

Name :- Asad Ali
UNSID :- 30306
Batch :- 2054

Question

Pakistan's economy is currently under severe stress with low foreign reserves, a depreciating ~~economy~~ currency and exponentially high inflation. What measures can be taken in the short and medium terms to stabilize the deteriorating economic condition.

Introduction :-

Pakistan's economy facing complex challenges in past few decades. Pakistan's economic crisis lead to low foreign ~~reverse~~ reserves, depreciating currency and high inflation. The ^{bad} economy of Pakistan has affected many industries. Addressing these challenges required short terms and medium terms measures to build Pakistan economy on their own legs. The immediate and comprehensive action provide sustainability to the economy.

Low Foreign Reserves

of Pakistan:

Pakistan's foreign exchange reserves have been a source of concern for several months with ~~low~~ levels reaching low critically.

1) Historical Comparison Reserves level of Pakistan

According to trading economics in 2013 reserves reached a low of USD 6.1 billion that leading severe economic crisis and currency devaluation

2013	Reserves USD 6.1 billion
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According to world Bank reserves reached at USD 28 billion in the November 2016 but steadily declined

2016	Reserves USD 28 billion
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2) Current Situation of reserves in Pakistan

Pakistan's foreign exchange reserves stood at USD 7.8 billion. This represent a 76% decline from peak of USD 20.1 billion in August 2021 (State bank of Pakistan)

October, 2023 Reserve = 7.8 \$ billion		August, 2021 Reserve = 20.1 bill
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76% decline
from 2021 to 2023

3) Comparative Analysis of Foreign Reserves in Region

India 545 \$ billion	Bangladesh 48 \$ billion
Sri Lanka 1.7 \$ billion	China 3.150 \$ trillion
Iran \$ 31.4 billion	Pakistan 7.8 \$ billion

This comparative analysis show Pakistan and Sri Lanka last in the race of reserve. The Data collective from IMF and world Bank.

Depreciating Pakistani

Rupee :-

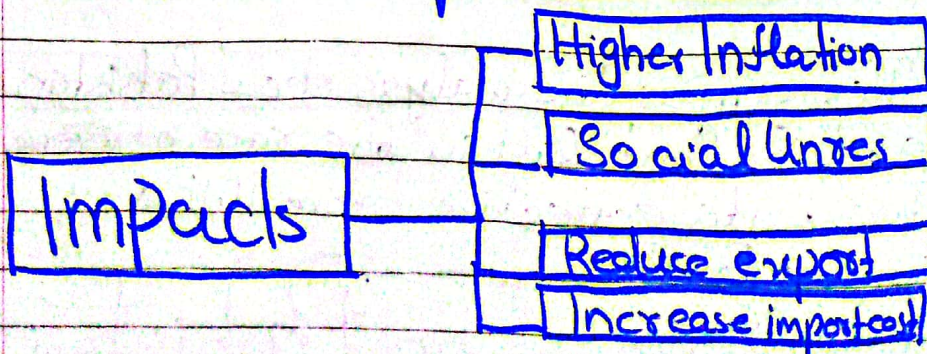
1) Pakistani Rupee Current and Past Situation :-

a) 13 November, 2023 :- The Pakistan rupee (PKR) depreciated PKR 269.5 against US dollar that represent 31.5% decline from January 1, 2023. This is the lowest level of PKR in the history (Dawn news)

b) 2018 to 2021

The PKR experienced relative stability that fluctuate between PKR ~~155~~ 155 to 165 against US dollar. (World Bank)

