

Q1- How Pakistan is caught in a vicious cycle of loan? What are its main reasons and implications?

Ans - Introduction

"Pakistan is a country of 'concern'."
(USHR, 2023)

Pakistan has been facing several crisis from the last few decades. In fact, Pakistan is caught in a vicious cycle of loan. Several reasons such as; budget deficit, balance of payment crisis, and heavy loan for developmental projects are responsible for taking loans. In a result, Pakistan faces unbearable impacts. Therefore, Pakistan needs to frame

• certain affective policies
to get rid of
vicious cycle of loan.

2. Pakistan is revolving in a vicious cycle of loan

Pakistan is
caught in a vicious
cycle of loan in
a following manner:

FY	loan
2008	\$ 6 bn
2013	\$ 12 bn
2018	\$ 30 bn
2022	\$ 49 bn
Jan 2023	\$ 62 bn

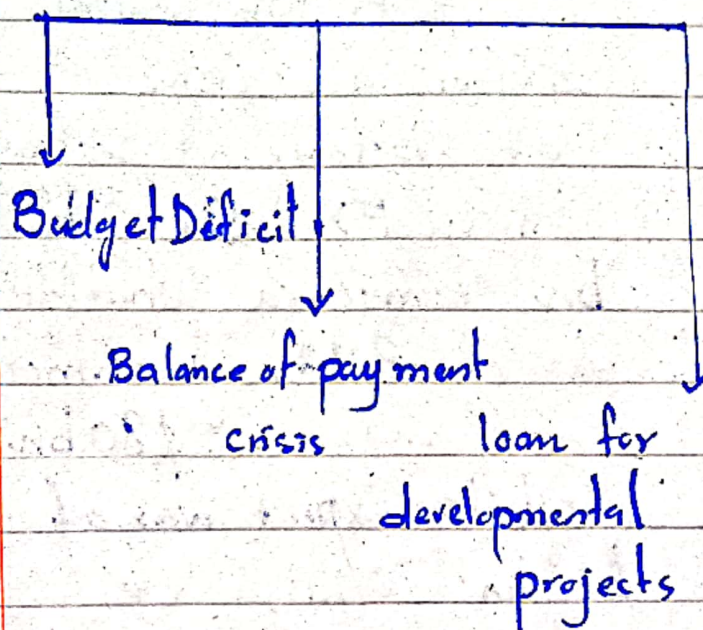
• (State Bank of Pakistan)

Thus, above table
shows the depth
of trap in a
vicious cycle of loan.

3-

Main reasons behind acquiring loan in Pakistan

Following are main reasons behind acquiring a loan:



a) Budget deficit ~ cause of
loan

Main reason behind a loan is budget deficit. In FY 2022, the government had \$ ~~8.4~~^{4.8} bn, and expenditure was \$ 8.4 bn.

The exp. short fall
remained \$4.4bn.
Hence, this shortfall
became a reason
to acquire loan.

b) Balance of payment
crisis

Pakistan always
suffer an issue
of balance of payment
crisis. FY. 2022; \$68
bn remained shortfall.
As in 2022, government
did import of \$80bn,
while export was of
\$36bn. Thus, it
became a cause to
acquire loan.

c) Loan for developmental
projects

Pakistan has

met loan for certain developmental projects. In FY 2015-2020, Pakistan took loan for CPEC related machinery. Moreover, it also acquired loan for roads, railways, industries, hydel projects. Hence, it became a cause of heavy loan.

4- Implications of acquiring loan

Following are main consequences of acquiring loan:

a) Circular debt ~ a tight trap

Every government coming in power, for job did to take loan. In FY 2022, the government

took loan of \$36bn
and payment did
\$34bn. Unfortunately,
friends of Pakistan
are also hesitant
to give loan. Hence,
Pakistan is trapped
in a circular of debt.

b) International Monetary Fund
policy shift

loan from IMF
is a threat to
monetary policies in
Pakistan. Due to
conditions of IMF,
Pakistan changed its
policy from capping to
free floating. 2018,
2022, and 2023, rupees
devalued due to
these conditions.

Following are main
implications of it:

i) Price of fuel increased

Following table shows data of rising price of fuel:

Fuel	Cost per \$
deesel	178 PKR
petrol	278 PKR

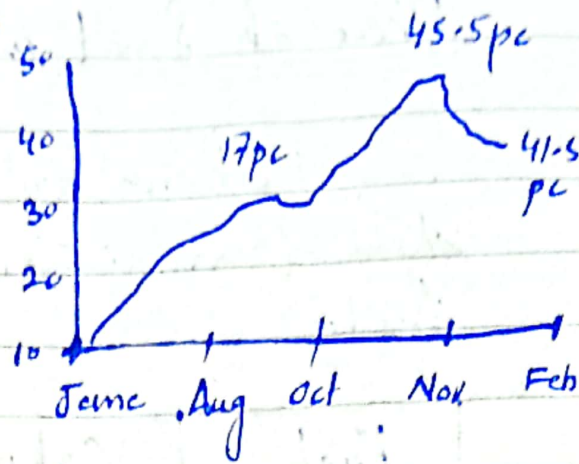
ii) Price of energy in hike

IMF condition also resulted cost of energy in hike as follows:

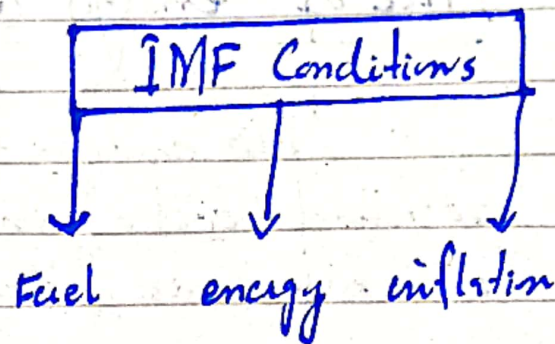
Energy	Cost
domestic	16-34 PKR
commercial	38-64 PKR

iii) Inflation unprecedented

Inflation rose by 40 pc's first time in 5 months:



• Inflation and its
discontent, Sajid
2023)



• price hike

5) Conclusion

"Pakistan has a
tremendous potential
to reform
its sectors."

(UN, 2023)

Pakistan is a

country rich in natural resources. Relying on own natural potential Pakistan can overcome poverty, inflation, and can improve its energy.