



# War, Debt and Diplomacy: Pakistan's Economic Challenge

Forty-five percent of Pakistan's population lives below the poverty line. It means that almost half of the inhabitants are living on a maximum of four dollars a day. This level of suffering is not by accident, but it is a man-made situation with institutional incompetence, callousness, inconsistent policies, deliberate policy shifts, poor governance and above all rampant inbuilt corruption. The total debt of Rs. 81 trillion speaks of an unending ordeal for the people. The crises being faced by the nation are man-made and can only be fixed with proper actions by those in power rather than rhetoric or chance. Instead of a steadfast resilient approach, the leadership always resorted to the simple and comfortable approach of borrowing more and more, while the corridors of power were still waiting for \$1.2 billion from the IMF, fuel was added to the fire by the Iran-Israel conflict in February 2026 when the USA and Israel attacked Iran. Although Pakistan is not directly involved in this war, yet being an import-based economy, especially oil where 80 percent of total oil requirements are met through imports, resulting in rising price increases across every sector.

Things are deteriorating fast with every passing day. Debt servicing has reached over 46 percent of the federal budget during FY-2025, amounting to Rs. 8.2 trillion. Debt by itself is not a curse in absolute terms but it is the usage which makes it a pain or blessing. Loans are investments when put into development projects but become an expense when used for budget deficits. Every rupee of borrowings is an expense.

The US-Iran war has further aggravated the chaotic situation. The spillover repercussions drew Pakistan into the effects of the war especially in the import of oil and supply chain. The most affected area is oil and gas (80% imported) due to rising crude oil prices and blockage of water passages, especially for oil tankers, causing severe negative multiplier effects. During March 2026, petrol prices increased from Rs. 266 per litre to Rs. 378 per litre and diesel from Rs. 281 to Rs. 520 per litre, later reduced by Rs. 135 per litre, bringing the price of diesel to Rs. 385 per litre, causing a big increase in prices for every product. On the other hand, Pakistan is faced with hostility at its western border with Afghanistan where security issues are lingering on resulting in open war.

On the diplomatic side, Pakistan has already offered a mediator role on the US-Iran war and has since been acting as a messenger between the US and Iran on a 15-point US plan aimed at hosting talks between them. Pakistan in view of its strategic location and close relations with the Middle East, together with the US, is seen as an opportunity to a peaceful settlement.



**Syed Shamim Ahmed, FCMA**  
Former General Manager Finance  
Karachi Port Trust (KPT)

## Geopolitical Jolts

For long, Pakistan has been facing serious security issues with Afghanistan and was constrained to protect itself through war. Then came the US-Iran war during end February 2026 causing a heavy shock on the already ailing economy through an increase in the prices of oil and gas causing the entire economic activities to suffer. It has to face many economic challenges, due to oil and gas supply disruption, causing petrol price increase and gas shortage. The rise in petrol prices and the blockade of water passages have already caused possible rationing and work from home and short supply of oil may affect FDI inflows and reduce remittances due to low economic activity as various countries are directly or indirectly affected by the war. The closure of Strait of Hormuz has disrupted global oil supplies, causing Brent crude oil to rise to \$120 a barrel, with further increases still expected. This would adversely affect the economy and slow down growth in Pakistan.

## Diplomatic Front

After defeating India in the military confrontation involving air strikes in May 2025, Pakistan proved its superiority over India which was recognized internationally. This played a significant role in improving Pakistan's image. It gained a

great diplomatic dominance over India. Further, the security hazards from Afghanistan compelled Pakistan to initiate an open war against Taliban rule to protect itself from the ongoing terrorist activities in the northern areas of Pakistan when the international community silently supported Pakistan's cause. All this elevated Pakistan's position on the international strategic front which forced the world to look at Pakistan and expect its important role to bring about the US-Iran war to stop. Pakistan rightly offered to serve as mediator and played the role of envoy between the two warring nations, also offering itself as a venue for peace talks by hosting a meeting with the foreign ministers of Saudi Arabia, Turkey and Egypt on March 29, 2026, in Islamabad to ease the tension. Soon after the meeting, Pakistan's foreign minister left for China — all towards achieving a ceasefire and easing the prevailing tension by taking China into confidence. Many countries, including China, Kuwait and Russia have supported Pakistan's mediation efforts as an important diplomatic key player on the global stage. Pakistan finally brought both conflicting parties to the negotiating table on April 11, 2026, in Islamabad, attended by the Vice President of the USA and the Foreign Minister of Iran. The two-day meeting remained inconclusive.

### Economic Challenges

Pakistan is already facing acute economic challenges compounded by rising oil prices and gas shortages, which play an important role in keeping the economy moving. However, the government was never serious about encouraging alternate power supply sources. This is bound to multiply Pakistan's miseries. Pakistan is loaded with unending economic challenges, currently under debt of 74 percent of its GDP, fighting with Afghanistan to protect itself from terrorism and now facing expensive oil and gas shortages due to the Iran-US war, where the monthly oil import bill increased from \$1.2–1.5 billion to \$3.5–4.5 billion, causing a big blow to the fragile economy. During March 2026, petrol and diesel prices were increased by 42 percent and 36 percent respectively, the highest ever, shocking the people. This brought about a spiral of price increases, rising production costs, declining exports, lower foreign remittances and pressure on foreign reserves.

