

Topic: Inflation and Public Debt's: Major risks to Pakistan's Economy

Outline

A. Introduction ✓

B. Relationship between Inflation and Public Debt ✓

C. Causes of Inflation and Public Debt in Pakistan ✓

1. Exports are decreasing, and imports are increasing ✓

i. Pakistan economic survey 2022-23

2. Decline in agricultural growth ✓

i. Pakistan Cotton Spinners

Association report 2021 ✓

3. Less amount of revenue collection ✓

i. FBR report

4. Expenditure related to loan repayment ✓

i- Report by IMF

5. Economic loss due to power crisis ✓

i- Macro Economic Insight

Report 2021

6. Expenditures on climate change ✓

i- Report by World Bank

Irrelevant details

and Asian Development
Bank

7. Unnecessary spending on Lavishness
i- Report ✓ UNHCR

D. How Inflation and Public Debts
are major risks to Pakistan's
Economy

1. The number of people falling below
the poverty line are increasing ✓
i- Report by World Bank

2. Eroding purchasing power of public
i- Report by IMF ✓

3. Hindering development initiatives ✓

4. Less per capita income than
other countries ✓

i- Pakistan economic survey 2022-23

5. Decline in budget allocation of
basic human need ✓

i- Pakistan economic survey 2021-23

E. Way forwards to decrease Inflation
and Public Debt

1. Reforms in expenditures by government ✓

i- Suggestion by World Bank

2. Transformation of agriculture

sector

i- Agriculture transformation
plan 2021 by MNESR

3. Public debt management reforms

F. Conclusion

Imagine a scenario where hard-earned money loses its value rapidly, and an imposing mountain of public debt looms ominously over the economy. Inflation and public debt are not just economic phenomena; they represent silent threats that can shake the very foundation of financial stability. Same is the case with Pakistan, who are losing their rupee value due to inflation and public debt. Also, a mountain of public debt looms over the Pakistan's economy like a dark cloud. Both of these are interconnected at some point; like higher inflation can reduce the real burden of

public debt by eroding its purchasing power. However, both, inflation and public debt, can be caused due to several reasons. In case of Pakistan, a prominent issue looms large as exports witness a decline while imports experience a noticeable surge. Some other causes include: decline in agriculture growth, minimal amount of revenue collection, loans repayment, power crisis and climate change.

These challenges are akin to thorns in Pakistan's feet, causing significant distress like, increase in the number of people falling below the poverty line, eroding purchasing power, hindering development initiatives and declining per capita income.

All these issues can be overcome by mitigating inflation and public debt, which can be done through reforms by government against expenditures, transformation in agriculture sector and reforms in public debt management.

Inflation and public debts are correlated and are caused by several factors. Both of these issues pose significant threats to Pakistan's economy, making it imperative to address them urgently. Mitigating both inflation and public debts is crucial to rescuing Pakistan's economy from its current challenges.

Inflation and public debt share a complex relationship with significant implications. When inflation rises, the real value of public debt tends to decline, as the debt is typically fixed in nominal terms. This can provide relief to governments burdened by high level debts, effectively eroding the purchasing power. On the flip side, excessive inflation can also result from unsustainable public debt, triggering a detrimental cycle. Governments may resort to inflationary measures to alleviate the debt burden, but if left unchecked, it can lead to

economic instability. Maintaining a balance is crucial to avoid adverse consequences on both fronts.

Inflation and public debt, both can lead to economic instability if left unchecked.

Both can be caused by several factors. The forthcoming discussion will illustrate those factors.

Decreasing exports and rapid increase in imports are causing the significant rise in inflation and public debts in Pakistan. Since its inception, Pakistan's economy remains significantly dependent on imports. The major portion of imports include petroleum, agricultural, and other chemical products.

On the other hand, to maintain the balance Pakistan made progress in textile, food, and sports industry. But, according to Pakistan Economic Survey 2022-23, these are enough to

maintain the balance, as exports only constitute of \$31bn dollars while imports are almost of \$80.bn dollars. The expensive imported products are burdening the economy by rising inflation and public debt. In conclusion, mounting imports and declining exports are the key causes of inflation and public debt.

In addition, decline in agricultural growth is also posing a significant effect on rising inflation and public debt. Pakistan's economy is highly dependent on its agriculture sector. Agriculture represents 21 percent of Pakistan's GDP and is a source to 68 percent of employment, directly or indirectly. But, due to ignorance from government the agriculture sector has seen a significant decline in previous decades.

