

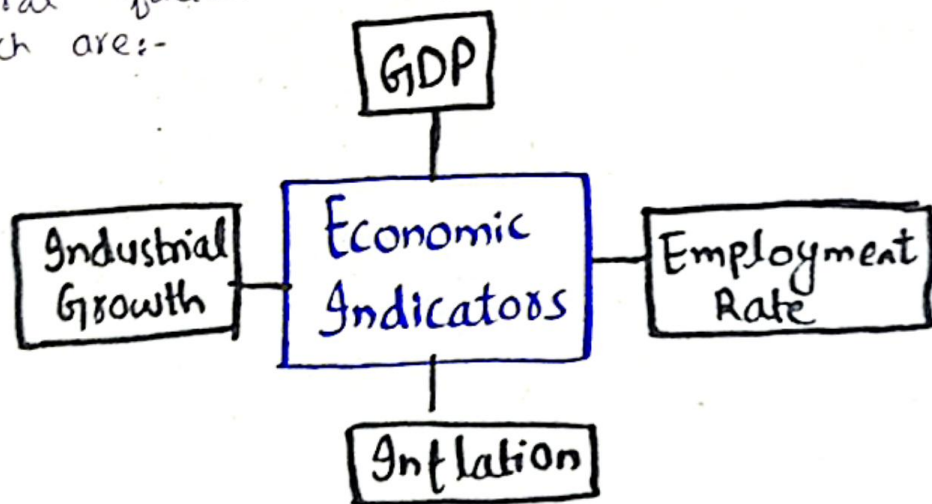
Economic Challenges of Pakistan

1) Introduction:-

One of the challenges that hinders development of Pakistan is economic fragility. Pakistan has been facing economic issues since its development. These problems include structural and cyclical issues which entail budget deficit and balance of payment crisis. Tax evasion, industrial decline, agricultural unproductivity, increased imports and low exports among other issues restrain economic development of Pakistan.

2) Economic Challenges of Pakistan:

Pakistan is facing economic setbacks due to several factors that indicate the condition which are:-



a) GDP Growth: 2.68% (Economic Survey of Pakistan 2024-25)

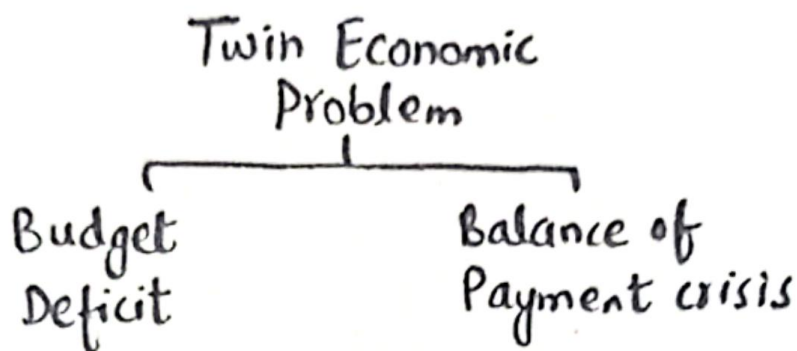
b) Employment Rate: 6%

c) Inflation: 4.7%

d) Industrial growth: 4.77%

These all statistics are below ideal requirement for sustainability of a country.

1.1) Pakistan is facing Twin Economic Problem:



a) Budget Deficit - Major Economic Challenge:

Budget Deficit is difference between tax collection and total expenditure. Pakistan is facing budget deficit issue. The total revenue from tax and non-tax sources was merely enough for ~~pay~~ loan repayment after excluding provincial share.

State Bank of Pakistan:

Pakistan Economic Survey 2024-25:

Pakistan's total expenditure for year 2024-25 was 18.9 trillion PKR while tax collection was only 11.7 trillion PKR through tax sources and 4 trillion PKR through non-tax sources. Pakistan had budget deficit of 6 trillion PKR in 24-25.

b) Tax evasion - Non documentation and

Non-automation of businesses:-

Partial documentation
Tax evaders are a significant challenge to government. If business is small, they hide it completely and if business is large, they step for partial documentation. Further, they evade sales tax and income tax.

For example: Real Estate
International Monetary Fund Report: About 35% of businesses in Pakistan are hidden by Non-documentation and partial documentation

c) Non-registration of small industries:

Small industries are not registered and are ~~constantly~~ are out of tax umbrella. They make major portion of tax evasion.

Case in point: Retailers, Academies, laboratories etc.

d) Agricultural sector Exempted from Tax Umbrella:

Agricultural is a major source of tax in other countries while in Pakistan, it does not come under tax. It makes 24% of GDP and 37% laboreforce is associated with it yet it is exempted. Landlords take advantage of this system.

e) Subsidies - A Major Portion of Budget:

Subsidies make a huge portion of budget and account for budget deficit. They are a continuous loss. ~~and should only be given to limited~~ It burdens the government and the industries are at a continuous loss. They are vital for low and middle class but ~~should be limited.~~

Case in Point: National Highway Authority has taken subsidies of 1600+^{PKR}, Pakistan International Airlines PIA of 1000 Billion^{PKR} plus in last two decades and ~~for~~ Steel Mills Karachi of 2007-24 taken 100 Billion^{PKR} plus subsidies.

