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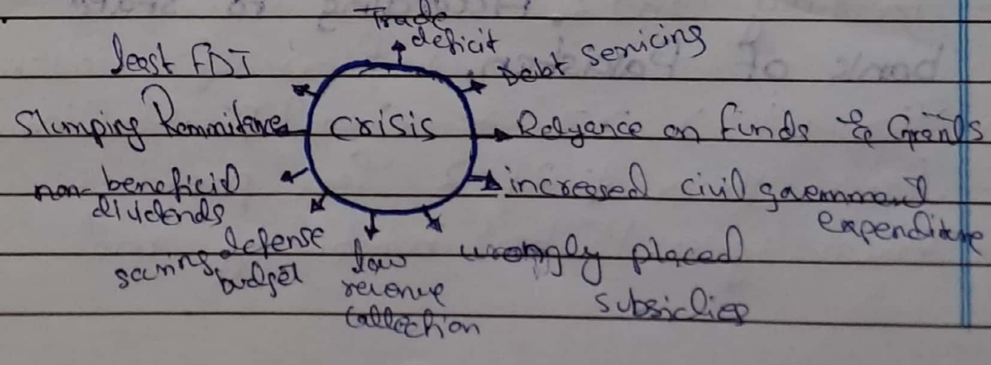
Q. Pakistan is facing severe economic challenges reflecting long standing structural weaknesses, low confidence, protracted policy and political uncertainty.

Ans. **INTRODUCTION:**

When decision making is divide, the only outcome is instability. Shackled in the worst economic crises, Pakistan's economy has touched new lows with all key indicators being negative. **According to Economic Survey of Pakistan, 2023,** Pakistan's GDP has been slumped to 0.29%, which was 6.1% in the previous year, missing its target of 5% for FY 22-23.

Root of such macroeconomic crisis lie in chronic fiscal deficit, and external imbalance, necessitating repeated financial bailouts. These bailouts are not the end goal, but merely a bridge, taking the country over troubled waters.

→ **Challenges of Economic Sector:**



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1) **Trade Deficit:**

For every one container that is exported, Pakistan imports two containers, resulting in low capital inflow in the country. Over the period of time, Pakistan has been slow to industrialize its economy, and has done least to foster the textile industry; compared to other Asian countries.

Of all the industrial export of the country, textile industry tops the list, with 60% of total exports of Pakistan". Though being the largest cotton producing country, it only earned Rs 19bn in 2022, as compared to Bangladesh, which imports cotton, and has earned Rs 42bn."

(Malik Tariq / Salvaging the Economy (2023))

2) **Lowest Remmittances:**

The inflow of overseas workers remittances registered a decline to close at $2.03 billion in July 2023. According to state bank of Pakistan, Inflow of dollars for FY22-23 remained $27 billion, lower then $31.3 for previous fiscal year. Political instability and

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lack of trust on the government remain key factors behind such low trend of remittances in the country.

3. **Debt Servicing:**

Due to chronic fiscal mismanagment, debt servicing has become another grave challenge on already ailing economy of Pakistan. According to state bank of Pakistan, the government needs to pay $77.5bn in external debt, from 2022-2026, for an economy of $350 billion; this remains to be a hefty burden. Under the implication of such debt traps, Pakistan's GDP growth has touched new laws, as it ranked to 42nd among world ecomies, lagging way behind its counter India, which is 5th largest economy of the world. (World bank, 2023).

4. **Slumping Foreign Direct Investments:**

The inflow of foreign direct investment plays a crucial role in burgeoning of country's economy. In Pakistan, the trend has witnessed

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a decreased due to a number of reasons; political instability, challenging business environment, uncertainty and rigidity in doing business remain key players. According to The Economist Business Environment Ranking, Pakistan ranks 73rd out of 82 countries, clearly demonstrating grave challenges in providing ease of doing business to the investors resulting in least inflow of dollars in the country.

5. **Reliyance on Aids and Grants:**

The debt-ridden country has been dependent on foreign aids and grants to save the country's economy. Being on the verge of default earlier in 2023, Pakistan's ailing economy has recieved $3bn loan - 23rd times in 75 years from IMF, as well as $2bn and $1bn from Saudi Arab and UAE respectively. (IMF, 2023)
Relyance on external aids has shackled Pakistan in debt traps, which in contrast to fortify the economy, has burdened it.

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6). Non-Beneficial Dividends:
The benefit of launching bonds in international market has lost the compelling factor. Due to lack of instability, and fear of low return, investors remain hesitant in purchasing the dividends. Such decline in trend has inversely affected the country's economy.

7) Souring Civil Government Expenditure:
Another key player in fiscal mismanagement is the expenditure of the government more than the revenue it generates. Over hiring in government sector has put mounting pressure on ailing economy of Pakistan, with the increase in cost beyond bearable limits.

8) Low Revenue Collection:
The fiscal sector exhibits high reliance on indirect tax rather direct, due to weak compliance resulting in lowest collection of revenue. According to Inland Revenue department report 2022-23,

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the tax collected from salaried class remain Rs 264 billion, while that of exporters and retailers Rs 74 billion and 15 billion respectively. Such stark difference in revenue generation and collection demonstrates lack of will of those at helm.

a) Hefty Defence Budget:

Pakistan, over the period of time, has been battling with security challenges, which has casted a great burden over already ailing economy of the country. Though spending on security is crucial, but it has left little room for growth of the economic sector.

