

IN A NUTSHELL

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Quarterly Overview on Political Economy of Agriculture

Of Debt and Destitution

Pakistan's current food and agrarian crisis cannot be understood separately from the country's deepening debt dependence and the economic policy reforms being carried out under the IMF structural adjustment program. The most important developments in the first half of the year reveal a consistent pattern: Pakistan's fiscal crisis is being managed through huge amounts of borrowing, fiscal consolidation and reforms based on privatization, deregulation and trade liberalization. With a dysfunctional economy where deficits are overcome through more and more loans, the burden of the blooming public debt is borne by the peasantry, the working and salaried class. The directives from the international financial institutions (IFIs) is for the state to step back, reduce its role in commodity markets, cut down subsidies to the agriculture and public sector institutions, creating greater space for private capital and corporate actors. The consequences are visible in the wheat procurement crisis, rising food insecurity, declining cotton production, water shortages and the growing dependence on imported food and agricultural inputs.

The scale of the debt problem is openly visible. According to the Economic Survey, June 2026, by March this year, Pakistan's total public debt had reached PKR83.285 trillion, an increase of PKR2,767 trillion in the first nine months of FY2025–26. External public debt stood at \$92.2 billion, while contingent liabilities reached PKR4,322 trillion. By April 2026, the central government debt had reached a record of PKR81.93 trillion, an increase of PKR4,042 trillion or during the first ten months of the fiscal year. Domestic debt alone increased by PKR3,617 trillion, while external debt reached PKR23,841 trillion. These figures expose a fundamental contradiction in Pakistan's economic management. The government is pursuing fiscal consolidation in the name of reducing debt pressures, yet the state continues to borrow heavily to finance its existing obligations. The result is a debt-management cycle in which new borrowing is required to sustain the existing financial structure, while expenditure on productive sectors and social development comes under increasing pressure.

In May 2026, the IMF Executive Board completed the third review of Pakistan's \$7 billion Extended Fund Facility (EFF) and the second review of the Resilience and Sustainability Facility (RSF). Based on the reviews the agency released approximately \$1.1 billion under the EFF and \$220 million under the RSF, bringing total disbursements under the two programs to approximately \$4.8 billion. Each tranche is tied to policy commitments that reshape the country's economic policy and institutions and the distribution of resources.

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"The state is stepping back from commodity markets, reducing agricultural support and creating greater space for private capital and corporate actors."

"The consequences of debt-driven economic reforms are visible in the wheat procurement crisis, rising food insecurity, declining cotton production, water shortages and growing dependence on imported food and agricultural inputs."

"Fiscal consolidation may reduce immediate budget pressures, but continued borrowing and cuts to productive and social sectors deepen the structural crisis facing Pakistan's economy."



In a Nutshell is based on our monthly publication Haal Ahwal that can be found on our website https://rootsforequity.org/?%20page_id=593



Pakistan and the IMF have agreed to maintain a tight monetary policy and reaffirmed a 2% per primary budget surplus target for FY2026–27. The IMF has emphasized fiscal consolidation that is reducing budget deficit and slowing down the amassing of public debt. As always, the remedies prescribed for increasing government revenue was to broaden the tax base, improving tax administration and increasing spending efficiency. In addition, the IMF was demanding an increase in the standard GST rate from 18 to 19%, to collect an additional revenue of PKR250–300 billion. The IMF itself has reported that 11 new structural benchmarks have been agreed upon that are based on 55 conditionalities, which apart from expanding the tax base, mandate that energy tariffs to remain at cost-recovery levels, including semi-annual gas and annual electricity tariff adjustments.

Pakistan's circular debt stock stood at approximately PKR1.837 trillion in February 2026, and energy tariffs at cost-recovery levels means continued expensive energy for industry and agriculture which in essence means lower productivity and less revenue for the government to pay off its humongous debt.

On Conditionalities and Consolidations...

The IMF conditionalities have diabolical impact on the lowest class rung in society, which is also the majority in the country. At grassroots level, a higher GST, electricity tariff or gas price becomes an increase in household expenditure and agricultural production costs. For a small farmer “fiscal consolidation” means exorbitant prices for fertilizers, diesel, electricity, seed and pesticides; an

‘improvement in the primary balance’ is nothing but further erosion in his measly earnings. Further, the back-breaking harvest that he reaps is sold at harsh market prices that favor the profit-oriented commercial enterprises; for him this is a race to the bottom, where he cannot even feed his family two meals a day. Under the IMF conditionalities the state can no longer provide support prices or regulate the market for the benefit of the small producers nor the urban poor or rural communities. Similarly, an agricultural worker or low-income household experiences indirect taxation and energy-price adjustments through higher food, transport and household costs. Thus, the IMF's fiscal framework has a distinctly class dimension.

