

Subjective PART-II

Q2 US Economic Crisis:

US economy going through its worse situation today. The debt on US is on peak of its history.

The reason behind is that spending of federal government is more than its income. The total debt on

US on April 2023 is 31.47 trillion dollars while total GDP is 23 trillion dollars. It means total debt to GDP ratio is 123%.

There are many reasons behind this critical economy situation of US. One of the reason is debt service. As 38 to 40% of the expenditure of total revenues is allocated for debt servicing, that is a big chunk of income.

Another reason is inadequate revenues. The US tax system does not generate

enough revenues to cover the spending policymakers. This rapidly growing imbalance between revenues and spending leads to higher annual deficits, and the result is an increasing national debt balance.

The Total revenues of 2022 was \$4.9 Trillion and Total spending was \$6.3 Trillion. (Peter G. Peterson Foundation,

Rising Healthcare cost is another reason of decline in US economy. Health sector in US is subsidized. Health spending is more than its collection. US spend twice as much on healthcare as other advanced nations, but the system does not provide better overall health outcomes.

Financial Crisis of 2007-8 also called subprime mortgage crisis, severe contraction of liquidity in global financial markets that originated in the US as a result of collapse of the US housing market. It

threatened to destroy the International financial system; caused the failure of several major investment and commercial banks, mortgage lenders, insurance companies, and savings and loan associations, and precipitated the Great Recession (2007-2009), the worst economic downturn since the Great Depression.

War Spending is another major reason of situation facing by US. US spend bunch of its income in defence budget US spend \$800 billion on War on Terror and \$1 billion on Iran war.

Other than this US spend \$6.5 trillion since 2001-23 on War and Terrorism. US has been engaged in longest ever war with Afghanistan that cost it alot.

Pendemic in recent years is biggest halt to world economy. It cast severe impact on every country. It also

cause the decline of US economy, as US faced the loss of \$2 trillion during corona. Post Corona era also put bad impact on its economy. US faced inflation, price hike due to which banks, stock exchanges and business are in crisis

Last but not the least, the Bond Issue. Like every country US issue bond and investors invest in bonds, Bonds can be for short term and long term. Government pay interest on that and shortage of funds can be filled by bonds. US has a burden of accumulate bonds.

Implications:

US is on verge of default and US economy is in tremendous crisis. Earthquake in economy because of dollarization. This will also effect other countries of world which has reserves in dollars like China, India, Japan, Pakistan etc

Solutions:

Eliminating the US government debt is a Herculean task that could take decades. There are number of method to reduce the US national debt. One of the most controversial is to open the nation's borders to more immigration, kick-starting entrepreneurship and consumption.

Raising the Social Security retirement age is frequently suggested option. A national sales tax, such as seen in Canada and Japan, could also help

Increase in Debt selling can also help

Q.3 Introduction:

Pakistan's economy is in its worst condition. The reserves of Pakistan is in lowest condition of its history. Pakistan immediately need financial assistance to survive. Pakistan is now in deal with IMF which will help Pakistan to ~~stop~~^{avoid} default.

Pakistan's Economic History:

In order to understand economic position of Pakistan, it is necessary to understand its journey. Pakistan saw reforms in financial sector in the 1990s for increasing the monitoring and supervision of financial institutions. Between 2007 and 2018, there was a rise of 421% in loans and advances, but the profitability was reduced. That is when the State Bank of Pakistan began to implement Basel regulations for aligning with the international community.

The Ninth Economic Review:

The IMF team arrived in Pakistan on 31st January, 2023 to discuss the 9th review of the \$7 billion extended fund facility. The main agenda was to hold technical talks based on economic data given by different departments. The focus of the mission remained the inducement of policies for restoring domestic and external policies guaranteeing sustainable growth. This includes strengthening the fiscal position of the state through high-quality measures that are durable.

In consideration of the economic losses inflicted by the 2022 floods, IMF is making efforts to remain engaged with the state of Pakistan. The team aims to restore the viability of the power sector and reverse debt accumulation.

Challenges:

According to the Finance Division, there have been policy slippages by the government which can further delay the dealings between IMF and Pakistan. Differences have been observed in the GDP projections of the Planning Ministry and Finance Division, and the inclusion of post-flood data is what is leading to the difference.

Deal with IMF

The discussions revolved around the \$6 billion bailout package that was taken in 2019. A year later, \$1 billion was added to this package. As per the ninth review, Ishaq Dar, the Finance Minister of Pakistan, has agreed to implement the fiscal measures demanded by IMF which include raising \$70 billion PER through new taxes that will be imposed in coming year.

Another provision of

the deal is the implementation of a hike fuel prices. The diesel levies are to double to around 5 PKR a liter from the month of March, with the second hike to start from 1st April. Apart from these targets, there was an emphasis laid during the meetings on revenue collection, phasing out the untargeted subsidies, and non-interference with the exchange rate.

Chances of a Bailout deal with IMF

The visit of the IMF was completed after 10 days of talks without reaching a staff-level agreement. However, the officials of Pakistan have expressed determination to complete the condition of program and engage in virtual talks. Pakistan's Prime Minister Shehbaz Sharif is optimistic that the country will be able to finalise a critical loan.

deal with the International Monetary Fund (IMF) this month

"We are still very hopeful that the IMF programme will materialise. Our 9th review by the IMF will match all terms and conditions and hopefully we will have good news this month."

(Shebaz Sharif)

Alternative Policy Options for Pakistan.

Pakistan can look upon other ways to improve its economy or lessen its dependence on IMF.

Pakistan can focus on maximizing remittance inflows by offering incentives for overseas Pakistanis.

Pakistan needs to encourage Foreign Direct Investment (FDI) by creating favorable investment climate. Pakistan can improve its taxation system.

Pakistan should try to seek loan deal with its friendly country like China, KSA etc.