

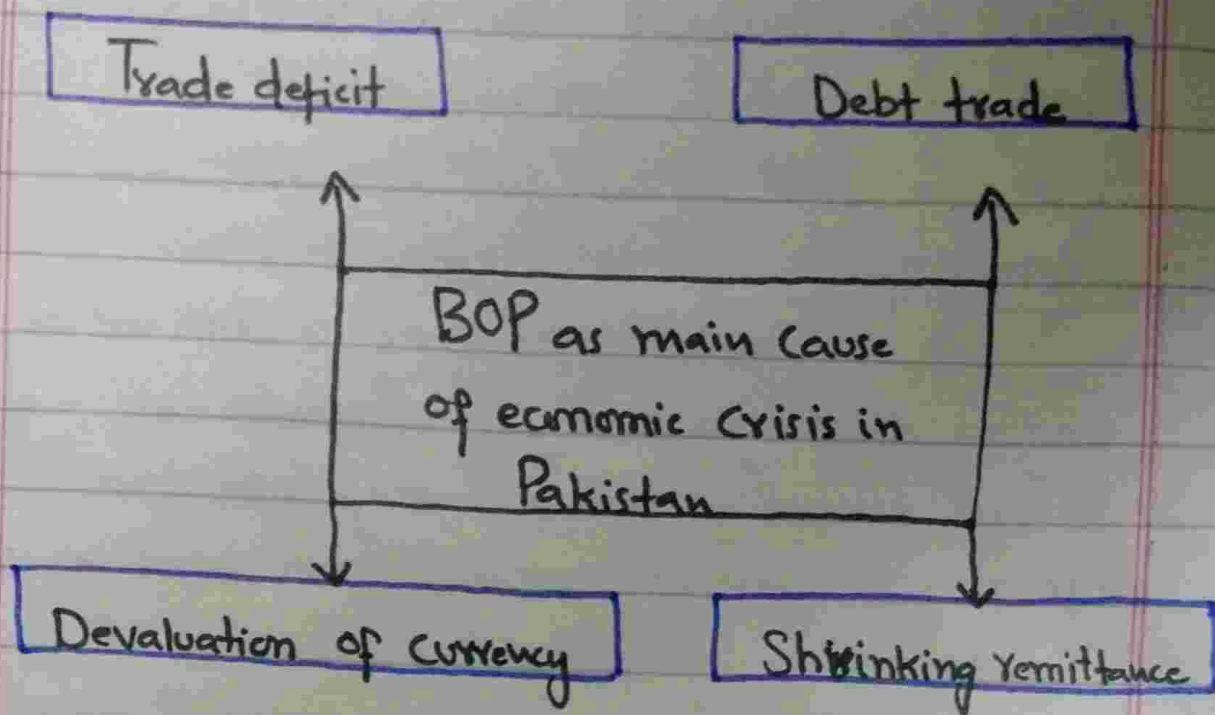
What are the main causes of Economic Crisis in Pakistan? Also discuss way out to manage this economic crisis.

### Introduction:

Strong economy is the main engine of any country that leads country toward prosperity. Unfortunately, Pakistan's economy is sitting on a ticking time bomb due to country's tremendous Balance Of Payment (BOP) crisis, which is also called Current Account Deficit. However, BOP becomes the causes of Trade deficit, Debt trade, Devaluation of currency and Foreign remittance. Therefore, pragmatic measures, including taking more loans, banning on dollar outflow, changing structural reforms in industries, agriculture and I.T sectors and making documentation can erase the footprints of fragile economy of Pakistan.

