Lens Asia

18 October, 2025

Debt, Disaster, and Deception: The Anatomy of Pakistan's Poverty Surge

Collected picture

Pakistan is facing a deepening poverty crisis that reflects the convergence of economic mismanagement, structural inefficiencies, and environmental devastation. Between fiscal years 2020 and 2025, the country has experienced severe volatility in inflation, GDP per capita growth, and sectoral performance, all of which have contributed to a sharp rise in poverty. The poverty rate, which had been declining for nearly two decades, has now surged to 39%, pushing an estimated 12.5 million additional people below the poverty line. This reversal is not merely a statistical anomaly, it is the result of compounding pressures that have eroded household resilience and undermined the country's social safety nets.

Although food inflation fell substantially in FY24, offering a brief reprieve to the poorest households who spend nearly half their income on food, this relief was quickly offset by persistently high energy costs and elevated core inflation, particularly in rural areas. These pressures continued to squeeze vulnerable families, many of whom were already struggling to meet basic needs. Human capital development has also suffered, with over one-third of children out of school in 2024–25. The exclusion is most severe among female students and the youngest age cohorts, threatening long-term productivity and perpetuating cycles of poverty.

One of the most crippling contributors to Pakistan's economic distress is the circular debt crisis in the power sector, which has ballooned to Rs 2.4 trillion as of September 2025, equivalent to 2.1% of the country's GDP. This debt represents unpaid dues to electricity companies for power that has already been consumed but not compensated, creating a vicious cycle that stifles growth and drains public resources. To grasp the magnitude, Rs 2.4 trillion exceeds the combined annual budgets of Punjab and Sindh provinces and surpasses Pakistan's federal development budget for three consecutive years. At the heart of this crisis are Independent Power Producers (IPPs), private entities operating under contracts signed since the 1990s that guarantee profits in U.S. dollars while shielding them from business risks. These contracts include "capacity charges," which require payments for simply keeping power plants operational, and "take-or-pay" clauses that obligate the government to purchase electricity regardless of actual demand.

A government inquiry revealed that IPPs earned Rs 1,000 billion in excess profits through inflated costs and guaranteed payments. Yet, instead of recovering these funds, the government chose to pass the burden onto citizens. Banks now deduct repayments directly from consumer electricity bills before any money reaches the national treasury, ensuring zero default risk for IPPs while converting uncertain government liabilities into guaranteed consumer obligations. The Central Power Purchasing Agency, previously hamstrung by cash flow issues, now receives automatic funding through surcharges, guaranteeing IPPs their returns regardless of system efficiency. For ordinary citizens, this translates into a punishing reality. A shopkeeper earning Rs 40,000 a month must now pay Rs 1,130 extra, nearly three days of labor, just to service debts born from policy failures.

Fiscal consolidation measures have further exacerbated poverty. Indirect tax hikes have disproportionately impacted the poor, while real-term reductions in the Public Sector Development Programme (PSDP) have curtailed infrastructure spending and limited labor income opportunities. Although the Benazir Income Support Programme (BISP) saw a 50% increase in benefit levels between FY23 and FY24, this expansion failed to keep pace with the staggering inflation rate of 52.6%. As a result, the real value of support declined, diminishing its effectiveness in shielding vulnerable households from economic shocks.

Natural disasters have compounded these economic challenges, particularly in flood-affected districts across Balochistan, Khyber Pakhtunkhwa, and Sindh. Over 11.8 million people are projected to face acute food insecurity during the winter lean period, with 2.2 million classified in Emergency (IPC Phase 4). These regions continue to grapple with reduced crop and livestock production due to heavy monsoon rains that submerged farmland and triggered disease outbreaks among animals. Livestock, a vital source of income and nutrition, has been decimated by fodder shortages and illness. Meanwhile, food price inflation, driven by currency depreciation, high production costs, and fuel price surges, has severely limited purchasing power, pushing already vulnerable communities into deeper

distress.

Amid this backdrop of economic fragility, Pakistan's currency appears deceptively stable. As of September 2025, the USD/PKR exchange rate stands at 282.01, having strengthened slightly over the past month while declining 1.94% over the past year. This apparent stability, however, is the result of one of the most aggressive currency manipulation campaigns in emerging market history. The State Bank of Pakistan has purchased $9 billion from the interbank market over the past nine months to artificially boost reserves and create demand for the rupee, despite market fundamentals suggesting otherwise. This intervention has kept exchange rate volatility within narrow bands, fostering a false sense of confidence among observers while eroding the foundations of monetary stability.

Such tactics mirror failed strategies employed by central banks in Thailand in 1997, Argentina in 2001, and Turkey in 2018, each of which ended in currency collapse. The historical precedent is clear: massive intervention against market fundamentals inevitably fails, with only the timing and severity of the adjustment in question. Pakistan's foreign exchange market is particularly vulnerable due to its shallow structure, with daily turnover of just $200–300 million. Central bank interventions now account for 30–40% of daily volume, distorting price discovery and making stability exponentially more expensive to maintain as pressures mount.

Together, these factors paint a grim picture of Pakistan's economic trajectory. The rise in poverty is not the result of isolated shocks but the cumulative effect of policy missteps, structural inefficiencies, and environmental disasters. From the crushing burden of circular debt and regressive taxation to artificial currency support and inadequate social protection, the country's most vulnerable populations are being forced to bear the cost of systemic failures. Without urgent reforms, Pakistan risks entrenching poverty for millions more, undermining its development goals and destabilizing its social fabric. The illusion of stability cannot mask the reality of growing deprivation, and the time for corrective action is rapidly running out.

LENS ASIA