

# ECONOMIC CHALLENGES OF PAKISTAN AND THEIR SOLUTION

## 1) INTRODUCTION

Since its inception, Pakistan has been facing a number of challenges. One of the prominent challenges is that of its economy. Once termed as "Asian Tiger," Pakistan's current economic conditions paint a bleak picture. These challenges include balance of the payment crisis, high dependency on foreign loan, elite capture of the policy-making, high inflation rates, depreciating currency and so on. However, all hope is not lost. Pakistan can take various pragmatic steps in short, medium and long terms to overcome these problems. Only by taking some serious steps Pakistan can hope to come out of this economic mess.



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## II) BRIEF OVERVIEW OF THE ECONOMIC SITUATION OF PAKISTAN

As per Pakistan's Economic Survey 2022-23, Pakistan's GDP was \$ 341.64 Billion. Agriculture, industry and services are three important sectors of Pakistan. Their contribution to GDP was:

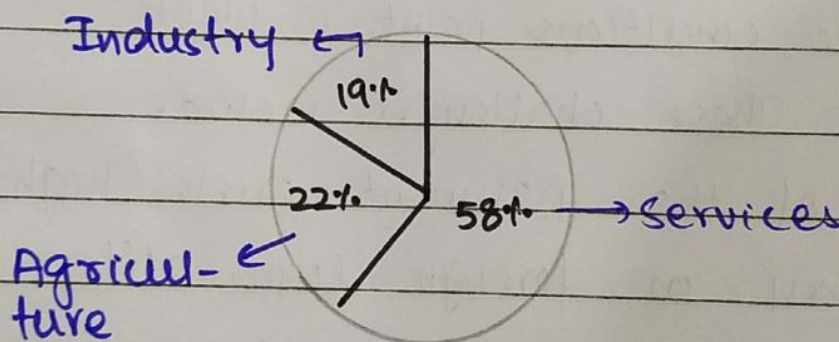


Fig: Pakistan's GDP composition.

Till now, Pakistan has been a part of 23 IMF programs. This shows the deplorable condition of Pakistan's economy.

## III) MAJOR ECONOMIC CHALLENGES



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### a) Balance of Payment Crisis

Balance of payment is the biggest economic challenge of Pakistan. This is because of low exports and high imports.

<u>Exports</u>	<u>Imports</u>	<u>Trade Deficit</u>
\$35	\$60	\$25
Billion	Billion	Billion

Source: Pakistan Economic Survey  
2022-23

### b) High Dependency on Loans and Aids

Pakistan's import led economy has become highly dependent on loans and aid. It is due to trade deficit. Pakistan has been a part



of 23 IMF programs due to this reason. As per state Bank of Pakistan, Pakistan's external debt has risen to \$125 Billion in 2023.

### c) High Inflation Rate

Presently, high inflation has become a major challenge of Pakistan. It is putting increasing number of people below the poverty line. Low inflation rate is important because it ensures social and political rest which are necessary for economic stability.

