

Economic Crisis: Causes, Impacts and way forward.

OUTLINE

1. Introduction
2. Thesis Statement

"It is an undeniable truth that Pakistan is facing huge economic crisis which impacts the country in devastating way. There are different causes pertaining economic crisis that can be curtailed by taking serious steps?"

3. The Current economic condition of Pakistan.

4. Major Causes of the economic crisis of Pakistan

4a) Extreme reliance on international lenders for loans, which has created a perilous cycle of dept accumulation

- Pakistan turning to IMF for 24th time.

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4b) The imbalance trade where ~~exports~~ ^{imports} vastly exceeds exports, resulting in economic crisis.

- Pakistan's ~~trade~~ export growth rate is lower than India's, Nepal's & Bengal's.

4c) Bad governance poses a significant threat to the economy of Pakistan.

- World Bank Report: "Pakistan Development Update"

4d) Political instability exacerbates Pakistan's economic vulnerability.

- Pakistan has had 22 prime ministers since 1947, with an average tenure of 2.5 years (Dawn).

4e) Decades of inadequate industrialization have crippled Pakistan's economy.

- The underdeveloped automotive industry in the country.

4f) Ineffective mobilization of tax

resources foster economic crisis.

- The tax-to-GDP ratio stood at 9% during 2023/24 - FBR report.

5 Devastating impacts of the economic crisis in Pakistan

5a) Pakistan's persistent fiscal deficits.

- International Monetary Fund - 2022.

5b) Economic crisis pushes Pakistan below the poverty line.

- World Bank Report

5c) Economic instability have fueled a sharp devaluation of the Pakistani rupee.

- "The rupee's devaluation is a symptom of Pakistan's deeper economic problems"
- Dr. Ishrat Hussain, Governor, State B. of Pakistan.

Foreign

5d) The decline in [↑] Direct Investment

- Pakistan Economic Survey - 2022/23

5e) Economic uncertainty exacerbates regional security risks.
• Imbalance distribution of resources.

5f) Prolonged economic crisis hinders Pakistan's long term development.
• Comparison with India.

6. Way Forwards to curtail ^{no} economic crisis of Pakistan

6a) Reduced reliance on international loans

6b) Pakistan can minimize its reliance on imports by promoting exports and investing in domestic industry.

6c) Improved governance to create a favourable environment for development.

6d) The government needs to implement effective measures to improve industrialization.

6e) Stable political systems can improve the economic conditions.

6f) To mobilize tax collection.

7. Conclusion.

Pakistan's persistent fiscal deficits, pushes her below the poverty line, devaluation of Pakistani rupee and the decline in foreign Direct Investment (FDI). However, all hope is not lost, Pakistan can cater this crisis by taking pragmatic solutions. It is crucial time that the country should reduce reliance on international loans. Pakistan can minimize its reliance on imports by promoting exports. Improve governance and the government needs to implement effective measures to improve industrialization. Therefore, It is an undeniable truth that Pakistan is facing huge economic crisis which impacts the country in devastating way. There are different causes pertaining economic crisis that can be curtailed by taking serious steps.

At present Pakistan faces severe economic crisis that has disturbed

the countries foundations. The economic crisis in the country is evident from economic instability, slow economic growth, rise in poverty and stagnant exports. According to the Pakistan's economic survey "40% of the population living below the poverty line". The economic slowdown has exacerbated unemployment, surge in inflation and constant devaluation of Pakistan's rupee in the recent years. According to the Pakistan's Bureau of Statistics report in June 2023, "the inflation rate in the country has reached 29.4% and its projected to increase further". The economic crisis has become a looming threat to the country and has engulfed the country on all fronts.

To begin with, extreme reliance on international lenders for loans which has created a perilous cycle of debt accumulation, is the main reason behind economic crisis of

Pakistan. Pakistan has a regular history of borrowing from international lenders to avert the balance of payment crisis. It recently secured a 7B dollar loan from the IMF in September 2024. This is Pakistan's 25th loan from IMF. However, ~~the~~ it has created a vicious cycle of debt accumulation. Thus, extreme reliance on international lenders leads to economic crisis in the country.

