



Pre-Budget Dialogue 2025: Rethinking Economic Policy for a Just

Energy Transition

As Pakistan prepares its 2025-26 budget, its energy sector is coming under the spotlight like never before. Energy prices, an unsustainable circular debt, the untenable cost of maintaining an inefficient and loss prone power transmission and distribution system and the heavy financial burden of importing oil, gas and coal for energy production are only a few of the issues that budget makers will be grappling with. Addressing the economic and fiscal implications and ramifications of these issues should, undoubtedly, be one of the top priorities of the government and its development partners including the International Monetary Fund (IMF) and the World Bank.

To address this energy-economy nexus, the government has admittedly taken several steps over the last few months. It has reduced energy prices to spur demand for grid electricity; it has renegotiated agreements with independent power producers (IPPs) to decrease capacity payments being made to them so that the circular debt's rise can be curtailed; and it has started a process of privatizing electricity distribution companies (DISCOs) to plug their technical, administrative and financial loopholes. While the wisdom and the benefits of these initiatives will only become apparent in the coming months, there are reports that the government might also levy a carbon tax in the coming budget to fulfil its commitments under its existing loan agreement with IMF. This move will certainly have far-reaching impacts across every part of the energy sector, specially raising energy prices for all sets of consumers. Similarly, the government's move to obtain another loan from the IMF under its Resilience and Sustainability Facility (RSF) will also have serious financial implications for the energy sector as this new will seek to introduce new belt tightening measures and financial cuts in public sector development spending.

This complex situation requires that the budget-makers have informed inputs from a wide variety of stakeholders, particularly from the experts of energy and economy, parliamentarians and political leaders, before they finalize their fiscal and financial recommendations for 2025-26. This input should enable them to make decisions that are based on evidence, informed by a whole of the economy approach, and are very clearly guided by public interest.

The Sustainable Development Policy Institute (SDPI) and the Policy Research Institute for Equitable Development (PRIED) – both independent think tanks based in Islamabad -- have, therefore, joined hands to organize a one-day dialogue that will take up various facets of the energy-economy nexus, with a special focus on Pakistan's much needed transition to renewable energy with all its fiscal, economic, social and environmental impacts and consequences. The participants of the dialogue will deliberate upon how a just energy transition will not just address the energy sector's economic and financial ailments, it can also help the government fight the ever-escalating climate crisis that is hurting Pakistan's economic, social and environmental sectors really badly. They will explore measures needed for a just energy transition and recommend steps required to resolve energy-economy nexus that can have a beneficial and positive impact on the 2025-26 budgetary measures.