

Q:- What major economic challenges are being faced by Pakistan? What recommendations do you suggest to recommend it?

→ Introduction:-

Pakistan faces a myriad of economic challenges that hinder its growth and development. These issues include high inflation, a significant trade deficit, debt, crisis of energy, inadequate infrastructure and an informal economy. The country's reliance on foreign aid and remittances adds to its vulnerabilities, while political instability often complicates effective policy implementation. Addressing these challenges is crucial for Pakistan's economy and long-term prosperity. Exploring targeted recommendations will be essential for fostering growth and improving overall economic landscape.

Historical overview of economy of Pakistan:-

When Pakistan received its freedom, many (boasted and) proud and energetic

patriots boasted that they had created a nation that has more land than France and more population than Germany. Granting these comparisons, Pakistan still lacks most of the attributes of a modern nation. It is fighting a close battle with economic bankruptcy. **Mahbub-ul-Haq**, the architect of Human Development Index, who played an important role in economy policy-making during the Ayub and Zia governments.

The major turnaround took place after **1958** under Ayub Khan when Pakistan achieved political stability. **Zulfiqar Ali Bhutto**, a highly talented leader, rather than consolidating the gains of 1960s and ameliorating the weaknesses of development model, completely abandoned the model itself and made a complete about-turn. The economic policies in **Zia** administration lacked innovative and revolutionary vision and basically moved within safe grooves. **Nawaz Sharif**, after assuming power in 1990, took some very bold steps to

liberalize, deregulate and privatize the economy. His reforms did not make much traction because his government was dismissed after only two years in office.

Benazir did not draw up an alternative economic vision for Pakistan either. The military government that came to power in October 1999 had set economic recovery as one of the professed objectives. Having established a sort of macro-economic stability, she had embarked on a radical economic realignment: championing a state-led capitalism of sorts at the expense of the private sector.

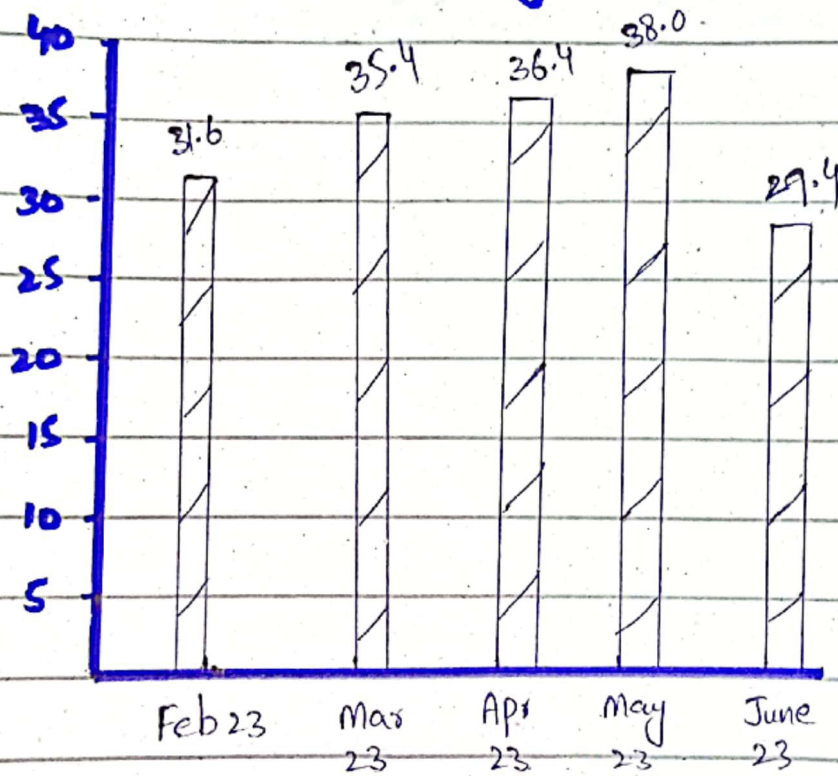
Major challenges to economy of Pakistan:-

i) High inflation:-

Inflation is the rate of increase in the prices of goods and items over a given period of time. In an inflationary environment, unevenly rising prices inevitably reduce the purchasing power of some consumers, and this erosion

of real income is the single biggest cost of inflation. In **2008, Zimbabwe** experienced one of the worst cases of hyperinflation ever, with estimated annual inflation at one point of 500 billion percent.

