

PAKISTAN'S ECONOMY IS IN TATTERS <sup>GOOD</sup> BUT THE THREAT OF DEFAULT IS <sup>Date \_\_\_\_\_ 20\_\_</sup> MANAGEABLE." ANALYZE.

## OUTLINE:

### 1) INTRODUCTION:

According to IMF "Pakistan is facing a challenging economic outlook".

### 2) AN OVERVIEW OF CURRENT ECONOMIC SITUATION OF PAKISTAN:

#### 2.1) State Bank of Pakistan Reports:

- a) Current Trade Deficit (\$4.7 bn)
- b) Total Debt and Liabilities 89% of GDP
- c) External debt and liabilities (\$126.9 bn)

### 3) CAUSES LEADING TOWARDS ECONOMIC TATTERS:

#### 3.1) Floods of 2022 in Pakistan.

Antonio Guterres Secretary General UNGA  
(Pakistan is not only drowning in flood-waters but also in debt).

#### 3.2) Spiraling inflation rate

Acc. to CPI → 23% inflation in FY 2023



3.3) Devaluation of Pakistani Rupee against US dollar.

(Business community of Pakistan, termed the year 2022 as the worst performing year of PKR against US dollar).

3.4) Low Economic Growth Rate

- IMF report (The estimated growth rate of Pakistan is lowest in South Asia)

~~3.5) Decaying and insufficient infrastructure.~~

3.6) Decrease in ~~Foreign~~ Direct Foreign Investment (FDI).

- Report by Pakistan Institute of Development Economists.

3.7) Widening Trade Deficit.

3.8) Political Instability.

#### 4) How To MANAGE THE DEFAULT: A WAY FORWARD.

4.1) A continuous and strict economic policy: Charter of Economy.

4.2) A bailout to strengthen Pakistani rupee against US dollar.

- 4.3) ~~An effective~~ Effective steps to clear country's debt
- 4.4) Government must maintain a subtle balancing relations with China, US and Saudi Arabia.
- 4.5) Government must impose financial emergency under Article 235(1)
- 4.6) Measures to fill the Gap of Trade-deficit.

5) **CONCLUSION:**

"A well designed welfare state can actually encourage people to take chances with their jobs and be more, not less, open to changes."

Ha-Joon Chang (a Korean Economist)



The year 2022 was a turbulent year for economies across the globe due to Covid-19, global conflicts and climate change. Similarly Pakistan was also affected by the Covid-19, Russia-Ukraine war and mostly by the floods of 2022, but the long standing structural weaknesses and political gridlock have exacerbated the economic crisis in the country. According to the annual report issued by the International Monetary Fund (IMF) "Pakistan is facing a challenging economic outlook". Pakistan's economic problems have jeopardized the very foundations of its polity. Moreover the structural inflation and devaluation pose their own set of challenges for the government. A huge policy rate globally is also aggravating the situation. Considering the economic situation of Pakistan, experts feared that the country could default but according to recent survey the country's default is manageable fulfillment of external debt commitments and improving the strength of economy we can avoid default. Although Pakistan is going through worse economic crisis of its history but the threat to default is still manageable if the policy makers agree upon a "Charter of Economy" to gain trust of the investors which will eventually result in the economic stability of the country.

According to the State Bank of Pakistan in September 2022, total debt and liability are 89.2% of the Gross Domestic Product (GDP). Similarly in another report issued by State Bank of Pakistan (SBP) the external debt and liabilities of Pakistan are 126.9 \$ billion\$. Moreover the trade deficit is \$4.7 billion, currently.

The reason being Pakistan's economic conditions are devastating day by day.

Multiple factors are contributing towards the Pakistan's economic destruction. The recent floods of 2022 had a devastating effect on the economy of country. As Sect Secretary General of United Nations - General Assembly (UNGA) Antonia Cuatrecasas said "Pakistan is not only drowning in flood waters but also in debt". Due to the floods the agriculture and livestock sectors have been badly affected, Pakistan being an agrarian country, whose economy is mostly dependent on agriculture. Agriculture contributes to 23% of Gross domestic product (GDP) of the economy, however the floods have hampered the growth and also the country is facing will face a challenge of food shortage as well.



Similarly the inflation rate in Pakistan is expected to reach 23% in fiscal year 2023, according to Consumer Price Index (CPI).

The floods related disruptions to the supply of food and other goods, higher energy prices, and difficult external conditions including tighter global monetary conditions. Rising inflation hampers the growth and reduces the purchasing power of people. This problem needs to be addressed as it decreases the welfare of poor people and is pushing many into poverty.

