

Explore the causes of current economic meltdown in Pakistan. Suggest some measures to address the core issues of this situation?

### Pakistan's Economic Woes:

Pakistan is facing declining economy, depreciating currency, rising inflation, rising debt along with the political instability that further complicates the situation and increases the default risk. The economic situation of Pakistan has always been bad and as a consequence of ~~that~~ default risk is all time high. There is a balance of payment crisis in form of current account deficit. The solution to these problem requires the root level restructuring and long term measures. The economy of Pakistan has long been dependent on loans and grants, that now it lacks any productive sector. Looking at the 2023-2024 budget, most of the revenue generation is through banks and non-banks borrowing. This shows the fiscal mismanagement on the hands of government.

Balance of Payment crisis and fiscal mis-management: root cause

## of the economic melt-down:-

Pakistan is facing a balance of payment crisis in terms of chronic current account deficit. Our imports are all time high and little exports.

The reserves of the state bank are declining, means no dollars to pay for the import. To pay off the import payment, loans are acquired that will push the country into debt trap.

Along with that, there is a fiscal deficit of Rs.9 trillion. (Budget 2023-2024 Economic survey of Pakistan, FY, 2022-2023). The spendings of the government is a lot more than its earning. This mismanagement has caused an economic crisis in the country.

## Causes of BOP crisis:

One major cause of economic instability in the country is the balance of payment crisis. This BOP crisis is a result of several issues.

### 1) Current Account Deficit:

Imports of Pakistan is increasing at a great rate where as the exports are declining. This has resulted a trade deficit in the current account. According to the economic survey

of Pakistan, FY 2022-2023,

"Pakistan is facing a trade deficit of \$ 25 bn and a CAD of \$17.9 bn".

This means that there is a lack of dollar inflow, leaving the economy in shambles.

### 2) Declining Remittances :-

Remittances has always been a major contributor in the current account. They always prove to be a silver lining for Pakistan. Unfortunately, these have been declining after 2021.

"Remittances have declined by 10% in the FY-2022-2023 as compared to FY-2021-2022." (Economic survey of Pakistan, 2022-2023).

### 3) Debt servicing :-

Pakistan's economy relies deeply on the borrowing from banks and other entities. The interest payments on those loans increase every year.

This pushes the economy into the debt trap. According to the budget of 2023-2024, 80% of the revenue is bank and non-bank borrowing.

### 4) Investment :-

For a country like Pakistan, a

huge amount of investment is required to target sustainable growth. The portion of investment has always been low in Pakistan.

"Pakistan received \$0.89 bn dollars FDI-inflows only in the year 2022-2023."

**Extreme dependence on**

5) **Aids, Grants ::**

Pakistan's reliance on aids and grants has made it unproductive and has left the country on the brink of a default. Country need to engage economically and transform aids and grants into trade.

6) **Less value of dividends:**

There is no value of Pakistan's stocks in International market as they don't promise good returns and the political condition of the country does not attract any investors.

**Causes of Fiscal mismanagement:**

1) **Public Sector's Development program: (PSDP):**

Keeping in view the current economic situation, PSDP is a burden on the economy. Rs 1.09 tn are allocated for the PSDP

in year 2023-2024 budget. This only burdens the already deteriorating economy.

### 2) Civil government expenditure:

There is overstaffing in the civil government and no performance based provisions. The staff should be downsized based on performance of the employees. This overstaffing cause fuel and salaries that becomes burden of the institution is not productive.

### 3) Defense budget:

Defense budget of Pakistan increases every year keeping in view the security situation and the geographical position of the country. Defense budget comprises a major chunk of the budget.

"Rs 1.8 tn allocated for defence budget" (Budget 2023-2024).

### 4) Transferable funds:

According to NFC award, federal has to allocate funds for provinces, that somehow encourages free riding of provinces. Provinces need to have a national consensus and revisit 18<sup>th</sup> amendment. Provinces should contribute to strengthen the federal.

### 5) Pays and pensions:

Pays and pensions of the employee are a burden if the employee are not productive and contributing to the GDP. Reason for Iran's default was the pension burden on the economy.

### Measures to address the core issues:

#### 1) Massive Industrialization and Import Substitution:

Pakistan need to increase its exports to overcome balance of payment crisis. To reduce the dependency on imports Local production should be encouraged. and when the product mature, it should be exported. Target based investment should be done to gain maximum profit, like in Textile sector.

#### 2) Debt Restructuring:

Pakistan need to restructure its debt to gain a breathing space. Then with structural restructuring in the government institutions as the maximization of government output is required.

## 3) Remittances:

Youth bulge in Pakistan should be used for the country's betterment. Youth should be provided with skill based technical education and training. Labours should be exported. This will solve the problem of unemployment and also bring in dollars. Legal channels like Roshan digital account needs to be created.

## 4) Public Investment:

PSDP should not <sup>alone</sup> be responsible for development projects. Public investment should be encouraged. Development projects should be on the Build-Operate Transfer model with public private partnership.

## 5) Gaining the interest of Investor:

## Continuity of policy:

Political stability is the major measure that can ensure economic stability. Investor should be ensured of the continuation of policy, no red-tapism and secure business environment. Ease of doing business will attract investment in the country.

## Conclusion:

Pakistan's economy is facing major decline. This is due to the balance of payment crisis and the fiscal mismanagement. They are triggered by many factors. Restructuring in governmental institutions is required along with encouraging its contribution to the GDP. The solution to the economic condition today is transparency and accountability in economic management.