

Economic Crisis in Pakistan and IMF bailout

Thesis statement: Pakistan's economy is beset with systematic problems which undergoes multiple cycles of boom and bust, and fails to address the uplift and development of its 220 million population.

1 Introduction

2 IMF deal objectives: Stabilization of macro-economic issues and Forex reserves

3 Issues/causes of economic crisis in Pakistan

i) Political instability and poor governance

ii) Failure at the end of policy makers in policy formation at ground realities and revenue generation

iii) Massive devaluation of Rupee against dollar: drying up forex reserves

iv) Hike in oil prices due to Russia-Ukraine war

v) Narrow tax base and failure in FBR reforms

vi) Narrow industrial base and huge cost of doing business

vii) High price imports and heavy reliance on agriculture for exports

4 Consequences of economic chaos

i) Trust deficit between investors and due to political instability leads to low FDI

ii) Balance of payment crisis and fiscal deficit

iii) Deterioration of economic profile of country: a hurdle in way of foreign loans

iv) Low tax-to-GDP ratio

v) Rising poverty and unemployment causing many social ills

5 Remedies for crippled economy: A way forward

i) Enhance tax base to generate revenue

ii) Enlarge industrial base to decrease gap between imports and exports bills

iii) Overcome energy crisis by exploiting renewable resources

iv) Bringing political stability is foremost important to ~~secure~~ win investor's confidence

v) Serious negotiations for IMF deal

vi) Investment in IT sector, and human development and an environment of entrepreneurship

6 Conclusion

Essay

Pakistan's economy is beset with systematic problems which undergoes multiple cycles of boom and bust and failed to address the uplift and development of its 220 million population. Pakistan's economy is badly crippled facing multiple challenges on almost every front. Things were never rosy for Pakistan as it inherited numerous ^{economic} ills at the time of independence. The 76 years history of the country saw intense political instability and transitions between democracy and dictatorship. The tug of power was never let our honourable politicians to think about economic development. After 18th amendment in constitution, country saw democracy to some extent. The current ongoing political instability between leading political parties; PTI and coalition government, internal division between strongest justice delivery institute; Supreme Court, massive attempts to undermine each other's integrity for political motives; Supreme Court and PDM government has extreme negative repercussions on economy. The country is facing devaluation of money against dollar, chying up foreign exchange reserves, skyrocketing inflation rate, mounting cost

of living, poverty and unemployment, low foreign direct investment, least Tax-to-GDP ratio and countless others. All these issues have effects on all major and minor sectors of society. Although it is not too early but not too late to overcome the problems. Political elites and government have ability to cope up with the crisis to find realistic solutions. They can play their role by bringing political stability in country, and effective foreign policy formation, enlarging tax and industrial base, investing in IT sectors, promoting culture of entrepreneurship, exploiting renewable energy sources and negotiating with IMF to finalize a deal. These crisis can be rooted up by understanding ground realities and root causes of the economic crisis in Pakistan. (270)

The ongoing political polarization, constitutional crisis, disagreement among state's most credible institutions has hampered the countries ability to overcome economic crisis. All newspapers and media is evident that none of the politician is interested in addressing ways to uplift and development of its country's population. This cause increase in

corruption which is mother of all ills. Pakistan stands at 140th position out of 180 countries on Transparency International, a corruption index. It was at 117th position in 2018. Other than corruption, political instability cause low FDI due to loss of investor's confidence. Investors do not feel safe in investing in a chaos-fall country.

The issue is not only confined to the political parties. Pakistan is witness of policy failure due to indifference of policy makers with ground realities. There are numerous policies formed till now but due to their unrealistic nature they ~~stay~~ remains limited to paper. For example government announced one national curriculum to reduce inequalities and achieve ~~100%~~ ^{better} literacy rate within ~~with~~ the year. Although, the thought behind policy is appreciable and policy itself is good but to implement it within year is unrealistic. There are numerous other examples of same nature where government wastes resources and then takes U-turn to form new policy rather than fixing and finding weaknesses of old one.

