
- Pakistan should also invest in domestic training facilities and simulation centres to support J-35 and KJ-500 integration.

India is disrupting Indus water flows, says minister



- Pakistan's Climate Minister Musadik Malik has accused India of deliberately manipulating Indus River flows— "holding and releasing, holding and then flooding"—to disrupt Pakistan's sowing season and threaten food security, following India's suspension of the 1960 Indus Waters Treaty.
- He stated that as currently India does not have storage dams, it has not been able to materially affect Pakistan. However, if India starts building them, then it would be deemed as an "act of war".

Analysis

India's manipulation of water flows signals its intent to weaponize water for its jingoistic purposes over regional stability. Whilst this reveals the fragility of ceasefire as Pakistan warns of retaliation in face of India's belligerence, it also poses a threat to Pakistan's economic stability and food security.

Way Forward

- Pakistan should expedite building of reservoir and groundwater recharge projects to bolster its water storage capacity to reduce vulnerability.
- Pakistan should initiate legal action in International Court of Justice and use international fora such as UN to highlight water weaponisation.
- Pakistan should enhance agricultural adaptation and emergency planning such as rainwater harvesting to buffer farmers against erratic flows.

Illegal aliens again told to voluntarily leave the country



- Pakistan's Interior Ministry has reiterated its directive for all undocumented foreign nationals—including Afghan Citizen Card holders—to voluntarily exit the country.
- There have been over 216,000 repatriations since April and more than 1.1 million since October 2023.

Analysis

The Government frames repatriation as a dignified, regulated effort to uphold sovereignty and security, however, concerns have been raised by human rights groups which include rushed deadlines and potential human-rights abuses.

Way Forward

- Implement staggered exit phases with buffer periods.
- Set up humanitarian tracking and grievance systems to ensure there is no violation of human rights.

Budget highlights alarming youth unemployment and skills gap



- Pakistan's 2025–26 budget reveals a worrying 6.3% national unemployment rate, with nearly 45% of jobseekers aged 15–24.
- Each year, approximately 2 million young Pakistanis join the labour market, however, there is a stark mismatch between available jobs and young talent's skills.
- This mismatch is more prominent in rural and underserved regions. Moreover, the budget document also reveals gender inequality in economic participation with lower percentage of female in workforce.

Analysis

Despite the demographic dividend of a booming youth population, systemic issues like underinvestment in vocational training and gender disparity in labour participation suggest a lack of a proactive strategy to realign education with market needs.

Way Forward

- Scale vocational and polytechnic institutes nationwide especially in rural and underserved areas.
- Link the vocational and polytechnic institutes with industry advisory councils to ensure curricula match job market demands.
- Introduce structured apprenticeship schemes with SME incentives such as subsidized support to SMEs that hire youth apprentices especially women.

Over 80pc industrial units don't give minimum wage to workers, Sindh's PAC told



- The Sindh Public Accounts Committee (PAC) was informed that more than 80% of private industrial units were not paying the legally mandated minimum wage of Rs37,000, while many remain unregistered.
- Moreover, private security agencies were also not paying the minimum wage to security guards.
- The PAC, upon receiving complaints of irregularities, also ordered an audit of the annual procurement of medicines worth Rs. 9 billion for seven hospitals and forty-two dispensaries of the provincial labour department.

Analysis

This highlights a systemic breakdown in labor law enforcement, exacerbated by informality, under-resourced oversight bodies, and weakened trade unions—thereby worsening inequality and workers' vulnerability.

Way Forward

- Digitize wage reporting and enforce via banking system and penalize non-compliance.
- Launch a province-wide registration drive for unregistered industrial units, offering initial tax waivers or simplified compliance for small firms.
- Support the formation and legal registration of trade unions to ensure fair wages and enforcement of labour laws.

Punjab launches country's first virtual blood bank



- Punjab has launched Pakistan's first Virtual Blood Bank Centre, enabling emergency blood matching via Helpline 15, connecting patients to nearby donors 24/7—handling 2,500 calls daily and serving 250 patients, with over 25,000 registered donors.

Analysis

This innovation streamlines emergency blood supply using digital and police infrastructure, significantly reducing response time and demonstrating a scalable model for healthcare modernization across Pakistan.

