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Discuss in detail the reasons for fragility of economic stability of Pakistan and suggest pragmatic remedial measures for ensuring smooth and sustainable economic growth. (CSS-25) (Mark 20)

1. Introduction

Pakisten has faced continuous economic ~~loss~~ crisis since independence, IMF bailouts, trade deficit, rupee depreciation and inflation are some crucid crisis. However, the root cause lies in weak economic foundation like poor governance, narrow tax base and rising debt. Pakistan's economic stability needs structural reforms ~~and~~ that can ensure sustainable growth.

2. Reasons for fragility of Pakistan's Economic Stability

A. Weak and Inconsistent Economic Policies

Owing to frequent change in government, there has been consistent policy reversals with each government due to which neither government complete its tenure nor their economic policy implemented in its true spirit. Each succeeding government sideline the previous 10-15 years economic roadmap. Moreover, Pakistan's economy has alway focused on import-led consumption instead of export-led growth. Majority of industries

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also rely on subsidies provided by government and short-term ~~econom~~ relief packages due to which industries become ineffective.

"Every new government starts from zero, discarding the previous economic framework. This is the single biggest barrier to sustainable development"
Pakistan Institute of Development Economics (PIDE) Report 2023

B. Large Informal and Undocumented Economy

Pakistan's informal economy is estimated at around 40-60% of GDP. That means more than half of economy is unregistered, doesnot pay tax, neither that economy is regulated by government clearly showing 60% of economy in cash-based economy.

PAKISTAN'S TOTAL ECONOMY	
Informal Economy	59%
Formal Economy	41%

SOURCE: PIDE

C. Low Tax-to-GDP Ratio and Elite Capture

For most of years, Pakistan's tax-to-GDP remained in single digits (approximately 8-9%). After IMF's austerity measures, it is reached at 10.3% in FY 2024-25 that is even low then

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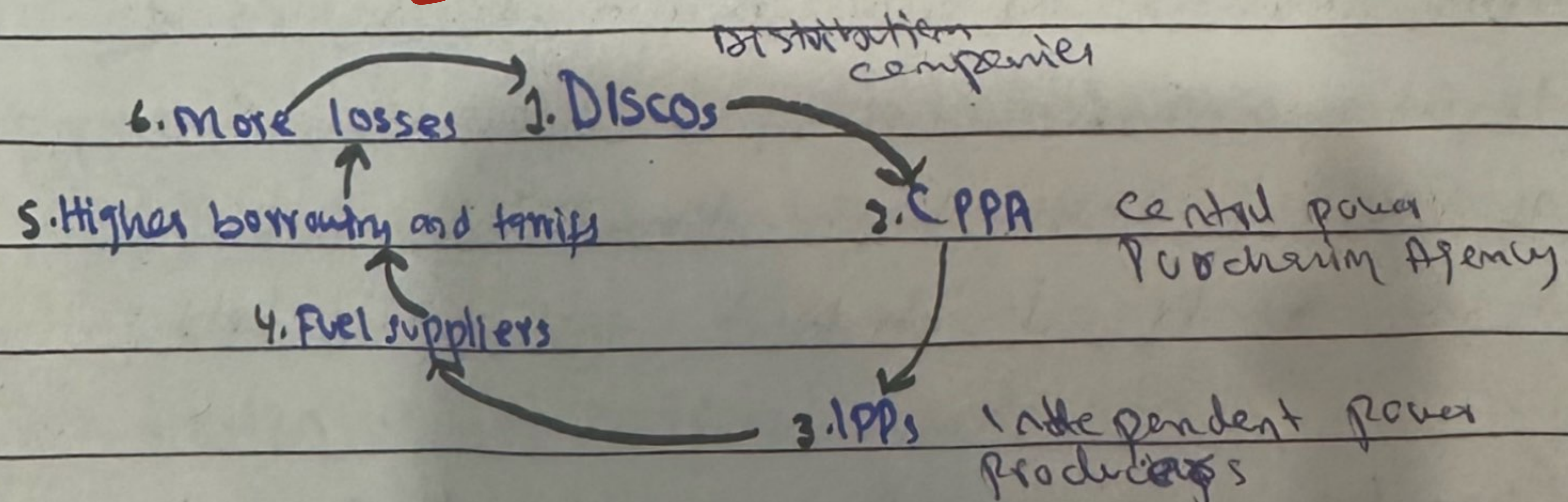
Standard ~~batto~~ benchmark. Middle-income countries like Pakistan should have 14% more tax-to-GDP ratio. Business sectors like Agriculture, real estate and big landlords are barely taxed by the tax collection authorities. Moreover, there is also a massive tax evasion for powerful groups and industrialist.