The recent time seen manive devaluation of

Rupee, perhaps at greatest rate than ever. Pakistani money saw a low against dollar at 288 rupees.

This devaluation dries up foreign ~~each~~ exchange reserves and increase in imports bills. Currently Pakistan's forex reserves reached to \$4.3 billion, as ^{were} \$22.81 billion in Dec 2021, according to data by State bank of Pakistan; on other hand money devalued from 162 to 287. Pakistan's forex reserves are not enough to meet two to three weeks of import needs, because import bills are showing another traumatic fact.

Global hike in oil and gas prices multiplied import bills of Pakistan as mostly imported commodities ^{is} ~~are~~ petroleum, ~~and~~ gas and related products. Russia-Ukraine war and Western ^{countries} sanctions on Russian oil have put pressure on middle East with increase in demand. Middle East countries solely are not able to bear pressure which caused shortage of oil and gas leading to disrupted ~~in~~ demand and supply ^{chain}. Pakistan depends on other foreign energy to meet it over 60% of energy demand. This price hike have gifted Pakistan with skyrocketing inflation rate at 27.1%. Short term

inflation rate touched high of 46% during last month, still at 44%. Pakistan is seriously plagued with low income and high expenditures.

In Pakistan, a country with over 220 million population and 5th largest in world have a ~~tax~~ very narrow tax base of only \$1.2 million firm in FY2017-18 and around 2.8 million currently. Tax exemptions on various basis and self-accountability mechanism have ~~also~~ shrunk its tax base. People do not file their returns due to ~~com~~ cumbersome procedures and red tapism. ~~FBR~~ Federal Bureau of Revenue is responsible for tax reforms and collection which itself is subjected to multiple issues. FBR's failure to tap new tax payers and enlarging its base is chief ill among others. Income tax is not still developed as planned which could prove to be better the sales tax, ~~and~~ a pressure on poor consumer. Another flaw is shrunk industrial base of Pakistan. Pakistan exports agricultural products in ^{either} raw or processed form. This is another reason for huge gap between exports and imports bills. Pakistan having ~~too~~ narrow industrial base do not manufacture products which could earn good revenue in international market. The existing units produce

low quality products which do not meet international standards and competition. Pakistan's trade deficit in Dec 2022 stood at \$27.8 bn. due to while few projections showed exports at \$31 billion and imports at \$80 billion, a deficit of \$50 billion.

Trade deficit address by government by banning expensive physical imports of goods to control import bills which is ultimately not the solution, rather impacted the country in one or many ways.

The calculation of impacts of economic crisis is not difficult in current scenario where everyone sense and feel the heat of the problem. A country have domestic and foreign sources of revenue. Among them foreign direct investment has a foreign source holds key importance. Unfortunately, Pakistan has lost its confidence as investor do not feel safe in investing. Many countries like Japan and India offered incentives to their local investors for pulling off investments from Pakistan and investing in their own country. It have effects development as well. FDI in ^{Jan} 2023 increase a bit ~~from~~ ^{accessibly to trading economies} and stood at \$2.23 billion which is very low.

One more challenging impact of economic crisis

is balance of payment crisis and fiscal deficit. Pakistan's balance of payment is due to high imports and low exports; trade imbalance. Pakistan's current account stood at \$-12.21 bn in Dec 2022 according to trading economics. Pakistan's external debt reached \$88.8 bn and internal debt \$110 bn according to Dawn data. These figures cause an alarming threat regarding devastating state of country's economy.

Economic deterioration does not stay ^{restricted to} ~~abroad~~ domestic level but also worsen the country's profile in international sphere. An evidence of this fact is country's decreased ^{credit} rating on Moody and Fitch International, CCC+ with stable outlook. Another example of it is delayed IMF deal which ~~we~~ will have another plethora of problems. The bad image of country have manifold impact: decrease in investment, denial of loans from bilateral and multilateral institutes and much more on domestic level.