### Main Causes of Economic Crisis in Pakistan

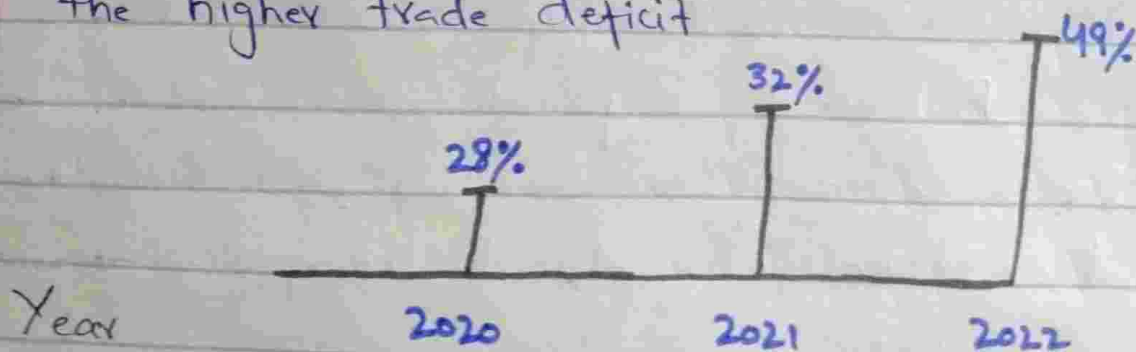
Balance of Payment Crisis that is the main cause of economic crisis in Pakistan that takes birth due to the following issues.



### A - Trade deficit

In the race of modern world, each country tries to increase their export instead import. Unfortunately, Pakistan's economic policies are import oriented inspite of exporting. As a result, the country witnesses broader trade deficit.

For instance, data of State Bank reveals the higher trade deficit



It means that Pakistan is continuously going into the trade deficit net. However, following facts show the enormity of trade deficit

Export: (2021-2022)	36 billion dollars
Import: (2021-2022)	80 billion dollars

### Reasons of trade deficit

#### 1) Massive import of hydrocarbon

Under developing country like Pakistan purchases hydrocarbon of 30 billion dollars in year 2021-2022. Similarly, imports crude oil and LPG of 23 billion dollars that contribute their role in trade deficit.

#### 2) Import of machineries

Owing to less developed in technology, Pakistan has to import advanced machineries from foreign developed countries for projects like CPEC, Coal, civil nuclear and Hydro-electric and so on. Similarly, Pakistan has imported machineries of 20 billion dollars for textile industries in 2020. Hence, more import of machineries adds value in trade deficit.



### 3) Declining agriculture production

In the late 19th century, Pakistan used to export more cotton. Unfortunately, agriculture of Pakistan is declining <sup>due</sup> to flood, Urbanization, and declining canal system. According to report of Food Research Authority of Pakistan, Pakistan imports 30% cotton and wheat of 6 billion dollars. Hence, the declining intensity of agriculture production directly affects economy of Pakistan in the form of trade deficit.

### B - Debt trap

Since inception of Pakistan, Pakistan is used to get loans from IMF, WTO and WB (World Bank) and other countries. However, since 2018-2022, Pakistan government has taken 36 billion dollars loans. It has to pay 10% interest on getting loans. Similarly, every newly government of Pakistan gets new loan from IMF and other platforms for the survival of its country. If Pakistan does not go to IMF for loan, inflation can be fifty percent according to statement of Hafeez Sheikh.

Hence, day by day Pakistan entangles itself into the net of loans.

### C. Devaluation of Currency

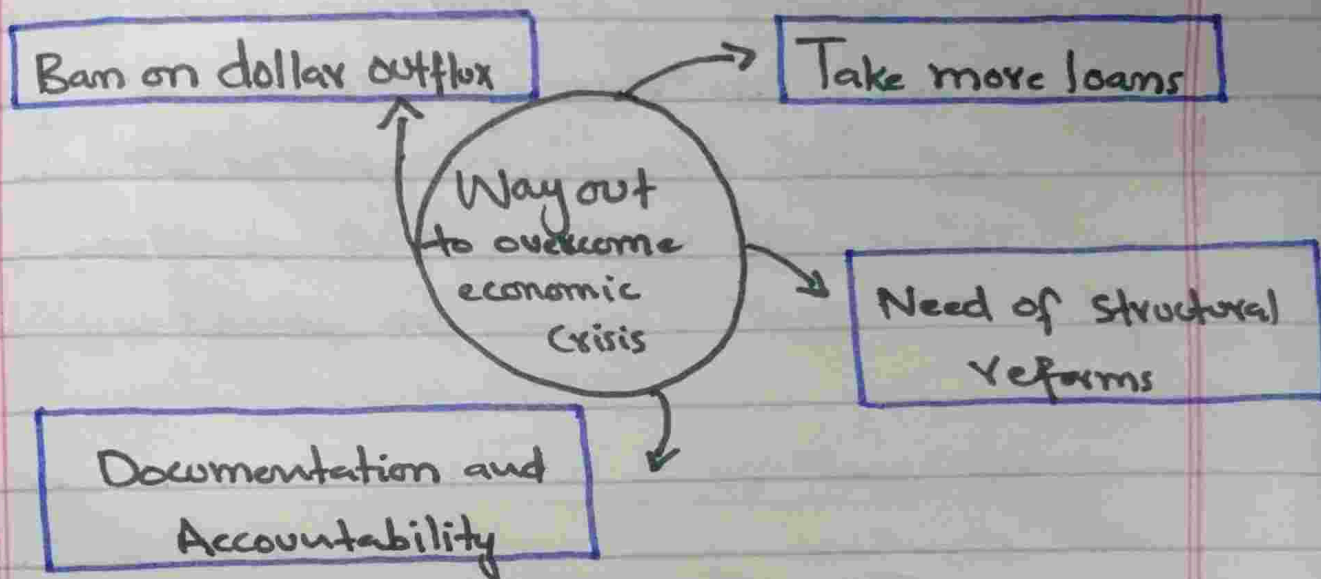
The value of Pakistani currency decreases in the international market. Increasing volume of loans compel Pakistan to compromise of devaluing its currency and has to pay loans its with external sources in dollars. For instance, its currency value declines from 178 PKR/USD to over 230 PKR/USD.