The imbalance trade is another reason for the economic crisis of Pakistan. The trade, where imports vastly exceed the exports results in the jolted economy. It is a condition in which country produces less than it consumes. This can be understood by the comparison between different countries, as Pakistan's export growth rate is lower than developing countries like India, Nepal and Bangladesh.

Hence, the imbalance trade b/w imports and exports, where exports are lower exacerbates economic crisis.

Moreover, Bad governance poses a significant threat to the economy of Pakistan. The ineffective and inefficient government leads the country to harmful consequences for the people, economy and society. This can be justified by the World Bank report on "Pakistan Development update" - "Pakistan loses around Rs 8.5 trillion annually due to corruption". However, bad governance is another factor that enhances economic crisis.

Furthermore, political instability exacerbates the economic crisis of Pakistan. A country requires an stable political structure for its growth and prosperity. Unfortunately, Pakistan has faced three long

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military coups that results in political instability. This can be proved by The Dawn article which states that, "Pakistan has had 22 prime ministers since 1947, with an average tenure of ~~2~~ 2.5 years". Hence, Political instability fosters Pakistan's economic vulnerability.

In addition, the decades of inadequate industrialization fuels the economic crisis in the country.

The development in Pakistan is nearly negligible. Moreover, the government of Pakistan is not paying interest in the sector of industrialization.

This can be proved by the under-developed automotive industry in the country. The government of Pakistan should realize the need of industries and they must take serious steps to improve the condition. However, the lack of industrialization from

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decades is triggering economic crisis of Pakistan.

Last but not least, ineffective mobilization of tax resources foster economic crisis. The collection of tax culture in Pakistan is vulnerable. Elites got hand shake, while, the middle class hands are being cut down. Moreover, unaccountability is being faced by the tax department (FBR). According to Federal Board of Revenue (FBR), "The tax to - GDP ratio stood at 9% during 2023/24 FY". Consequently, ineffective tax collection increases economic crisis -

These causes indeed have enormous consequences for Pakistan. First, Pakistan's persistent fiscal deficits ~~is~~ the major impacts of the economic crisis that has engulfed the country. Fiscal deficit is an increase in a government's

expenditures over its savings during a financial year. According to a report by International Monetary Fund, "The budget deficit is rising, with a projected deficit of 64% of GDP in fiscal year 2023-24". Thus, the fiscal deficit is the grave impact of the economic crisis that the country is facing-

Similarly, economic crisis in the country pushes Pakistan below the poverty line. The poverty threshold, is the minimum level of income required to meet basic needs and sustain a decent standard of living. Poverty rates in Pakistan has risen in recent years. According to the World Bank report, "Around 40% of the population of Pakistan is living below the poverty line. Hence, the poverty is the serious impact of economic crisis of Pakistan.

In addition, economic instability have fueled a sharp devaluation of Pakistani rupee. Pak rupee has depreciated significantly in the last three years against the major currencies, resulting in the balance of payment crisis in the country. The former Governor of State Bank of Pakistan - Dr Ishrat Hussain said that "The rupees devaluation is a symptom of Pakistan's deeper economic problems". Therefore, devaluation of Pakistani rupee is another critical impact of economic crisis of Pakistan.

Furthermore, the economic crisis of Pakistan enhances the decline in the Foreign Direct Investment (FDI). Every country requires investment for its economic sustainability. Sadly, there is a huge decline in the Foreign Direct Investment in recent years. This can be proved

by the economic survey of Pakistan which illustrates that, "FDI declined to 1.627B dollars in July-Aug-2024, compared to 1.9B dollars in the same period last year". Resultantly, economic vulnerability fosters the decline in Foreign Direct Investment.

