

Q1-

How loan has impacted on Pakistan's economy? Write its major causes and solutions.

Ans

1-

Introduction

Specific data of acquiring loan from government to government

2-

Reasons of acquiring loan

a

Budget deficit

b

Balance of payment crisis

c-

loan for developmental projects

3-

Implications of loan

a)

Vicious debt trap

b)

IMF; conditionalities

i)

Devalue PKR and remove capping

ii)

Unpretended inflation

4-

Recommendations

a)

To stable PKR

i)

To bring \$ to the country

ii)

loan

iii)

Remittance

iv)

Increase Export

v)

Increase FDI

b)

Control outflux of \$

c)

Start trading in currencies

5-

Conclusion

Pakistan's government has acquired loan in every government. In other words, it is true to say that the first job done by Pakistan's government after coming in power is to acquire loan. The specific data is described as below:

Year 2008, foreign loan was 6 trn PKR
versus 62 bn \$

Year 2013, foreign loan was 12 trn PKR
versus 84 bn \$

Year 2015, foreign loan was 30 trn PKR
versus 105 bn \$

Year 2021, foreign loan was 49 trn PKR
versus 127 bn \$

Year, Jan 2023, foreign loan was 62 trn PKR
versus 140 bn \$

Source: State Bank of Pakistan (SBP)

Causes of acquiring loan:

Main causes of acquiring loan are discussed as below:

One of Pakistan's big problems of acquiring loan is budget deficit.

FY, 2021-22; the government has 4.1 trn PKR and the expenditure of government was 8.4 trn PKR. So, shortfall was 4.3 trn PKR

Thus, this shortfall met by acquiring loan from internal banks e.g. SBP and commercial bank and external banks like IMF and WB.

The second great cause of acquiring loan is balance of payment crisis. It is the biggest reason in current account of Pakistan. In FY 2021-22, the shortfall was 18 bn\$ as 44 bn\$ was due to trade deficit and 13 bn\$ were payment. On the other hand, remittance was total 31 bn\$ and 8 bn\$ came from other sources like Foreign Direct Investment (FDI), so, total became 39 bn\$ which was cut from 57 bn\$ of deficit and remained deficit was 18 bn\$, still a serious challenge to government.

The third great cause of acquiring loan is for developmental projects. But, it is recent and not burden on economy. It is used to reform roads, railways, seaports, industrial projects, hydropower projects, and oil projects.

There are severally effected implications that are discussed as below:

Pakistan, due to excessive loan, is caught in a vicious circle of debt trap. Every government, in 2008, 2013, 2015, 2018, 2022, and 2023, after coming in power has acquired loan.

In last four years, from 2018 to 2022, loan was acquired was 36bn\$ and paid 34bn\$. Pakistan's economy is reached at the stage where acquiring loan for Pakistan is not become easy. Friends of Pakistan are hesitant to give loan.

Pakistan has to acquire loan from IMF that is full of conditionalities "Do's" and "Don't". IMF's condition to remove capping from fixing PKR and leave it free floating as Pakistan had capped PKR at 103 rupees. Due to IMF condition it devalued from 103 PKR to 125 PKR and to 156 PKR. It was a big shock to Pakistan's economy that resulted unpretended inflation.

Following are recommendations to avoid loans:

To stable PKR is a main solution to problem. It means to bring \$ to the country by acquiring loan, remittance, increasing export and FDI. So, the excessive debt of loan can be reduced.

Secondly, control \$ outflow by adopting following methods. First, banned all luxuries items and control outflow of \$ to the country by stabilizing PKR. Hence, the excessive debt of loan will be reduced.

Last but not least, start trading in currencies. Pakistan has started this positive step with China and almost 20% trade is done in Yuan. Further, with Afghanistan and Iran it can be done in currencies. Pakistan's biggest economic need is oil that must be taken from Russia that is dealt in Yuan.

Pakistan's economy is burdened due to government to government taking loan that has impacted country severely. Due to loan, Pakistan is caught in a cycle of debt and conditionalities of IMF. By stabilizing PKR, controlling \$ outflow, and start trading in currencies are good steps to make country's economy stable.