Pakistan have low tax-to-GDP ratio, another repercussions of economic crisis. Tax collection is around 11% of GDP. Tax-to-GDP ratio

was 9.2% in 2022 with 2% people paying tax. Although, GDP growth is also low and further expected to tilt ^{to} descently. GDP growth was 2% in 2022 and expected to grow by 0.4% according to world bank, while ADB projected 0.6% growth rate. It's GDP growth rate and tax-to-GDP is lowest in region having equal resources and men power. ~~with~~ The announcement of State bank's new policy rates of 2% as compared to other states, US, ~~having~~ China, India, Russia, UK, EU, Japan having 4%, 3.65%, 6.25, 7.2%, 2%, 2%, -1% respectively, is yet to have its impacts.

The common man may not be aware of these technical problem but ~~he~~ everyone is witness of rising poverty and unemployment. Poverty rate in Pakistan ~~reached~~ has increased by 37% and projected to reach 42.5% in 2023 according to BNU-Model. Pakistan is ranked at 92nd out of 116 countries on International poverty index. Unemployment rate reached 6.5% by Dec 2022. Poverty and unemployment cause ~~see~~ many other social ills. It has created social

unrest among people making Pakistan 121st least
happiest country on Global happiness index. Pakistan
ranks at 147 out of 163 at global peace index.

Due to economic crisis illiteracy is high with
59.13% literacy rate according to ~~WB~~ WB. These
are coupled social, political and other repercussions
of economic crisis which have hampered the
ability of country to grow. Due care, intention
and will is required to drag the country
out of this mud. For this purpose, few remedies
are highly recommended.

FBR, a pillar among other state institutions should
introduce concrete and realist reforms. It is to
should actively ~~have~~ tap new sources of revenue
to increase domestic income of country. It will
also help in burden sharing of 21% tax payers
and bring provincial harmony. To enlarging the
tax base is dire need of the hour. Super income
tax and tax on capital assets is a step in right direction.

Along with FBR tax base, widening industrial base
holds equal importance. Pakistan should focus on
qualitative and export-oriented products instead
of wholly relying on agricultural product which
are unable to yield high profit. It should focus on
providing incentives to investors, relaxing reg

business registration procedures to ease the process. Pakistan ranked at 108/190 at ease of doing business index according to World Bank. It should improve quality to meet market standards.

Industrialization is highly dependend on energy.

With mounting energy crisis it is welen to establish industrial units which will ultimately shut down. Pakistan should exploit its own renewable energy resources which are cheap, available, and climate friendly. They will reduce energy dependence and cost of production leading to decrease in items and low inflation. No doubt it is itself an uneasy and costly procedure but with good policy plan and time it will give us ripe fruit.

No remedy will work without political stability.

Almost every sector require ^{effective} policy formation, reasonable budget allocation, accountability and transparency. So how all these can be assured with a fragile political system. Government should remind themselves their responsibility and should act accordingly.

Pakistan is struggling to secure \$1.2 billion from IMF to help country in these crisis. Apart

from money, IMF deal would improve the image and credit rating of country conducive for foreign investment and loans. At this stage, Pakistan needs diplomatic efforts to bring IMF on page.

It is the era of Information technology, despite the fact, Pakistan is lagging behind in Technological sphere. Pakistan should take serious measures and investment in ICT, human development sectors. The promotion of entrepreneurship culture is need of hours in such high rates of unemployment.

Although the task is difficult but not impossible to drag the country out of the crisis. Pakistan is having sincere leadership and industrious people who are well aware of the ongoing crisis and trying to tackle situation with their high diplomatic and policy making skills.

All these economic crisis are interlinked with other sectors of life. To overcome one crisis leads to success in other. Pakistan is a resilient country witnessed flexibility and ability to survive in much more difficult situation. Same the case will be now.

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