Due to geopolitical situation and ~~econom~~ security risks particularly on eastern front of India, the government allocates 12-14 pc for defense budget, which is 2-3 pc of GDP.

(Khurram Hussain / Fiscal Discipline / 2023)

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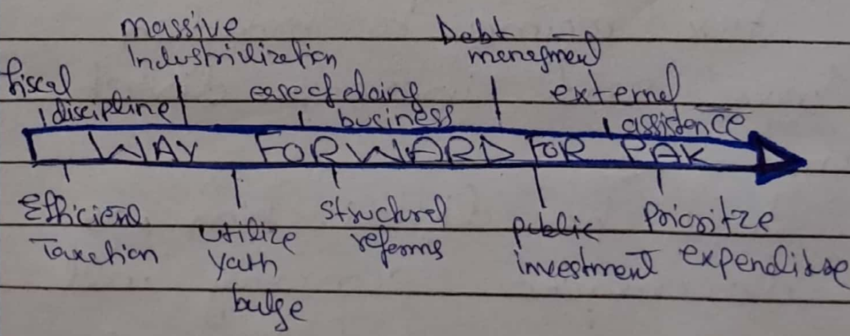
10) Wrongly Placed Subsidies:

Politically motivated policies result in the placement of subsidies to those government sectors, which benefit the elite rather than the economic sector of the government. Such corrupt practices put grave challenge on the ailing economy to lift the burden of these subsidies. The advantage of such policies has been carried out by hoarders, tax invaders and cartels, while the common masses suffer due to inflation and poverty.

→ SOLUTIONS:

Pakistan's macroeconomics crisis - the most serious in history - continue to warrant urgent and sustained actions to alleviate the current situation.



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1) Fiscal Discipline:

Before Pakistan embark on the long and tedious journey of structural reforms, fiscal discipline must be ~~xxx~~ embraced wholeheartedly, which refers to the practice of government making sound fiscal policies related to government revenue, expenditure and debt. Government should formulate reforms in sectors by downsizing staff and minimum hiring. Time band targets should be set as well as performance based workforce rotation. Such steps will contribute to increase output and reduce expenditure.

2) Efficient Taxation:

To counter low revenue collection, government should adopt taxation reforms by bringing sectors other than salaried class under tax regime to broaden tax base and increase direct taxation.

There should be digitalization, as more documented economy will ensure more tax and revenue collection. Government should adopt

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and promot Black Chain Technology which is a sensor base technology, help to keep check and balance on every production in factories, industries to record data base, automatically impose tax. according to the acquired record. Federal Board of Revenue should also ensure better tax collection and by bringing agriculture sector under tax net.

3) **Massive Industrialization:**

To overcome trade deficit, industry sector should be utilized in its maximum capacity. Government should focus on expanding exports by targeting areas of comparative advantage. Textile sector will be useful to gain advantage from on emergency basis.

Import substitution should be done by increasing local production. Such practical initiatives will substitute import demands, and help in alleviating the ailing economy.

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4) Utilize Youth Bulge:

In order to increase remittance, beside boosting confidence and giving incentives to overseas workers motivating them to send their money to the country, utilizing the youth bulge will prove to be useful in increasing the inflow of dollars.

Youth should be provided with skill based learning, and then through proper work visa, skilled youth should be exposed to other countries such as UAE. This will on one hand overcome unemployment and will increase remittences in the country as well.

5) Ease of doing business:

To mitigate political and economic instability, which are key factors in causing hindrances to foreign direct investment, the government needs to take crucial steps.

Fear of the investors should be appeased by lowering uncertainty, high returns, security and protection as well as policy continuity.

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6) **Structural Reforms:**

Government should look into restructuring of 18th ammendments to end praincial free riding. Praince gain revenue from federal but do not contribute in mitigating financial burden which results in ~~a~~ increasing burden on economy.

7) **Debt Managment:**

In order to overcome debt servicing, debt menagment is crucial. This will be ensured by taking mid - long term measures. Government should put the base in order to increase stability and attract investers. Beside increasing earning, government should avoid taking more loans, to get out of the debt traps of IMF.

8) **Public Expenditure:**

In order to benefit public sector, better placement and optimization of subsidies is needed. Government should keep check on sectors, if the products

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prices are not lowering, investors are not attracted, then the subsidy is wrongly placed and it is providing benefit to hoarders not public or sectoral growth.

9). **External Assistance:**

Pakistan should opt the strategy of trade not aid, as relying on foreign grants can not ensure economic stability. Crucial steps should be taken to attract foreign investors to replace aid and grants with trade and investment. China's CPEC is an example and Pakistan needs to increase such strategic and economic partnerships with friendly countries.

10. **Prioritize Expenditure:**

Government should prioritize its spending, as the burden of pays and pensions has become huge. Performance based incentivization should be increased where performing employees should be given more incentives, downsizing of staff recruitment also crucial to appease economic burden.

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Conclusion:

Though Pakistan is being shackled in worst economic crises, but the situation can be brought under control by taking timely steps to mitigate economic burden. While fiscal management is crucial to burgeon economic stability, increasing transparency and accountability will play key part in the ensurance of economic activity in the country.