Moreover the devaluation of Pakistani rupee in comparison to the US dollar is becoming an evolving risk for Pakistan's economy, making the economy vulnerable. The ongoing situation of is becoming a major cause of distress for the economy in terms of both micro and macro perspective. Business community of Pakistan has termed the year 2022, the worst performing year for Pakistan's economy as the ~~domestic~~ currency dropped Rs. 49 against the US dollar.

Furthermore, the low economic growth rate has hampered the country's economic recovery. According to the report of International Monetary Fund (IMF)



"The estimated growth rate Pakistan is lowest in South Asia, even behind Bangladesh". The low economic growth rate leads to unemployment, poverty, malnutrition, inflation etc. According to a survey about 1 million people enter the labour force of the country every year, to absorb such a huge proportion of unemployment, Pakistan needs to have atleast 7% economic growth rate for atleast 5 years. The current trend however is just trending contributing to unemployment and pushing the masses into poverty trap. All these hardships are hampering investment, both domestic and foreign direct investment in employment generating sectors i.e. manufacturing industries.

~~Decaying and insufficient infrastructure is another stumbling block on the way to economic recovery. Roads, Railways, Bridges, Communications, Transports, Dams, Canals, Seaports, Airports are either few in numbers to cater the needs of the economy or are insufficient and broken. The infrastructure is too weak to support the economic growth. In such a bad block scenario foreign investors are reluctant to try their luck in our part of the economic world.~~

Similarly, the foreign Direct Investment (FDI) is welcomed as an impetus to the sustainable economic growth of a country especially by a developing one. FDI has multiple dividends economic dividends in terms of sustainable economic growth and creation of new employment opportunities. Unfortunately, due to the challenges and issues Pakistan is facing the foreign investors are reluctant to invest in Pakistan in such a grim situation of economic growth. According to report by the Pakistan Institute of Development Economists "Energy crisis, high interest rates, security situation in Pakistan, Bad Governance and Corruption are a major obstacle in FDI of the country".

Widening trade deficit is another skeleton in the cupboard of Pakistan's dismal economic outlook. The current trade deficit has increased by 58% to about \$45 billion. According to the IMF, "Pakistan's export as a share of GDP base declined over the past decade as export volume growth has stagnated amid considerable de-industrialization". Consequently, Pakistan's share in global trade has steadily declined.





Secondly, the country needs a bailout to strengthen Pakistani Rupee against the US dollar, which will result in kicking off the economic activity in the country. Also strengthening of Rupee will increase the Foreign Direct Investment in the country which will result in more money influx in the country contributing towards sustainable economic growth as well as it will provide job employment opportunities.

Similarly, the policy makers should find a possible solution to clear the country's debt which is around \$ 126.9 billion. With all it also economic growth will continue to deteriorate, as the burden of paying off foreign debt and paying interest is increasing in Pakistan. The country continues to borrow mainly to pay back old contributions and finance its current account deficit. So to counter this there should be strict policy policies.

Furthermore to avoid default Pakistan need to maintain a subtle balancing act in relationship with country countries like China, Saudi Arabia and USA. To China we owe 30% of our debt, to Saudi Arabia we owe nearly 20% of our debt and US can help soften the blow and blow to IMF.

Moreover, the government must impose a financial emergency under the Article of Article 295(1) of the constitution and ask the provinces to collect at least Rs 100bn through higher taxes on land, property and agriculture income. In addition, the government must impose a special emergency tax of Rs 500,000 on vehicles of 1600cc or more. This step can bring in at least 20 billion Rupees.

In addition, Pakistani government should take measures to increase the exports and decrease the imports. By doing so money influx will increase decreasing the trade deficit. The local industries will boost up. The inflation could also be controlled because the local goods will be much cheaper to the masses as compared to the international goods.

To sum up everything that is stated so far despite its inherent economic vulnerabilities Pakistan can avoid default by strengthening the economic conditions of the country and also by implementing a proper debt structure. Foremost requirement is to work on the infrastructure to make transport convenient so that trade becomes easier and it will also



attract -the Direct Foreign Investment which will help in not only increase in money influx but also it will ~~provide~~<sup>build</sup> opportunities for more employment and also it will be beneficial to clear our external debts.

"A well designed welfare state" can actually encourage people to take chances with their jobs and be more, not less, open to changes".

Ha-Joon Chang

(A Korean Economist)