Way Forward

- Incorporate virtual blood banks with other provinces' police stations and integrate with national hospitals.
- Ensure standardization of data protocols for donor eligibility, blood screening, and traceability to ensure safety and uniformity.
- Provide small incentives like distributing model citizen certificates to maintain high donor responsiveness.

Israel hits Iran nuclear facilities, missile factories as Tehran vows revenge



- On June 13, 2025, Israel launched “Operation Rising Lion,” in which it carried out airstrikes over Iranian nuclear sites, including Natanz, ballistic missile factories, and key command centers.
- The operation has resulted in the deaths of Revolutionary Guards corps top commander, Hossein Salami, scientists and children.
- Israel has stated that it would continue the operation for “as many days as it takes to remove the threat”.
- Iran has responded with drone attacks and vowed severe retaliation.
- US claims that it has no part in the military operation.

Analysis

The unilateral and unprovoked military operation by Israel sharply escalates tensions in the Middle East and jeopardizes US–Iran diplomatic efforts. Despite there being no change in US intelligence assessment regarding Iran building nuclear weapons, Israel’s readiness to attack against a supposed existential threat is another flagrant violation of international law. The region not only faces a heightened risk of broader conflict but a spillover effect on energy and oil prices is also expected.

Way Forward

- Pakistan should call for peaceful resolution and non-intervention in regional military hostilities.
- Boost aerial and ground surveillance along Pakistan’s western borders, anticipating potential regional spillover.
- With global oil prices spiking, Pakistan should tap strategic petroleum reserves, negotiate flexible fuel imports, and diversify energy sources to cushion against disruptions.

Pakistan condemns ‘illegitimate’ Israeli aggression against Iran



- The Government of Pakistan – including the Foreign Office, PM, President, and FM Ishaq Dar – and Parliament have condemned the June 13–14 Israeli strikes on Iran as “unjustified and illegitimate”, and have urged the UN and international community to hold Israel accountable.
- The FM also held a telephonic discussion with Iranian FM.
- Meanwhile, the PM has directed the Foreign Office to ensure a safe return of Zaireen from Iran.

Analysis

Pakistan’s strong diplomatic statements highlight support to Iran and broader Muslim solidarity. However, Israel’s unprovoked attack raises concerns about regional destabilisation and legal norm erosion under the UN Charter. Threat to Pakistan from Indo-Israeli nexus has increased.

Way Forward

- Pakistan should strengthen its border security and enhance intelligence to monitor Indo-Israeli nexus.
- Pakistan should continue to highlight Israel’s growing bellicosity to violate international law in international fora such as OIC, UN etc.
- Pakistan should issue travel advisory, and create evacuation plans for Pakistani Zaireen in Iran for their safe return.

Centre proposes climate-based criteria for next NFC award



- The federal government, led by Planning Minister Ahsan Iqbal, has proposed revising the NFC formula to shift from a regressive population-based model criteria to a formula that rewards climate adaptation and other social sector indicators as key determinants for distributing resources with and amongst the provinces when the NFC meets in August this year.
- He also pointed out that devolution has remained incomplete which has also affected the federal government’s fiscal space.

Analysis

This marks a significant departure from the “regressive” 82% population weight of the 7th NFC Award. This shift is an acknowledgment that population-based model was not an accurate measure for resource transfer and growth, and demonstrates heightened concerns about unsustainable population growth, climate vulnerability, and provincial responsibility in devolved functions.

Way Forward

- Incorporate indicators like flood/drought frequency, water scarcity, and green cover into the NFC formula.
- Provide targeted grants for provinces facing high climate risk (e.g., Sindh floods, Balochistan drought) to support adaptation and mitigate long-term fiscal burdens.
- Introduce performance-based bonuses tied to measurable outcomes such as reduced child stunting etc., to curb the incentive to inflate provincial population numbers for more funding.

OIC emergency session urged over Israel’s belligerence



- Pakistan’s Defence Minister Khawaja Asif has, during the session of National Assembly, urged the OIC to convene an emergency session in response to Israel’s escalating strikes in Gaza, Iran, and Yemen, warning that the Muslim world must unite or risk being targeted next.
- He also noted that military strength needs to be coupled with economic strength.
- During the session, other domestic issues such as taxation and budget were also discussed by members of the National Assembly.

Analysis

The statement reflects Pakistan’s alignment with fellow Muslim nations and growing regional tensions. It also reveals that the Government’s stance on Iran-Israeli issue is supported by the opposition members. In addition, the Defence Minister’s statement echoes an acute understanding that Pakistan’s economy needs to be strong to sustain military prowess.