To mitigate the pressure, the government has taken various austerity measures including work from home, reduced working days, a high petrol levy on luxury cars, school closures and online classes, 50% reduction in fuel quota to government departments and officers, 20% cut in government spending, a 10% slash in the government development programme, salary cuts for some high officials and Prime Minister's Austerity Relief Fund established to receive donations.

With an active and acceptable diplomatic move by Pakistan facilitating mediation especially the backdoor efforts and hosting a top-level meeting on April 11, 2026 in Islamabad, it is crucial for economic revival if opportunities are best utilized in the post-war scenario, a rare opening cultivating a gentle global illustration, enhancing FDI, restoring Iran-Pakistan gas pipeline, safe trade water passages and many other development projects especially under the power and IT sectors.

### Remittances Decline

Around 8 million Pakistanis are working in the Middle East, contributing over 53 percent of total remittances of \$38 billion (2025). The Iran-US war has caused a huge negative impact on the Middle East economy reducing the income of this workforce, resulting in a drop of around 10–30 percent in remittances, adversely affecting the foreign earnings of the country. Such remittances account for over 10 percent of GDP. Reduced inflows of dollars together with increased crude oil prices touching \$120 per barrel would cast a heavy blow to the economy as Pakistan's oil needs are mostly met through imports.

### Inflationary Spiral

The world has become a global village, mainly due to technological advancements, where countries share the advantages of each other's natural and technical resources. Pakistan is reaping the benefits from many developed countries and similarly earning from the exports of textiles, food products especially rice, IT services and cement, and through imports of fuel oil, edible oil, vehicles and electronic equipment. Countries with strong and smart leadership are earning significantly through international trade by exporting more and importing less, converting foreign trade in their favour.

The country's heavily reliant economy on imports has suffered serious economic shocks due to the Iran-US war where oil prices have already been increased considerably, a big jump of 42 percent in petrol and 36 percent in diesel brought a wave of price hikes while most traders hastily took the opportunity to increase prices of almost every product disproportionately causing a ripple effect.

### Public Sector Resilience

The word 'resilience' is widely discussed but never put into practice in this country, especially in the public sector where the institutions are mostly involved in conducting reforms but can hardly achieve desired results. FBR has been under



reform for the last 15 years yet cannot collect enough revenues to meet expenses, despite numerous claimed achievements. Similarly, public sector development projects have always remained far behind schedule and the delays in completion have caused huge cost overruns. Bhasha Dam and Karachi Bulk Water Supply K-4 projects are just to cite terribly delayed projects bringing about colossal losses to the public exchequer besides huge collateral damages.

State-owned enterprises are yet another example of poor financial performance with massive continued losses over a long period where two hundred such units made an aggregate loss of Rs. 830 billion (2025).

All this speaks vividly about the apparent indifferent disposition of those at the helm of affairs where resilience and adaptation were never objectives. The negative environment caused by the current war would further aggravate the economic performance of the public sector if diplomatic accomplishments are not translated into fiscal discipline and judicious use of public funds.

### Only Actions Matter

The war has to end. If not today, then tomorrow definitely. It is bound to happen. What is Pakistan's course of action? What is the plan? Is Pakistan going to work for loans only? No doubt Pakistan's diplomacy has been successful and appreciated around the world. How is Pakistan going to capitalize on this favourable situation beyond seeking aid and loans, as Pakistan already has more than enough loans? The situation demands quick actions.

It is time for actions and making bold decisions by setting priorities right with a proactive approach and fixing the roof while the sun is shining. With high poverty level, the top priority must be food security and effective and sustainable water management for improving the agriculture sector,

cooling the environment, drinking water, industrial use and flood control.

A campaign against nepotism must be initiated at the government level to save public institutions from disasters, avoid colossal financial losses and curb corruption.

Oil and power sectors were mostly responsible for the present crises. Therefore, maximum use of alternate sources of energy is the only answer to achieving early resilience and the path to development.

Time is money, and most Public Sector Projects are responsible for delays in completion, resulting in huge cost overruns. Delays in decision-making not only cause financial burden but also breed corruption.

The government must change its role from regulator to facilitator.

“ Let uncertainty  
be turned  
into certainty! ”

**About the Author: Syed Shamim Ahmed** is a senior Chartered Management Accountant having Fellow membership of ICMA. He retired as General Manager Finance from the Karachi Port Trust (KPT) where he served for around 22 years in different positions. He was also a member of the Karachi Dock Labour Board for 7 years. After doing his MBA from IBA Karachi, he started his initial career with Citibank and then served in Awami Autos (now Pak Suzuki).