The figure quoted by Pakistan

Cotton Ginner's Association indicates that, in previous decade, a loss of \$36 bn **Verify the stat** has been seen due to decline in production of cotton from 15.5m bales to 5.5m bales. Despite being the most important product, a decline in its production is a serious threat Pakistan's economy. Therefore, decline in agricultural production can increase the public debt by importing the required product, like cotton, and also increases the inflation.

Another factor that is mounting public debt are increasing inflation is minimal amount of revenue collection. Any country in the world gain revenue through tax collection. The developed countries like USA, UK and many others have strong revenue collection system. In case of Pakistan, FBR is responsible

for revenue collection. According to FBR's annual report of 2023, the total tax collection is around eight thousand billion rupees. This amount is not enough to run the state, therefore the government of Pakistan is highly dependent on loans from international organizations and friend countries.

To sum up, minimal tax generation leads to increase in inflation and mounting public debts which are the major risks to Pakistan's economy.

In addition, loan repayment is also a cause of inflation and public debt in Pakistan. To repay the loan government implement more taxes on industries, gst's and many mores, which directly causing inflation due to higher cost of product. On the other flip, tax collection is not enough to repay the loan; therefore, government

used to take more loans from lenders to repay the loan's installments. Pakistan Economic Survey indicates that, as of July 2023, Pakistan total debt was Rs. 60 trillion and total foreign loan was \$130bn. It is not possible to repay this huge amount of debt, so government used to take another loan to repay which in a result surges inflation and public debt. Hence, repayment of loan is playing a key role in rising inflation and public debt.

Moreover, the economic losses due to power crisis are also the reason of surge in inflation and public debt. Around 66 percent of energy is generated from thermal power plants in Pakistan. Due to gradually rising fuel prices in oil market, it led to power crisis in Pakistan. The report

issued by Macro Economic Insight in 2021st indicates that between the period of 2007 and 2020, power crisis cost \$82 billion to Pakistan's economy. The major reason of such higher loss is expensive generation of electricity from imported oil. To sum up, the major causes of rise in inflation and public debt includes power crisis also.

Furthermore, the changing is also posing a serious threat to Pakistan's economy, because of rising inflation and public debt. Every year Pakistan is facing some serious climate change problems. The most devastating among them is floods, like the one in 2022. The floods disturbs both the food and economy in Pakistan. The reports by World Bank and Asian Development Bank estimated that, every year Pakistan

economic losses of around \$3.8 billion due to climate change. These include the damage done by climate change in agriculture sector, infrastructure and many other sectors. To compensate these economic losses, government used to take loans which results in surge in public debt and inflation. Therefore, climate change is posing a significant threat to Pakistan's economy due to increasing inflation and public debt.

lastly, the amount spent on unnecessary things, like lavishness leads to inflation and surge in public debt. Governments used to spend millions of rupees on perk and privileges of ministers, judges, military officials and bureaucrats. The large amount income spent on providing benefits to these, gained from tax collection. As a result, state compensate these expenses

by increasing inflation and taking loans. According to the report of National Human Development Reports, government of Pakistan spend around 2.6 trillion rupees annually on perks and privileges. Such huge amount increases the public debt due to which, the economy suffers. To sum up, wasting money on perks and privileges of elites leads to inflation and public debts, which in the end creates economic distress.

The previous discussion dissected the various causes of inflation and public debt, it's crucial to comprehend that how both these are major risks to Pakistan's economy. The next discussion will illustrate this.

Firstly, the more number of people falling below the poverty line could be the reason that inflation and public debts are major

risks to Pakistan's economy. Inflation has caused the rise in prices of daily essentials, which are becoming out of the range of people. Also, Increase in public leads to the unemployment at large scale, because of the closure of various industries.

The World Bank reports that in Pakistan more than 30 percent of its population is below the poverty line. It also indicates that it is due to the rise in inflation which pushes more people towards poverty. Hence, inflation and poverty are major risks to Pakistan's economy, as they significantly pushes more people towards poverty.