	Pakistan	Ideal for stability
Tax-to-GDP Ratio	~10%	15-20%
Informal share of GDP	~59%	<20-25%

SOURCE: Federal Board of Revenue Report 2023

D. Rising Energy Sector Circular Debt

Circular debt in the power sector crossed Rs 2.6 trillion at the start of 2024. The major cause of circular debt is line losses and theft, low recovery of bills in various regions, inefficient Distribution companies and their poor governance.



E. Increasing External Debt and Risk of Debt trap

Pakistan keeps borrowing new loans to pay old loans. that risk a debt trap. Pakistan's

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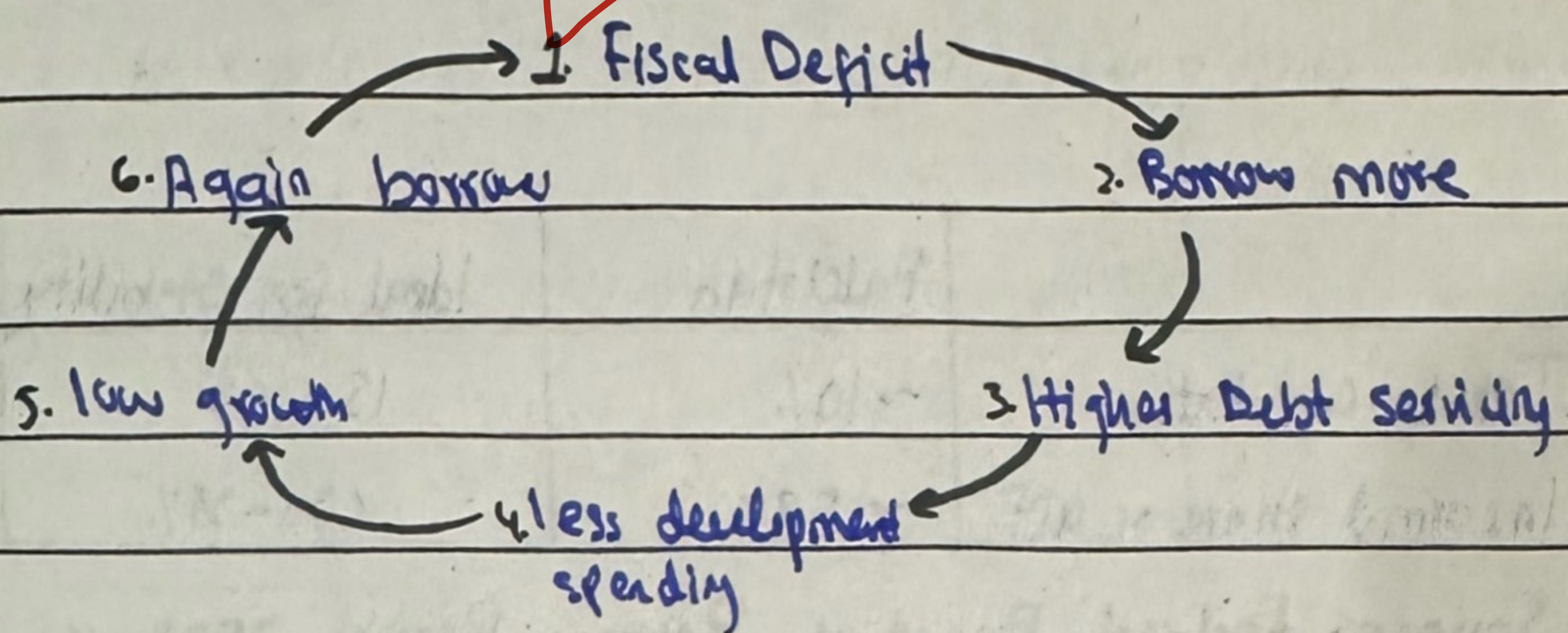
extend debt is around $130–135 billion as of 2025 Jan (State Bank of Pakistan). Moreover, the total public debts is approximately 70% of total GDP. Which mean 70% of GDP is paid on public debt.