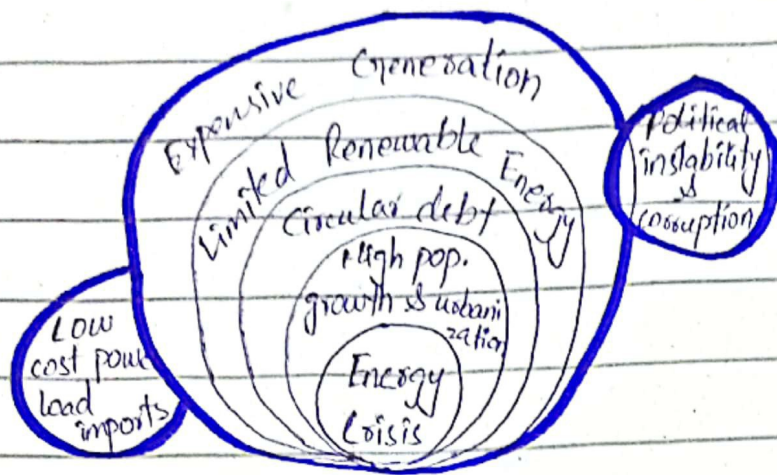
According to State Bank of Pakistan, highest inflation rate was in month of **May 2023**.



ii) Energy Crisis:-

Energy is vital for running all the resources and energy crisis directly influence all the sectors of economy such as agriculture sector, industrial sector, unemployment, poverty, lower

GDP and higher inflation.



iii) Defective policies of public spending:-

The effectiveness of public spending is a central issue. At present, there are several problems with structures of the spending. Some of these, such as generous subsidies provided to nonpoors and large losses made by major public enterprises, are being addressed under IMF programme.

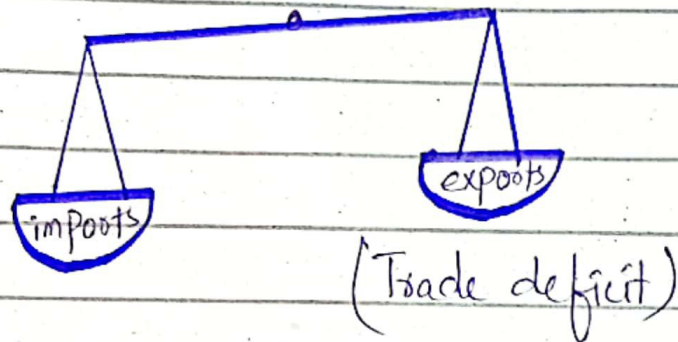
Delays in the completion of priority projects and, in many cases, increases in their cost have obviously limited their potential economic return.

iv) Trade deficit:-

A sustained trade deficit could adversely affect a country and its

markets. If a country has been importing more goods than exporting for a prolonged period, it could be going into debt.

Pakistan's trade deficit shrank marginally to \$ 3.6 billion during first two months of fiscal year 2024-25 due to an increase in exports.



v) Debt Burden:-

Over the years, Pakistan had failed to collect enough revenues for financing its budget. Consequently, the problem of twin deficits emerged and to finance the developmental activities government has to rely on public external and domestic debt.

According to DAWN, the central government debt surged by **8.07 billion** or 13% during previous fiscal year, bringing the total to **Rs 68.9 trillion**

by the end of June 2024.

Way forward to deal with such economic issues:-

a) Strong governance:-

Effective governance fosters political stability, which attracts investment and encourages economic growth. Strong governance upholds rule of law, ensuring that contracts are enforced, property rights are protected and the corruption is minimized. It also promotes social equity and inclusion and enables quick and decisive action during economic crisis.

b) Reforms in agricultural sector:-

Modernizing agricultural practices, such as introducing advanced technologies and sustainable farming techniques can enhance crop yields and efficiency, leading to greater food security and reduced prices. Reforms that provide farmers with better access to credit and financial services can empower them to invest

in their farms, adopt new technologies and manage risks.

c) Young Labour Force:-

Young workers often bring energy, adaptability, and willingness to learn, which can enhance productivity in various sectors. Investing in education and vocational training for young workers can create a more skilled labour force.

d) Strengthening external relations:-

Enhancing trade relations can open up new markets for exports, increasing demand for domestic products and driving economic growth. It can also facilitate access to essential resources, such as raw materials and energy.

Conclusion:-

To sum up, Pakistan is facing serious economic challenges but the need of the hour is to address those hurdles which are the leading causes of those challenges so that they can be corrected timely.