

Q3 Discuss in detail the reasons for fragility of economic stability of Pakistan and suggest pragmatic measures for ensuring smooth and sustainable economic growth.

1. Introduction

Various factors have contributed to the economic instability in Pakistan such as fluctuations in interest rates, undocumented economy, supply development, limited tax base, and flawed economic policy. However, these problems can be controlled by strategic planning, widening tax base, controlling inflation, and formalizing undocumented economy.

2. Reasons for fragility of economic stability of Pakistan

A. Flawed Economic Policies

Each successive government gives policies which are difficult to implement in context of Pakistan. Most of policies are adopted from other countries. Those policy framework does not fit in the Pakistani context.

B. Unstable Interest rate

Interest rate stability plays a key role in any economy. In case of Pakistan, interest rate remained on stable due to which investor confidence is reduced and businessmen do not invest, thus no growth in economy.

⇒ 23.5% interest rate was recorded in 2021."

State Bank of Pakistan

C. Limited Tax Base

For any developed country, direct taxes are higher in comparison to indirect taxes. But in case of Pakistan, indirect taxes are more than direct. Moreover, only salaries of individuals are frequently taxed. As business are not properly documented they do not pay tax. While agriculture is exempted from tax.

"Pakistan earn 24.5% of revenue from agricultural land. That pays no tax, in the economy."

Dr. Ishrat Hussain

D. Pakistan exports low value-added goods

Majority of exports of Pakistan include raw cotton, sugarcane and seed oils. Due to which they are sold at lower price. When these exports are converted into final goods like jeans, then more price tag would be attached thus more taxes to be generated ~~the~~ through VAT.

E. Undocumented Economy

Due to less digitalization and digital infrastructure, Pakistan economy remained undocumented. Because of this no taxes is recorded then any output is considered in the economy.

“More than 36.9% businesses are undocumented in Pakistan that creates low tax collection.”
International Monetary funds (IMF)

F. Rupee Depreciation

Paucity of dollar reserves, Pakistani Rupee (PKR) has been devalued multiple times due to which import of capital and machinery become expensive in Pakistan.

3. Pragmatic measures for ensuring smooth and sustainable economic growth

A. Widening Tax base

By enhancing tax base, more tax would be collected that government would have more funds to spend on public or development project.

B. Adopt Strategic Planning

Long term strategic planning with the help of foreign friends must be done. And these policies and planning must sustain for 10 to 15 years without government intervention so the economic stability is achieved.

C. Bringing undocumented business into tax base

When the undocumented business are part of documented economy, the circulation of goods would be more visible and more taxes would be collected.

D. Stabilizing interest rate

This will increase investors confidence, thus more borrowing will be done, and more employment opportunity will be created.

~~Answer:~~

~~Answer:~~

Average interest rate remained 11.2% through fiscal year 2025."

Governor of State Bank of Pakistan

E. Controlling Inflation

State Bank need to control inflation through introducing fixed prices. So that goods and purchasing power in the economy do not fluctuate. This will allow citizen to not to pay more than the actual price of the product.

Inflation remain 6.5% on average

from year-to-year - 2025"

Pakistan Bureau of statistics

4. Conclusion

Pakistan's economy has potential to grow only when pragmatic economic approaches, policies and framework are adopted. When these are not met, then economy ^{will} continue to struggle in the coming years.