Quo: Critically examine the State of Pakistan's Economy and Suggest Structural reforms for Sustainable growth?

Introduction:

A Country's economy is the engine of its Sovereignty, Stability and Survival, for pakistans, that engine has been Severely weakened by decades of inconsistant policies, dependency on external aid, Political instability, and lack of Structural reform. As of 2025, Pakistan Faces a multifaceted economic Crisis, where inflation, debt, unemployment, and weak institutions have Coverged into a prolonged period a Stagnation. This response offers a Critical evaluation of pakistan's economic Challanges, and outline pragmatic Structural reforms necessary for achieving long-term, Sustainable growth.

Current State of Pakistan Economy:

(1) low Growth and High inflation (StagFlation)

- Real GDP Growth remained below 2% in FY2024 - 2025
- Inflation averaged 25-30%. dispropoti-

ionately hurting Fixed-income and lower-Class holds.

- Stagflation has reduced investment Confidence and increased the Cost of doing business.

(2) Fiscal Imbalance and Debt Trap

- Fiscal deficit exceeds 7% of GDP; debt-to-GDP ratio has crossed 75%.
- Debt Servicing Consumes over 50% of total revenue, Crowding out Social Sector Spending.
- The public Sector development program (PSDP) has been Slashed to accomodate debt obligations.

(3) Balance of Payment Crisis;

- Pakistan's foreign exchange ~~Potic~~ reserves Stood at ~$9 billion (july 2025), Covering less than two months of imports.
- Exports remain Stagnant (~$30-35 billion), while imports and external debt Continue to rise.
- Overreliance on remittance and bilateral loans (China, UAE, IMF) has undermined Financial Sovereignty.

"The economy remains externally driven with no real export dynamism."

JWT, December 2024

(4) Structural Informality and Economic Exclusion;

- The informal Sector Contributes 30 to 70% of GDP and employs over 70% of the non-agricultural workforce.

According to Dawn (july 18, 2025):

" Informality grows when the State fails to Provide Stability, justice and opportunity."

- Informality results from over-regulation, tax harassment, lack of institutional trust, not merely tax evasion.

(5) Human development Deficit:

- pakistan ranks 168 out of 193 on the Human development Index (UNDP 2024).
- 26 million out-of-School Children; over half of girls.
- labour productivity participation is around 22%. far below the global average.

(6) Energy Sector Crisis;

- The energy Sector ~~refers~~ suffers from Circular debt exceeding PKR 2.5 trillion.
- Transmission losses, inefficiencies in DISCOs, and Poor fuel mix Contribute to high electricity traffics.

Frequent power outages disrupt industrial Production and Public life.

(7) Poor Governance and Institutional Erosion:

- lack of autonomy in economic institutions (FBR, SBP, NEPRA).
- Frequent Changes in Finance ministers and economic teams lead to policy discontinuity.
- widespread Corruption, weak rule of law, & rent-Seeking discourage domestic and Foreign investment.

According to jahangir's world Times january 2025 "without institutional reform, all Fiscal and trade Policy become cosmetic."

Structural Reforms For Sustainable Economic Growth

(1) Reforming the Tax System:

- Broaden the tax base by taxing real Estate, traders, and agriculture elites.
- Simplify GST and integrate tax Filings with NADRA, SECP, and land records.
- Shift From Coercion to incentivized Formalization through digital Systems and lower Compliance Costs.

(2) Human Capital Investment:

- Increase education Spending to 4% of GDP and health to atleast 3%.

"Tax equity must replace tax tyranny." Dawn july 2025

- Launch TVET (Technical and Vocational Education and Training) Programs with Private Sector partnerships.
- Invest in early childhood education, girls' schooling, nutrition to build long-term productivity.

(3) Export-led Industrialization:

- Diversify exports into IT, halal food, pharmaceuticals, minerals, and engineering goods.
- Enhance CPEC Phase-II with special focus on special economic zones (SEZs), industrial clusters, and export processing zones.
- Offer tax incentives and infrastructure support for high value industries.

(4) Energy Sector Overhaul;

- Privatize inefficient DISCOs, modernize grid infrastructure, and promote solar, wind, and hydro power.
- Rationalize electricity tariffs to reduce subsidies but protect lifeline consumers.

(5) Agriculture and Land Reform;

- Modernize agriculture through mechanization, precision irrigation, and access to credit.
- promote crop diversification and reduce

post-harvest losses via Cold Chain logistics.

- Resolve land inequality, through land Consolidation and Land digitization Systems.

(6) Empowering the Informal Sector;

- Recognize informal workers as legitimate Contributors; offer legal Status, microfinance, and Protection.
- Establish one-window registration Systems for MSMEs (micro, small & medium enterprises).
- link informal businesses with Formal value Chains and digital Platforms.

"Rather than Crush it, the State Should learn From it."

Dawn, july 18, 2025

(7) Governance and Institutional Reforms;

- Ensure merit based appointments and reduce Political interference in economic institutions.
- Strengthen SBP, FBR, SECP, NEPRA with legal autonomy and performance metrics.
- Build medium-term national consensus on economic ~~politics~~ Policy through Parliament Economic Council or Charter of Economy.

Critical Evaluation;

Pakistan's economic Challenges are not Solely technical but Political and institutional. Repeated reliance on external bailouts has allowed policymakers to dely hard dicisions. Reforms Such as taxing elites, restructuring state-owned enterprises, and Cutting wasteful expenditures are politically Sensitive but necessary. without enclusive growth and State accountability, even well-designed reforms may Fail. However the Presence of a Young population, a growing tech sector, and Strategic location offer pakistan a rare opportunity. But opportunity without reform is merly Potential not Progress.

"Pakistan's economy is elite driven but mass-excluding." jwT, February 2025

Conclusion

Pakistan Stands at a Crossroads; Continue down the path of Fiscal dependency, inequality, and economic Stagnation, or Commit to Comprehensive Structural reforms. Sustainable growth is not achievable through temporary relief packages or Cosmetic policies. It requires deep institutional reforms, investment in people, and a national development agenda rooted in equity, productivity, and resilience. The Choice is ours reform or decline.