

Pakistan Affairs

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M T W T F S S

QNO2: Discuss the major economic challenges facing Pakistan and propose strategies for sustainable economic growth and development.

Ans:-> A stable economy of the country plays the vital role in sustainable growth and development. When Pakistan came into being, it was mostly consisted on those areas which were backward. Those areas, which only produced the Raw material. The Industries were located somewhere else and Pakistan sent their products for processing. As a result, Government of Pakistan faced serious issues regarding economic growth. Till now, this country is facing this problem due to poor administrative role and governance impact, socio-economic problems, and cultural and political factors.

Major Economic Challenges

(b) Chronic fiscal Deficits:- Fiscal deficits occurs due to poor tax collection, higher cost of doing business, more spending and Less saving and inefficient role of Government owned enterprises. Fiscal deficit occur because of more spending by the Government than the Revenue generation.

a) Low tax Revenue:- Fiscal Deficit is at the 7.7 percent of the GDP in FY 2023. According to the FRR Report (Federal Board of Revenue), the Tax to GDP ratio stood at 9 percent during 2023-2024. and It's expected that this ratio will stood between (8.7 to 9.2) percent in (2024-2025)



Furthermore, In Pakistan only (8.74) million people file the personal income tax- from which 4.1 percent of the labour force and 1.3 percent among the population of Pakistan. It should be highlighted that (35%) of the individual filers pay the zero tax because they fall below the taxable income. The main reason was the poor tax collection was is that, The

Narrow tax base, most of the people are not filers or unable to file their income, Individuals having informal wealth or economy and most of the people ensure the tax evasions that they could not pay to the state. On the Other hand, that the Agriculture sector which perform the significant role in Pakistan's economy is tax exempted and under tax.

b) Debt Servicing:- Pakistan has secured major internal as well as the external debt. Every year, Pakistan is facing the challenges from IMF or world bank to inflation rising or don't give the subsidies to the industries. Major chunk of Budget is spending on ~~the~~ paying the interest payments and small principal amount of loan and this increases the debt crisis in Pakistan.

(c) Inefficient state owned enterprises:-

(SOE) become the major hurdle for the Pakistan's economy. The major enterprises like (PIA and PSM (Pakistan Steel Mill) always in the losses and Pakistan bear those losses instead of making them private. They are inefficiently managed and major drain on the public resources.



2) Balance of payment Crisis:-

Due to the persistent trade deficit, Pakistan is facing the Balance of payment crisis. This occurs when imports are more than the exports. Pakistan's exports are less because of low value goods, unprocessed goods and materials, vulnerability to the external shocks (rupee devaluation) and internal shocks (political instability) and limited diversification are the major causes.

3) Inflation and Currency Depreciation:-

The current inflation rate in Pakistan for 2024 is 11.1% in the July and August. Pakistan inflation rate is volatile. The major factors play the crucial role for rising inflation which are food & energy prices fluctuation, major disruptions in the supply chain management and unordinary and vulnerable fiscal policies which are hard to implement. The purchasing power parity is also affected by this inflation because PPP is directly related to Inflation. In addition, Pakistan is facing the problems of currency depreciation. This causes the cost of import and difficulty in ~~the~~ paying external debt.

4) Energy Crisis:-

Pakistan is facing major energy crisis due to poor infrastructure condition, could not meet the demands of population demand-supply gap, and inefficiencies in the ~~the~~ energy sector. The other reason is the fuel shortage - Highly dependent on



imported fuel and unable to or limited domestic production. When the geopolitical tensions increase the supply chain movement disrupt and cause the energy crisis. Rising cost of energy also contribute the energy crisis because of unaffordability for the large segment of the population to meet their demands.

5) **Political instability and Governance Problems:-**

In Pakistan, Political instability and governance problems can hinders the economic development of Pakistan. These issues affect the foreign direct investment, discourage business and ensure the ineffectiveness of Government policies related economy.

a) **Frequent Government changes:-**

The lack of political stability in Pakistan cause the major problems. The continuity of Government changings, clashes between political parties which lack the harmony, military coups and confidence motions ^{are} were the major causes of Political instability.

b) **Regional and Ethnic tensions:-**

Pakistan is based on different diversified groups either by Religious or ethnic. The tension between different ethnic groups influence the society as a whole, making the unrest disstabilize the environ^{ment}.

c) **Judicial Ineficiency:-** The slow and inefficient judicial system cause the governance problems. The cases taking the years to solve and It is said that Justice delayed means Justice denied. Investors are unable to trust on the legal system of Pakistan. Thus economic crisis occur.



Possible Strategies for sustainable Economic Growth and Development.

① Tax Reforms and Broadening the Tax Base

Reduce the tax evasion and should implement the taxes on those sectors which contribute the major chunk in economy. Policies should form on the basis of progressive taxation rather than regressive taxation. The more reforms can be introduced like increasing the tax administration and introduce the technological based driven tax collection methods to reduce the errors and for better results.

② Trade policy Reforms and Diversification in Exports:-

New Trade policies should be introduced by the Government, in which Government should minimize the trade barriers, ~~low~~ medium tariffs for the neighbouring countries, improving trade Logistics. In contrast, Diversification in the exports should be necessary for economic growth. For instance, export the value added goods, improving the competitiveness of major sectors like textile industry, cotton industry and manufacturing industry also investing in technology.

③ Energy sector Reforms:- Invest in the various projects for the cheap energy prices like (Pak-Iran Gas Pipeline). and diversify



the energy sources. (like renewable energy), and make the efficient use of energy which is produced at domestic level. Circular debt should be reduced and implementing the cost effective tariffs.

4) Improving Governance and Political Stability:-

Strengthen the Judicial institutions and empower the rule of Law so that corruption could lessen.

By fostering and enhancing the democratic process and election reforms can ensure the transparent Governance.

5) Investment in the Human Capital :-

Government should increase the investment in Education and health care sectors with the focus of improving quality and accessibility.

Government should give the training to individuals and make them capable to earn and give them skill so that they can contribute the development of economy.