2) Factors Contributing to the Depreciation :-



Pakistan's Exponentially High Inflation :-

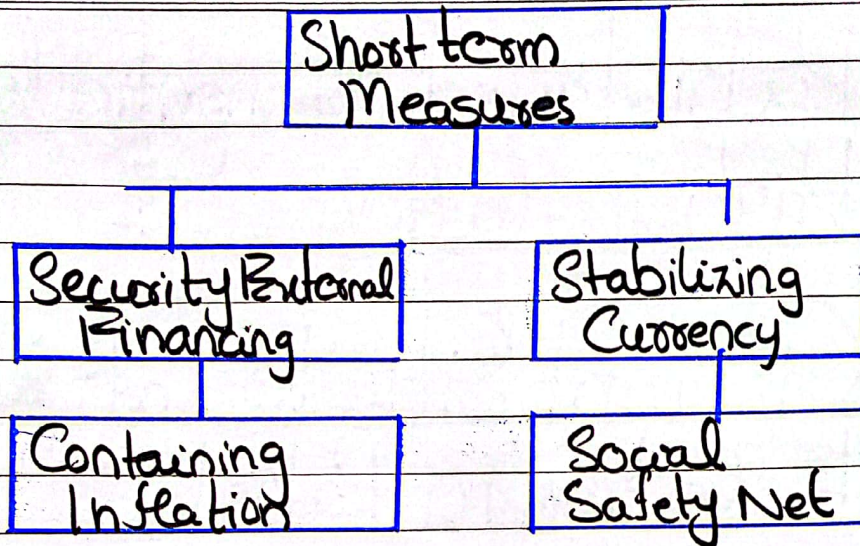
1) Current Situation of Inflation in Pakistan

As of October 2023, Pakistan's inflation rate stands at 27.3%. The World Bank statistics show 14.2% increase in inflation from previous year in Pakistan.

2) Comparative Analysis of Inflation in Region :-

According to Trading Economics, India 7.0%, Bangladesh 7.4%, Sri Lanka 69.2% and global average 9.2%. The data shows Sri Lanka has high inflation in the region due to its default and Pakistan is second one.

Short-term Measures: Addressing the Crisis



1) Securing External Finance to address Economic Crisis

a) IMF Bailout Restore Market Confidence

Negotiating a successful agreement with IMF is crucial to securing immediate financial assistance and restoring investor confidence. **For example:-** Careaker government successful in the negotiation to IMF recently.

b) Foreign Reserves Enhancement :-

Attracting ^{foreign} direct investment (FDI) and portfolio investment needs to be prioritized through targeted policies and reforms.

2) Stabilizing Currency

While a certain degree of currency depreciation is inevitable, the government and central bank should intervene to prevent excessive volatility and ensure a manageable pace of devaluation such as interest rate hikes, foreign currency intervention and control stricter import control. **For Example:** Shehbaz Sharif government impose ban on import controls but it fails.

3) Containing Inflation to Measure Economic Crisis

a) Monetary Policy Management

The State bank of Pakistan (SBP) needs to carefully calibrate its monetary policy to curb inflation without stalling economic growth. This could involve raising interest rates further, controlling money supply growth and implemented targeted credit controls.

b) Fiscal Discipline to control Inflation

Controlling government spending and reducing unnecessary expenditures are essential to reduce inflationary pressures. This may involve revising subsidies, prioritizing essential public

and improving tax collection efficiency.

4) Social Safety Net:

To mitigate the impact of inflation on vulnerable populations, the government should expand existing social safety nets and introduce targeted support programs for low-income households.

Medium-Term Measures:

Building a Resilient Economy

1) Structural Reforms in Pakistan's Sector

i) Tax Reforms in Pakistan

Implementing a comprehensive tax reforms program that broadens the tax base, simplifies procedures and reduce reliance on indirect taxes is critical to increase government revenue and reduce dependence on external financing.

ii) Public Sector Reforms

Enhancing the efficiency and effectiveness

of public sector institutions is essential to reduce unnecessary expenditure and improve service delivery. This includes measures like digitalization, streamlining processes and reducing corruption.

iii) Ease of Doing Business

Simplifying regulations, reducing red tape and creating a more business-friendly environment will attract investment, promote entrepreneurship and create jobs.

d) Export-Led Growth

i) Export Diversification in Pakistan

Promoting diversification of the export base beyond traditional sectors like textiles and garments will help reduce vulnerability to external shocks and increase export competitiveness.

ii) Trade Facilitation :-

Streamlining export procedures, reducing trade barriers and improving access to international markets are essential to enhance export growth.

Conclusion :-

Pakistan's economic challenges are complex and require a multifaceted approach. By implementing a combination of short-term measures to address the immediate crisis and medium term reforms to build a resilient and sustainable economy.