F. Loss-Making State-Owned Enterprises (SOEs)

After the nationalisation policy of Zulfiqar Ali Bhutto, in 1974. Government own more than 213 state enterprise, many of them are loss making companies. Such as PIA, NHA, Pakistan Railways, DISCOs and Steel Mills. Around Rs 500+ billion is a loss ~~of~~ created by these SOEs, according to Economic Survey of Pakistan 2024. losses created by SOEs add burden to fiscal deficit and public debt.

G. Over-dependence on foreign Aid and Bailouts

Since 1950, Pakistan has been in IMF bailout for about 26 times. currently, IMF has lend $7.1b. That will be disperse in the ~~[illegible]~~ tranches. Moreover, Pakistan also rely on

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World Bank, friendly countries like China, UAE and Saudi Arabia. This illustrates the domestic economic and weakness of Pakistan's economy.

"No country can grow on borrowed money and ad-hoc policies forever."
IMF Report 2024

3. Pragmatic Remedial Measures for Sustainable Grow.

A. Longterm and Depoliticized Economic Strategy

Pakistan need to formulate a 10-15 year National Economic Policy that must be approved by all major parties in the parliament so that it could be interpret by the change of government. National Economic Policy must focus on Export-led growth, investment in human capital, increasing industrial productivity and improving fiscal discipline

B. Formalization of the Informal Sector

It is need of time to promote digital payments, simplified registration and GST invoicing to bring unregistered businesses into tax next. FBR need to offer time-bound tax amnesty and strict enforcement after

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deadline. Moreover, NADRA database can be utilized for better tracking mechanism.

"Pakistan's informal economy at nearly 39% of GDP, even partial documentation would significantly increase revenue."
Islamabad Policy Research Institute

C. Expanding the Tax Base and Reducing Elite Privileges

Government should expand its tax base by including Agriculture income tax, real estate and wholesale sectors. So that Agriculture which is contributing 24% of GDP can be taxed. ~~and~~ FBR also need to digitalization its processes. ~~and~~ Without taxing the untaxed, Pakistan will keep taxing the already taxed.

D. Boosting Exports and Industrial Upgradation

Pakistan needs to diversify its exports and create value-added goods to generate more revenue. Such as agro-processing foods and canned seafoods. Moreover, Pakistan also need to improve ease of doing business to make industry more competitive. Pakistan economy has potential to improve its exports by bringing strong regulation and transparency in its exports.

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add proper source against your stats.

Sector	Current Status	Potential
Textiles	60% of exports	Move up to high-value brand,
IT	$3-4 export bn.	Target $10 bn
Minerals (Reko Diq etc)	under development	Major FX earner

E. **Investment facilitation through One-window Operations**

Establishing one-window operation for domestic and foreign investors to cut red tapism. It will facilitate the ~~investor and investor will have not~~ Moreover, stable policies through one-window operation will attract FDI in various sectors like manufacturing, energy and services.

F. **Privatization of loss-making SOEs**

In order to have sustainable economic growth, Government needs to restructure or privatization of PIA, steel mill, major DISCOs and other loss-making entities. Proceeds coming from privatization process must be used to pay off debt and invest in health, education and other infrastructure.

4. **Conclusion**

Pakistan's economic fragility has deep structural flaws, low tax, large informal economy, circular debt, unsustainable borrowing and weak institutions. Regional and global situations also worsen the ~~other~~ economic

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situation in Pakistan. It is time to create comprehensive ~~pt~~ ~~strategic~~ economic plan for the activation of Pakistani economy for sustainable growth.

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