

Q# Pakistan's Economy is under severe stress with low foreign reserves, a depreciating currency and exponentially high inflation. What measures can be taken in short and medium terms to stabilize deteriorating economic conditions?

Ans. Introduction:

The land of pure is facing many crisis simultaneously. On the very top of these polycrises is the severely stressed economy. Just last year, Pakistan was at the brink of default. Had it not been for the standby IMF loan, the country have faced a situation very similar to Sri Lanka. The causes of these dire economic conditions are manifold. Each new government starts its tenure with a fresh IMF program. Compliance is maintained for the first half of the term. Later, fundamental policy reforms are delayed for the sake of populist demands. Economy is used as a theatre for political gimmicks. This has resulted in an extremely bleak fiscal situation. 40% of the country's population is now living under poverty. This dreadful situation calls for both short-term and long-term remedies. With a bleeding rupee against dollar and an inflation rate of 26%, it has become very difficult for the poor man to make ends meet.

Economy under stress : causes and Impacts

In the mid of year 2023, Pakistan's foreign reserves reached a historic low of 3.5 billion dollars. In the month of July, IMF gave a stand by loan of 3 billion dollars. Following IMF, Saudi Arabia also transferred 2.5 billion dollars into the State bank of Pakistan. Later, UAE pledged 2 billion \$ and China rolled over 2.4 billion dollars loan. Official sights have been set so low that securing a loan is considered an achievement. This combined injection of 6-7 billion dollars saved Pakistan from a default. But even the risk of default is temporarily halted, it would not be sufficient to run the state affairs for long. It should be understood that this is the 23rd program of Pakistan with the IMF. This reflects that the people of this country are used to foreign aid and are not self-reliant. The tax to GDP ratio of Pakistan is one of the lowest in South Asia. In the last 20 years, despite many efforts, it could not be raised more than 10%. Most of the taxes are collected from the poor people while the rich continue to evade tax through various schemes. Money laundering, corruption and lack of political

will are some of the causes of poor tax collection. Another cause is the huge trade deficit. In the fiscal year 22-23, the trade deficit of Pakistan was 44 Billion dollars. [Custom department of Pakistan]. Most of the economy is dependent on imports. Local production is close to nothing. Most of the textile industry is shifted abroad. The growth rate of year 22-23 was 0.6%. [Economic survey of Pakistan]. The political condition is also not stable which greatly contributes to market instability and lack of trust. Following options are given for the short and long term revival of economy.

Short Term options for Economic Revival:-

1. Increase tax-to-GDP ratio:

In the year 2015, world Bank launched a TARP program which continued till 2011. In 2019, a Raised Revenue Project was started by WB. Similar proposals have also been made by IMF and ADB. However, they were mostly unfruitful. A taxation system carefully tailored according to the needs and demands of people should therefore be crafted. Vertical and horizontal, both tax nets should be enhanced.

FBR should be restructured. Effective accountability system should be installed in place.

ii) Market Based Exchange rate for dollar:
For short term

political goals, govt try to control and manipulate dollar rate. This leads to volatile USD-PKR exchange rate.

In markets, grey, white and black exchange rates are present. There is also big gap between open market and interbank rate.

Government should let the market run freely, without any control or manipulation.

iii) Control of, Mafias and Cross border Smuggling.

The Ex Cabinet member Shabbir Zaidi said in a TV interview in Sep, 2023 that the major reason for poor progress in Pakistan is mafias and lobbies. They even control and influence the political process in the country. Effective mechanism should be put in place to control these mafias. Another bleeding blindspot is the cross border smuggling. The Feroz Khan border is a hotspot for smugglers. Millions of dollars worth of goods are smuggled across the Afghan border. Strict regulation of the cross border transport can stabilize the economy in a short period of time.

Registration of economy:

It is a tragic situation in Pakistan. Close to 50% of Pakistan's economy is unregistered. [CEO Elshan Malik, Pakistan's Business Council, Express Tribune] This calls for immediate attention from the authorities. If the situation is kept like this, it could go very bad. These unregistered businesses are costing the country dearly.

Privatization of State owned Enterprises:

State owned Enterprises have become a white elephant for the country. PIA, Pakistan Railway and Steel Mill are just the tip of iceberg. The blind nationalisation done in the 70's and 80's has come to haunt the economy. PIA's total debt is \$20B, 5 times more than its assets. [Pakistan Aviation department]. It has become inevitable to privatise these state owned enterprises.

Timely Elections and Political Stabilization:-

The Supreme Court of Pakistan has ordered that general elections should take place within 90 days as per the constitution of Pakistan. Political stability is imperative for economic prosperity. Timely

and fair elections are the way for political stabilization. All stakeholders including political parties and Election Commission of Pakistan should realise their responsibility and act accordingly.

Long Term Options for Economic Prosperity

1) Increasing Production Base:

Pakistan is an agrarian economy. 20% of Pakistan's GDP is obtained from agriculture while 80% of labour is employed in agriculture based fields. Pakistan needs to maximize its potential. Not only agriculture, industry also needs revival. Because of the capital flight, Pakistan's industry has been suffering a lot. Only with the revival of industry and agriculture, a stable economy can be achieved.

ii) Climate Resistant development.

Despite less than 1% share in the emission of GHGs, Pakistan is at the frontline of climate catastrophe. The 2022 cataclysmic floods resulted in the inundation of 1.8M hectares land in Pakistan. The country needs to realize that climate resistant

development is necessary for a sustainable future.

iii) Technology Enhancement -

The main difference between Global North and Global South is that of technology. While the developed countries spend a huge portion of budget on technology enhancement, Pakistan relies on the old out-dated methods of Production. US spends 2 Trillion dollars in R & D [research and development]. [US finance division]. Growth and development in the contemporary world is linked directly with technology.

iv) Human development:-

Pakistan has the 5th largest population in the world. It has one of the largest population of youth. The Human Development Index [HDI] of Pakistan is 161 out of 193 countries. [UNHDI]. Human development is achieved through education and skill enhancement. For that, proper budget allocation is required. In 2023, Pakistan spent 1.7% of its GDP on education. At least 4% of GDP should be spent on education for achieving standard literacy. This pays back in term of strong economy in just few years.

Conclusion:-

Pakistan has sufficient resources for building back its economy. Effective policies and the continuation of these policies is imperative for economic revival. With good education, technology enhancement and modernisation of agriculture and industry, long term economic stability can be achieved.