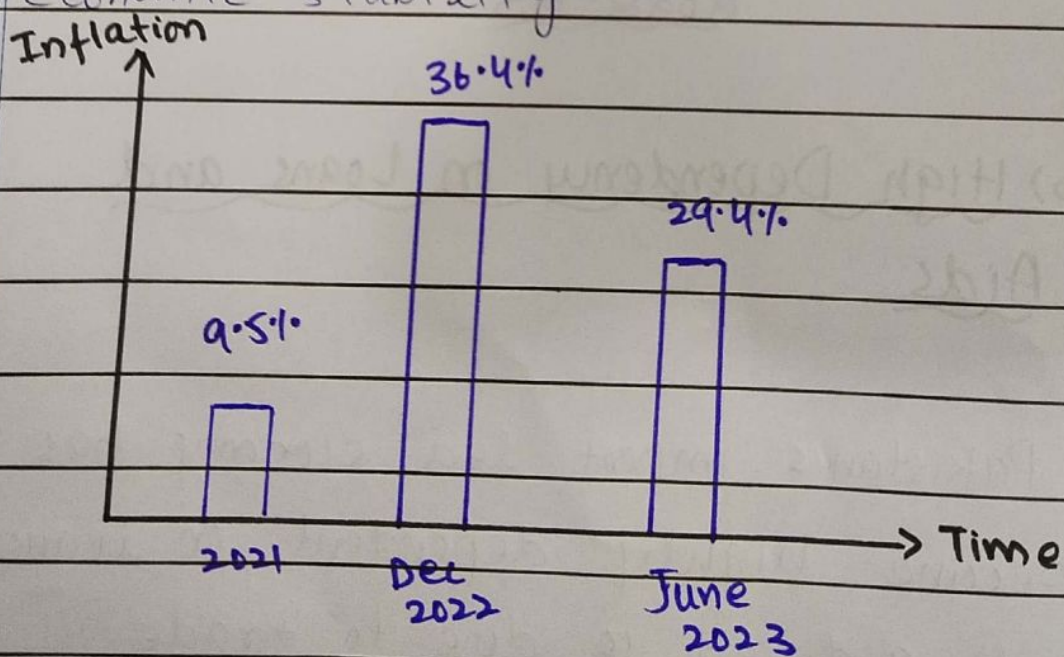


Fig: Inflation in Pakistan



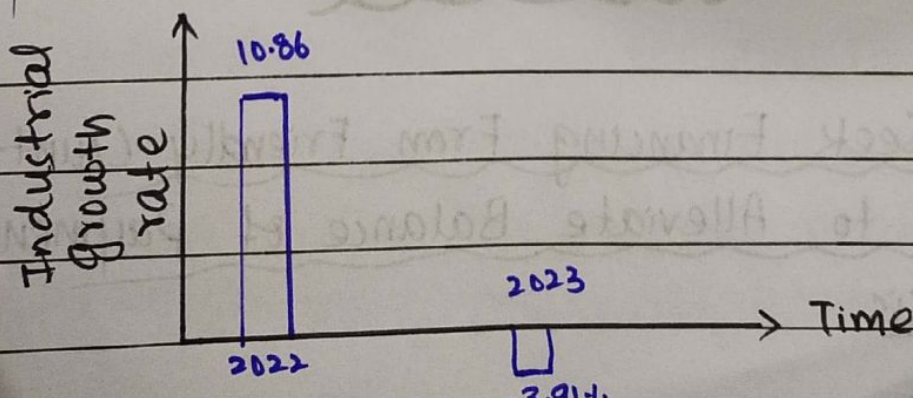
## d) Depreciation of Currency

Another challenge of Pakistan's economy is constant depreciation of currency. It is bad because it inflates debt without any borrowing.

In year 2000, 1 USD was almost 52 PKR, now it has risen to 285 PKR.

## e) Stagnant or Declining Industrial Sectors

In Pakistan, the industrial sector was never able to take-off. This has led to the import based economy of Pakistan. Recently, Pakistan's industrial sector has shown further decline.





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## f) Other Issues of Economy

Loss making state owned enterprises

Circular debt in the power sector

Unfavorable business conditions

Over dependence on volatile remittances

Low tax collection

Elite capture of the policy-making

## IV) RECOMMENDATIONS TO DEAL WITH THE ECONOMIC CHALLENGES

### a) SHORT TERM

i) Seek Financing From Friendly Countries to Alleviate Balance of Payment Crisis



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Presently, Pakistan need fast cash to alleviate the imminent crisis.

This will ensure that Pakistan can keep the rampant inflation down and meanwhile work to overcome other challenges.

### b) Tighten Monetary Policy to stabilize Currency and Inflation

Pakistan can tighten monetary policy by offering high interest rates from the State Bank. When people put their cash in banks, it can help stabilize currency and inflation.

### c) Reduce Untargeted Subsidies while increasing Safety Nets

Poor people get hit most due to economic crisis. Pakistan should remove excessive subsidies to the wealthy while ensuring that the basic



needs of the poor are met.

## b) MEDIUM TERM SOLUTIONS

### i) Improve Tax collection by Increasing Tax Collection Base

Pakistan's tax collection system is faulty. Therefore, in the medium run, Pakistan should pull the under or not taxed base into the tax umbrella.

### ii) Industrialization for Import Substitution

Pakistan's huge trade deficit is due to low levels of industrialization. Therefore, in the medium run, Pakistan should focus on the industrialization to reduce the trade deficit.



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### iii) Develop Special Economic Zones

In the medium run, Pakistan can also develop special economic zones to attract foreign investment.

## c) LONG TERM SOLUTIONS

### i) Overhaul Public Institutions to Strengthen Governance

Pakistan's poor governance also translates into economic crisis. Inefficient governance is bane of economic progress. Therefore, in the long run, Pakistan should overhaul it.

### ii) Invest in Education for Human Capital Development

Pakistan has about 24 million out-of-school children. Economic development needs educated and highly skilled



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individuals. Therefore, Pakistan needs to put efforts here.

## v) CONCLUSION

Pakistan is facing a lot of economic challenges. These are making Pakistanis condition more dire with every passing day. However, following the mentioned steps, Pakistan can overcome these challenges.