

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
2006	\$ 6 bn
2013	\$ 12 bn
2018	\$ 30 bn
2022	\$ 49 bn
Jan 2023	\$ 62 bn

Clearly explain how Pakistan is trapped.

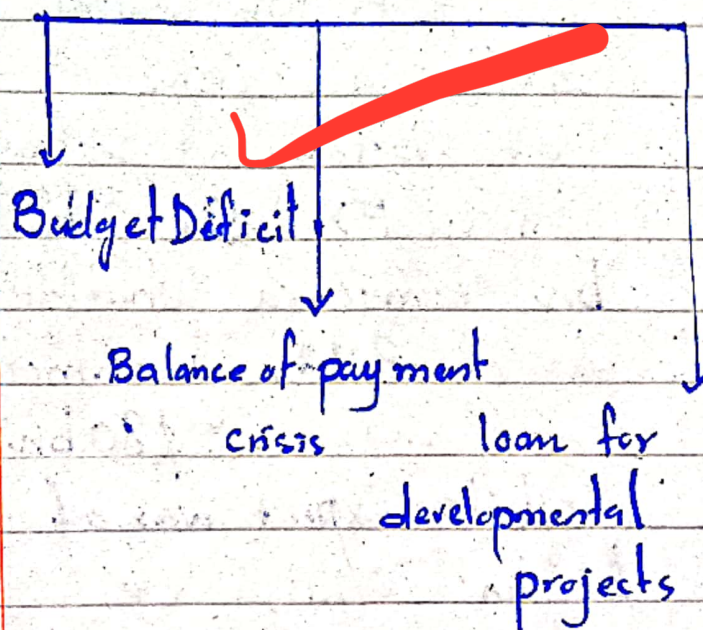
• (State Bank of Pakistan)

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 short fall
became a reason
to acquire loan.

b) Balance of payment
crisis

Pakistan always

Always add source from where are
taking statistics.

suffer an issue
of balance of payment
crisis. FY 2022, \$68.
bn remained short fall.
As in 2022, government
did import of \$100bn,
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.

Add more arguments in this part

4- Implications of acquiring

Loan

Following are the 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 policy 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 in \$
deesel	178 PKR
petrol	278 PKR

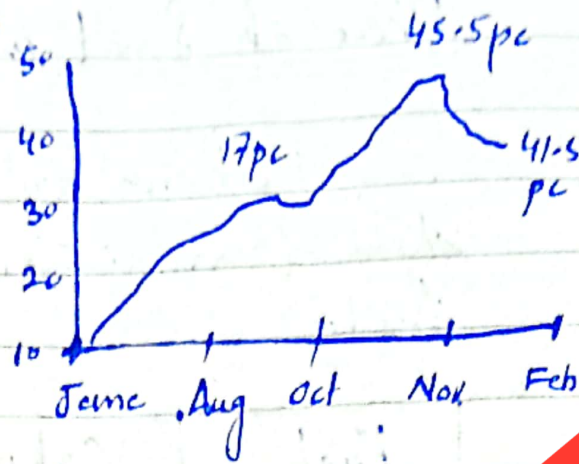
ii) Price of energy in hike

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

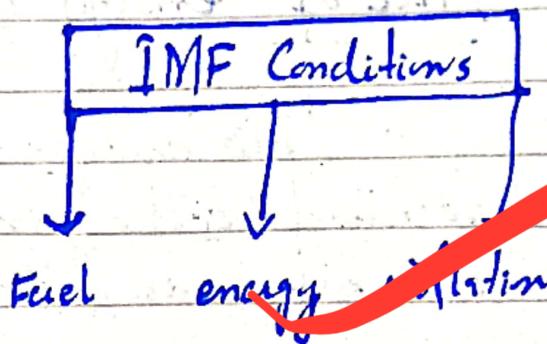
Energy	Cost
domestic	16-34 PKR
commercial	38-64 PKR

iii) Inflation unprecedented

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



• Inflation and its
 discount (2023)



Add more arguments in this part too.

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.

A 20 marks question should be have around 15-20 arguments.

10/20