The dependence on external financing is itself striking. Foreign economic assistance surged to \$12.1 billion during July–May 2025–26, a 75.7% increase over the previous year. Including approximately \$2 billion in IMF disbursements, cumulative foreign inflows exceeded \$14.2 billion during the first eleven months. Of the \$12.1 billion reported by the Economic Affairs Division, approximately \$7.287 billion consisted of loans for budget support, while grants amounted to only \$136 million. This is a crucial distinction. Development assistance as grants is nothing but a trickle, while an increasing proportion of external inflows consists of borrowing used to support the budget and balance of payments. The economy is therefore being sustained through continuous external and domestic debt accumulation.

The IMF's influence is particularly visible in agricultural commodity policy. Sindh missed its wheat procurement target by

more than 90%, procuring only around 80,000 tons against a one million ton target. Wheat prices rose by 25% and flour reached PKR135–140/kilogram; these procurement failures are directly connected with the IMF policy. Sindh had stayed out of the market the previous year under IMF loan conditionalities and then initiated procurement too late in the day. It is worth noticing that the province had produced an estimated 4.8 million tons of wheat, which was higher than one million tons from the last year's output. Farmers produced a substantial crop, but the public procurement mechanism failed to purchase it in a timely manner.

The implications for farmers are profound. Small and landless farmers cannot necessarily store wheat for months because they have immediate financial obligations, and loans must be repaid, labor must be paid, the next crop must be financed and household expenses must be met. Traders with storage capacity are in a much stronger position to wait for prices to rise. Thus, the withdrawal of the state from procurement does not create a neutral “free market”; it creates a market in which different classes possess radically different capacities to withstand price fluctuations.

Sindh's own budget provides an important contradiction to this policy direction; Sindh government allocated PKR20 billion for wheat in FY2026–27, and this intervention was undertaken despite an IMF precondition under the National Fiscal Pact to phase out government involvement in commodity-market operations. Provincial governments may be pressured to withdraw from procurement, but once prices rise and food insecurity

PAKISTAN AMONG TOP 10 COUNTRIES FACING ACUTE FOOD CRISIS

- Multi-agency report says over 9m Pakistanis face 'crisis' conditions; another 1.7 million in the more severe 'emergency' category
- Notes devastating monsoon rains, severe flooding wiped out crucial cropland, livelihoods



becomes politically dangerous, they are forced to intervene.

The same structural tension is visible in the proposed restructuring of PASSCO. As was reported in previous volumes of 'In a Nutshell', Wheat Stock Management Company is to be established to replace PASSCO and absorb more than PKR527 billion in accumulated debt. PASSCO has clearly suffered from serious institutional inefficiencies and financial problems. However, the critical question is whether restructuring will strengthen public food security or simply reduce the state's role in strategic grain management. If public procurement capacity is weakened without an effective alternative, private traders will gain greater influence over grain stocks and prices. In a food-insecure country, strategic reserves are not merely a commercial issue; they are a matter of national food security and sovereignty.

On Corporate Control and Crises...

It should be kept in mind that around 11 million people in the country faced acute food insecurity in 2025. Pakistan's food import bill has crossed \$7 billion; there are millions of small farmers producing food, yet the pricing structure is such that millions of people cannot afford sufficient food. Inadequate, poorly thought-out policies leave the country food insecure, allowing traders to reap profits through food imports at the expense of its scarce foreign exchange reserves.

The cotton crisis is also a reflection of the chaotic food and agriculture policy. Domestic cotton production had fallen to a four-decade low and Pakistan could require imports of 7–7.5 million bales cost-

ing \$1–1.2 billion. Punjab had cultivated only 2.614 million acres against a target of 3.2 million acres. At grassroots level, a cotton farmer's decision to shift away from cotton is understandable as cotton production is based on high input costs, uncertain prices, irrigation water system malfunction and climate risks. Yet Pakistan's textile industry requires cotton and the country subsequently spends scarce foreign exchange importing it. The system therefore creates a situation in which farmers are unable to secure adequate returns from producing a strategic crop, while the state later spends foreign exchange compensating for the resulting production deficit. One has to wonder which class is benefiting? Is it the farmers or the traders?