Moreover, economic uncertainty exacerbates regional security risks. Security, in modern world has shifted from armed security to economic security. If a country is economically secure, it can lead to sustained growth and improved living standards. Unfortunately, Pakistan lacks in this also, due to economic crisis, the government favors the elite class and developed or urban areas. This imbalance distribution of resources results in regional hatred and disparity. However, regional insecurity is a result of economic crisis -

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Finally, prolonged economic crisis hinders Pakistan's long term development. This sluggish growth perpetuates poverty, unemployment and inadequate infrastructure. According to the World Bank report, "Pakistan's average annual GDP growth rate has been 3-4%, significantly lower than regional peers". Consequently, economic crisis poses serious impacts on long term developments.

However, despite the severity of the crisis, Pakistan can cater it by adopting some pragmatic solutions. Initially, Pakistan shall reduce its reliance on international lenders for loans to overcome the crisis. Pakistan's reliance on international lenders, especially the IMF, has influenced and shaped its microeconomic decisions. The country has to accept and complete several conditions placed by the lenders to ensure the release of agreed funds. By pursuing an

economic path, the government can freely decide how to stabilize its economy by independently pursuing fiscal and monetary tools. Hence, by reducing reliance on international loans Pakistan can curtail its economic crisis.

Moreover, by minimizing the reliance on imports, Pakistan can reduce its economic crisis. Pakistan should promote export and reduce its imports and should invest in domestic industry. The key exports sectors such as textiles, clothing and leather goods can be revitalized through infrastructure upgrades, skill development programs, and targeted incentives. Simultaneously, investing in domestic industry can reduce reliance on imported goods.

By implementing this, Pakistan can decrease import dependence foster economic sustainability -

Similarly, Pakistan should improve governance system to overcome

its economic crisis. Every country needs good governance to create a favourable environment for development.

Governance can be improved through institutional strengthening, transparency and accountability. Similarly, by improving governance, Pakistan can improve its structure of development, resultantly, increase in the economic conditions of Pakistan.

In addition, better industrialization can eliminate the economic crisis of Pakistan. The government of Pakistan needs to implement effective measures to improve its industrial sector. The textile and clothing sector, which absorbs 40% of industrial labour force and contributes 60% to overall exports, should be prioritized. A coherent and proactive industrial policy is crucial to reversing the trend of deindustrialization. Thus,

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economic stability can be achieved by implementing effective measures to improve industrialisation.

Furthermore, stable political structure can curtail the economic crisis of Pakistan. A stable government ensures policy continuity, predictability, and consistency, attracting foreign investment, boosting business and stimulating economic growth. Historical examples, such as Pakistan's economic progress during the democratic governments of the 1980s and 2000s, demonstrate the positive correlation b/w political stability and economic growth. Hence, stable political structure can ensure the economic progress in the country.

Finally, the effective mobilisation of tax resources can assist the country to overpower the economic crisis. An effective tax system gives a country adequate revenue to finance domestic expenditures and meet external fiscal requirements.

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Unfortunately, the tax collection in Pakistan is very poor as compare to Scandinavian countries, which have achieved high economic gains due to effective tax collection. However, economic crisis can be overcome by effective systems of tax collection.

In a nutshell, Pakistan is experiencing enormous ~~an~~ economic crisis with serious impacts. However, these can be curtailed by taking pragmatic solutions. It a time, to improve the economic conditions of the country. However, economic crisis is caused by decades of inadequate industrialization, ineffective mobilization of tax resources and extreme reliance on international lenders. Hence, economic crisis has dire consequences like, regional insecurities, prolonged developments, devaluation of the Pakistani rupee and severe decline in

Foreign Direct Investment. However, all hope is not lost as the country can overcome the crisis by introducing effective measures.

For this purpose, the government shall pursue independent economic policies, stable political system, mobilised tax collection, improved governance system and reduced dependency on international loans.

By learning from past experiences and embracing innovative solutions, Pakistan can transform its economic landscape, ensuring better tomorrow for its citizens and cementing its status as a vital player in the global economy.