### D. Shrinking Remittance

Foreign remittance seems bleak since few years. Overseas population is asset for their country. Unfortunately, Overseas Pakistani are not sharing up economy of country. They adopt illegal way of money transaction like Hundi and Hawala instead adopting legal way. According to State Bank of Pakistan, "Pakistan is losing about \$300 million remittances in a month." Hence, dwindling remittance becomes the cause of economic crisis.

## Way out to overcome economic crisis of Pakistan

Following pragmatic measures come under discussion to overcome the enormity of economic crisis of Pakistan



### 1) - Take more loans

The burden of the loans which has taken already by Pakistan cannot overcome within a year or a decade. But it will take long period. However, Pakistan should take more loans from IMF after completing its terms and conditions for the survival of its people. Hence, the wheel of country will not rotate without borrowing



more money in the form of loans.

## 2) Ban on dollar outflow

According to BBC reports, Pakistan has imported more than 2200 luxury vehicles for elite class in 2022. For the sake of good-sound economy, Pakistan should adopt protectionism policy in order to impose high tariff on foreign goods and luxury products. Similarly, Pakistan follows the formula of "influx is less and outflow is more." It is imperative to reduce importing energy and available oil for sound economy. Hence, adopting protectionism policy can be helpful for making sound Pakistan's economy.

## 3) Structural reforms in certain departments

Pakistan is running its important industries and institutions on the basis of outdated policies and methods. However, there is need of structural reforms in Agriculture, industries and I.T sectors which

are key sectors of making sound economy. Pakistani agriculture system has been using outdated machineries and methods since its inception. It is time to adopt new irrigation system and technology for getting more production. Similarly, Point of Sell (POS) should be imposed on services industries such as Goldsmith, Hotels, textile brand, laboratories, clinic etc. Similarly, production cost for industries must be decreased. Hence, capping price of electricity and working on finish products can produce strong economy.

#### 4 - Documentation and Accountability

Absence of accountability and documentation, White collar people success in doing corruption. Similarly, tax avoiders make their way to do their business. For instance, Real state is a tax avision. It has more files issued for tax but it shows less to FBR. Similarly, their transfer of plots are not directly connected with POS (Point of Sell). However, property dealers do dealing of any property by cash



inspite of adopting digitalized method.  
Therefore, documentation and accountability  
must be adopt in order to make accountable  
to tax avoiders.

## Conclusion

Economic progress cannot be imported or borrowed. It has to come from long term pursuit of appropriate strategies through policies implemented consistently through competent governance. Since inception of Pakistan, Pakistan has been facing economic crisis due to burden of Balance of Payment (BOP) crisis. It is crucial to evaluate properly the root causes of economic crisis, that weaken the roots of a country, like trade deficit, debt trade, rate depreciation and foreign remittance. Therefore, Pakistan ought to adopt appropriate strategies like banning on outflux dollar, taking more loans, making structural reforms in industries and making accountable to tax avoiders in order to overcome the curse of economic crisis.