The GMO and seed policy represents another important dimension of this transformation. There is a policy move toward liberalizing Pakistan's genetically modified organisms (GMOs) regulatory regime. It has been reported that license for the commercialization and cultivation of genetically modified maize were likely to be renewed. Such policy directives have been fought against for decades, and could be a further debacle for the agriculture sector in the country. Farmers will be forced to use GMO seed, which will result in not only in greater corporate control of biotechnology and seed companies, but further increase the cost of production, as commercial seeds are closely tied to the use of a range of associated input packages. It is entirely possible that there could be a domino effect if Pakistan starts producing GM crops as many countries including those in Europe do not allow export of GM crops and products.

This is where seed sovereignty becomes directly challenged by neoliberalism; a much desired goal of all institutions pushing for a free market system; no need to emphasize that these institutions support imperialist policies that give corporations open access to our country's natural resources including land, water, forests, genetic material and minerals. As public agricultural research and extension remain under financial pressure, private corporations are taking up the spaces of course promoting technologies that increase their profit margins. A small farmer with limited access to affordable credit is forced to purchase these seeds which only further bloat their debt.

There is an acute water crisis facing the country, especially Sindh, where overall water deficit had reached 39%. For peasants, water scarcity translates directly to lost crops, higher pumping costs and greater debt. A wealthy farmer may be able to install a tube well (which is also hazardous to the overall ecology) or absorb the loss of a failed crop but for a small farmer or a sharecropper this only pushes him further into an abyss of debt from which he cannot extract himself. The results are now well known to the small and landless farmers and agriculture workers in the country as they suffer food inflation and grinding poverty.

The water crisis is particularly devastating for the Indus Delta where freshwater shortages have accelerated seawater intrusion resulting in nearly 85% groundwater in the affected areas to become saline, threatening agriculture, livestock and drinking water. No doubt, the final impact is loss of livelihood, displacement and further immiseration of the suffering communities.



It is indeed deplorable that while there is such stark fresh water scarcities facing rural household in general, and in Indus Delta in particular, food and agriculture policy is directed toward agro-chemical industrial farming which is entirely dependent on high volume water availability.

What emerges from these developments is a coherent pattern of debt and devastation, especially for the peasantry. At the most, IMF disbursements provide short-term financial breathing space; but the associated conditionalities ensure final control of the agriculture sector and even the industrial sector is handed over to the international mega-corporations. Public procurement and subsidies are being reduced or restructured, taxation and energy costs are increasing, the few state enterprises that had escaped from being privatized will be placed on the altar of imperialism soon. At the same time, farmers are facing climate shocks, water shortages, declining crop profitability and rising input costs.

This is why the debt and IMF conditionalities must be placed at the center of any serious analysis of Pakistan's food and agriculture system. So-called agricultural modernization cannot be considered either successful or sustainable if farmers become more indebted, more dependent on purchased inputs and less able to control their own land, seeds, water, markets and in essence food sovereignty.

Pakistan therefore faces a fundamental choice. It can continue along a trajectory of debt-led stabilization, fiscal austerity, market liberalization, corporate agricultural expansion and increasing import dependence, or it can begin constructing a food system based on food sovereignty, farmers' control and ecological sustaina-

bility. Such an alternative would require strengthening public agricultural research and extension, protecting strategic food procurement, supporting farmer cooperatives and community storage, protecting farmers' seed rights, investing in agroecology and water conservation, and ensuring that climate and economic policies do not make small producers pay for a crises they did not create.

The central issue is ultimately is one of power. Pakistan's farmers produce the country's food, yet they have negligible control over prices, seeds, water, credit, storage and markets. The country's workers and farmers generate the wealth from which the country's debt is serviced, yet they face declining wages, high cost of living and overall a poor quality of life. Meanwhile, financial institutions, corporations and large market actors possess increasingly greater influence over economic policy and agricultural resources. Unless this imbalance is addressed, Pakistan may achieve temporary macroeconomic stability while deepening the crisis of food security, livelihood, exacerbating political and economic crisis.

The real measure of economic recovery should therefore not be limited to foreign-exchange reserves, IMF reviews, primary-surplus targets or GDP growth. Rather our policies should focus on secure decent livelihood for the peasantry and the working class, safe, adequate and nutritious food for all, while being able to mitigate the impacts of climate crisis that is a result of industrial development of advanced rich countries mainly in the North. Without these policy goals, financial stabilization risks becoming another name for transferring the economic and ecological costs of crisis from the powerful to the poor.

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