Way Forward

- Pakistan should actively spearhead diplomatic initiatives within the OIC.
- Pakistan should synchronize its foreign policy—including support for Iran and Palestine—with domestic economic reforms, creating a cohesive narrative that binds national unity and international standing.

Policy Nuggets

1 Economic Survey 2024-25: Growth stumbles as key targets missed

Impact

Indicates underperformance in macroeconomic indicators, reflecting persistent structural challenges and policy inefficiencies.

Recommendation

Strengthen fiscal discipline and institutional reforms; prioritize investment in productivity-enhancing sectors while ensuring social protection mechanisms remain intact.

"You can't manage what you can't measure." – Peter Drucker

4 No GST on key Agri inputs, but farmers want more

Impact

Partial tax relief signals recognition of agriculture's importance, yet reveals persistent gaps in addressing sector-wide productivity and pricing concerns.

Recommendation

Develop a comprehensive Agri-policy package that includes access to credit, modern inputs, and stable pricing mechanisms to empower farmers sustainably.

"The ultimate goal of farming is not the growing of crops, but the cultivation and perfection of human beings." – Masanobu Fukuoka

7 Air India flight faces 'worst disaster in a decade'

Impact

Highlights vulnerabilities in international aviation safety and emergency protocols, with implications for regional airspace risk management and passenger security.

Recommendation

Strengthen aviation cooperation across South Asia by establishing shared safety standards, data-sharing mechanisms, and joint emergency preparedness drills.

"Aviation in itself is not inherently dangerous. But to an even greater degree than the sea, it is terribly unforgiving of any carelessness, incapacity or neglect." – Captain A. G. Lamplugh, British Aviation Insurance Group (1930s)

2 Warnings of an existential climate threat

Impact

Signals intensifying climate vulnerabilities for Pakistan, with implications for food security, water availability, and disaster resilience.

Recommendation

Accelerate implementation of climate adaptation strategies; integrate climate risk assessments into national planning and enhance inter-agency coordination for climate resilience.

"We do not inherit the Earth from our ancestors, we borrow it from our children." – Native American Proverb

5 Govt putting squeeze on e-commerce and the 'non-compliant'

Impact

Highlights the government's push for formalization and tax compliance within the rapidly expanding e-commerce sector.

Recommendation

Balance enforcement with incentives by introducing simplified tax regimes, digital literacy programs, and compliance support for small online businesses.

"Regulation should be a bridge, not a barrier." – Anonymous

8 Senate panel opposes arrest powers for tax commissioners

Impact

Raises concerns over potential misuse of authority and erosion of taxpayer confidence, highlighting the need for accountability in tax enforcement.

Recommendation

Promote a rights-based tax regime by ensuring due process, introducing third-party oversight, and focusing on compliance through transparency and taxpayer facilitation.

"Power is not revealed by striking hard or often, but by striking true." – Honoré de Balzac

3 Budget 2025-26: Austerity budget offers 'crumbs' for relief

Impact

Reflects limited fiscal space resulting in constrained public relief measures amid growing socio-economic pressures.

Recommendation

Adopt targeted subsidy mechanisms and expand social safety nets to shield vulnerable populations while pursuing long-term fiscal consolidation.

"A budget is more than just numbers on a page; it is an embodiment of our values." – Barack Obama

6 Pakistan phenomenal partner in counterterrorism: US Centcom chief

Impact

Acknowledges Pakistan's key strategic role in regional counterterrorism efforts, reinforcing its geopolitical significance and security cooperation credentials.

Recommendation

Leverage this international recognition to strengthen bilateral security frameworks, enhance domestic counterterrorism capacity, and foster regional peace initiatives.

"Security is not the absence of danger, but the presence of cooperation." – Kofi Annan

9 UN General Assembly calls for immediate Gaza ceasefire

Impact

Reaffirms global demand for humanitarian restraint and peace in Gaza, placing moral and diplomatic pressure on conflict parties and their allies.

Recommendation

Strengthen Pakistan's role in international diplomacy by supporting ceasefire efforts, amplifying humanitarian advocacy, and fostering dialogue through multilateral platforms.

"Peace cannot be kept by force; it can only be achieved by understanding." – Albert Einstein



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