Secondly, inflation and public debts erodes the purchasing power of public. Rising inflation and public debts increases the cost of livings. Due to this

the people are unable to meet their needs. According to the report by International Monetary Funds (IMF), the inflation rate in Pakistan stood at 23.6 in 2023. Such a high inflation rate hinders the economic growth in Pakistan. Therefore, high inflation and public debt are major threats to Pakistan's economy.

Another effect of increasing inflation and public debt is hindering the development initiatives in country.

Due to inflation and increasing public debt, the government is unable to pay or allocate funds to developmental projects. A large number of projects are pending due to low funds. This has effected the important project like Ainar Basha Dam and Dasu Dam which were to be completed in 2028, but due to low funds it does not seem to

be complete ~~in~~ due time. To sum up, rising inflation and public debt has slow down development projects in Pakistan.

Moreover, high inflation rate and public debts are major risks to Pakistan's economy, as they are causing a decline in per capita income. Due to rising inflation, the amount an average Pakistani individual is gaining is not enough to meet their needs. It is due to high public debt, as government is unable to pay enough and on time to its employees. According to Pakistan Economic Survey of 2022-23, per capita income is around \$1510. Such low per capita income ranks Pakistan a low-income ~~and~~ developing country. Therefore, higher inflation rate and public debts influences the per capita income in Pakistan.

Last but not the least, higher inflation and public debts leads to decline in budget allocation of basic human needs. Government used to pay a large amount of its annual budget to loan repayments. This leads to the deficiency of budget which directly impacts the living of public. As per Pakistan Economic Survey, government allocated 2.3 percent of its GDP to education which 0.3 percent less than that of 1999. Such low allocation to basic human rights can hinder the future developments of both economy and country's future. To conclude, inflation and public debts leads to decline in budget allocation which affect the country the most.

Having outlined the significant impacts of inflation and public debts, our focus now shifts

to proactive measures and strategies to mitigate the ~~both~~. Let's explore way forward to address and alleviate the risks imposed by inflation and public debt.

Firstly, inflation and public debts are such crucial issues which can only be mitigated by reforms taken by government.

The government lacks to manage inflation and public debts due to weak policies. Such weakness cost Pakistan mostly, ~~due to~~ results in over-dependence on foreign loans and aids. The World Bank report on Pakistan's debt crisis suggested the reforms to combat the crisis. Without the effective reforms, it could not be possible mitigate these. Therefore, reforms are ~~the~~ need of the hour to decrease inflation and public debt, so that the Pakistan's economy may prosper.

Secondly, transformation in agriculture sector can help to decrease inflation and public debt. Agriculture sector is the most important component of Pakistan's economy, as it shares 21 percent of GDP growth of Pakistan. Moreover, 68 percent of Pakistan's population is directly or indirectly involved in agriculture sector. In light of these importance, Ministry of National Food Security and Research gave agriculture transformation plan of 2021 which underscores the importance of agriculture in Pakistan's economy. It is suggested that such plans should be imposed at provincial level to share maximum part in Pakistan's economy. To conclude, transformation of agriculture sector can help to decrease inflation and public debt, and also helps in

economic growth of Pakistan.
Lastly, it is necessary to manage public debt to mitigate their impact. Pakistan is facing serious public debt management issues since its inception, particularly in previous decade. Every new government, after coming to power, first thing they do it to borrow more loan. This is because the previous government did not manage the loans perfectly. It is suggested to bring public debt management reforms, so that the coming government should do work for the betterment of economy and public, rather than doing struggles to borrow more loans. In conclusion, it is highly recommended to bring public debt management reforms to reduce the impacts of inflation and public debts on economy.

In a nutshell, inflation and public debts are correlated and

are caused by several factors. Both of these issues pose significant threats to Pakistan's economy, making it imperative to address them urgently.

Mitigating both inflation and public debts is crucial to rescuing Pakistan's economy from its current challenges. Both inflation and public debts are caused due to

various reasons. These not only impacted the economic growth of Pakistan, but also the public directly. due to rising inflation, the people can not be able to meet their needs. In addition

to that, they are the catalyst to increasing poverty in the country.

Furthermore, public debt is also hindering the budget allocation to basic human needs. Therefore,

these needs to be decreased as soon as possible. These can be mitigated by quick actions of

government in various sectors.
To conclude, to make Pakistan's
economy prosper, it is needed
to decrease the inflation rate
and dependency on public debts.

“ ————— ” “ ————— ” “ ————— ”