Electricity Distribution Companies DISCOs are also included. by ~~Pakistan Bureau of Statistics~~ ^{State Bank of Pakistan}

f) Pensions - A burden for economy

Pensions ~~ma~~ are a great burden for economy. Government spend much of its budget in pensions of civilians and defense retired.

~~Case~~ Pension take 1000 Billion^{PKR} Plus in budget excluding military retired personnel.

Ministry of Finance

g) Defense Spending - A necessary element for state's ~~sovereign~~ protection

Pakistan has hostile neighbours like India. Continuous threat from these India and Afghanistan urges it to spend on defense significantly. Both countries continuously update weapons and ~~more~~ are in a race ~~to~~ of superiority.

Pakistan Economic Survey:

|| Pakistan has ~~spent~~ 25% of its budget ||
|| for defense ^{allocated} purposes. ||

h) No Reforms for tax collecting bodies:

Tax collecting bodies like FBR and Provincial tax bodies are not given incentives to encourage them. Ultimately, they are found involved in corruption, their offices are scarce and therefore cannot get more tax.

	International Monetary Fund: "Every state should	
	2% of tax collected on tax collecting bodies	
	But Pakistan spends only 0.6%."	

I) Trade Deficit - A Cause of Decline

Pakistan's difference of imports and exports is surging. It leads it to balance of payment crisis. It imports ~~more~~ of hydrocarbons (\$14 billion) heavily, cotton (once produced and exports) and other commodities like edible oil. ^{in past}

	State Bank of Pakistan: "Pakistan's total	
	exports for 2024-25 were \$32 billion and	
	imports were \$58 billion marking a trade	
	deficit of \$26 billion."	

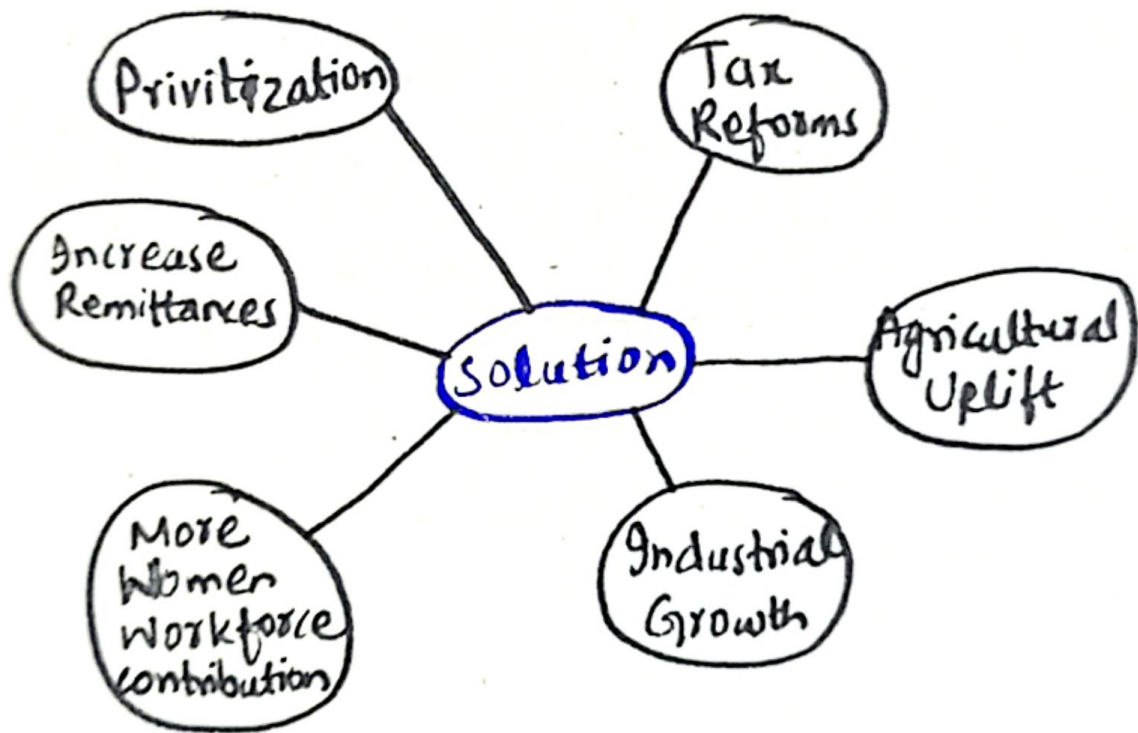
1) Debt Servicing - A vicious cycle

Pakistan has been pushed in a cycle of debt acquiring and loan repayment. To acquire loans, it has to pay more interest and conditions with that compromise its foreign policy and sovereignty. It begins an unending cycle of dependence.

State Bank of Pakistan:

"Total Debt of Pakistan in 2008-9 was 6 trillion PKR and in 2024-25 is 72 trillion PKR."

2) Recommendations:-



3) Conclusion:-

Pakistan is a developing country and its economic fragility hinders its growth. Budget Deficit, Rupee devaluation, trade deficit, debt servicing among other challenges amalgamate with political instability. Structural Reforms can help country cope with these core issues.