

**Topic:** Can a fragile economy be able to re-cuperate by raising utility Bills?

## Outline

### A. Introduction

- Economic Crisis of Greece (Eurozone crisis)
- What do we mean by fragile economy?
- Thesis:

While rising utility bills can provide short term fiscal relief, they can have long term negative impacts on fragile economy by exacerbating financial stress on house holds and businesses, leading to decreased consumption and investment which are crucial for sustainable economic recovery.

### B. How Pakistan is facing fragile economy?

- i Dwindling Foreign Exchange Reserves
- ii Exponential increase of Current account deficit and Fiscal deficit
- iii Decline in industrialization and large scale Manufacturing Enterprises (LSME)
- iv Implementation of regressive taxation regime. leads to fragile economy.

- v ⇒ Extensive Corruption and intransparency.
- vi ⇒ Concentration of wealth in few hands and mass poverty.
- vii ⇒ Surging inflation rate leads to dwindling economy.
- viii ⇒ Reduced foreign Direct Investment and rise in unemployment.

### C. Strategies to recuperate fragile Economy other than raising utility bills?

- i ⇒ Employment through industrialization
- ii ⇒ Initiate poverty alleviation programme
- iii ⇒ China Pakistan Economic Corridor (CPEC) as the precursor of Economic stability
- iv ⇒ A balanced Budget and Strategic planning.
- v ⇒ Introduction of Progressive tax Regime and increase in Tax to GDP ratio
- vi ⇒ Participation of a robust private sector

### D. Conclusion

In 2015, Greece faced an economic crisis that left many families struggling to make ends meet. During the euro zone crisis (Greece crisis) Greece implemented austerity measures including utility bills hikes, as part of its bailout agreements. These utility bills sky rocketed, leaving households in a tough spot, deciding between paying for electricity or buying groceries. This situation reflects a critical question can raising utility bills help a fragile economy to recover? A fragile economy characterized by high unemployment rates, low consumer confidence, weak industrial production and volatile currency values.

Pakistan is a country with a diverse economic landscape, has faced numerous challenges in achieving sustainable economic growth and stability. Among these challenges the management of utility bills comprising electricity, gas, water plays a crucial role. While rising utility bills can provide short term fiscal relief, they can have long term negative impacts on fragile economy.

by exacerbating financial stress on households and businesses, leading to decreased consumption and investment which are crucial for sustainable economic recovery.

Beginning with the dwindling foreign exchange reserves of Pakistan, it is a fact in this modern world that a country's economic muscles are evaluated on the basis of its foreign exchange reserves. Even the countries smaller than Pakistan have robust reserves.

For example the state bank of Pakistan reported in 2022 that foreign exchange reserves of the country are all-time low with only one month worth of import bills remaining in the existing reserves. If we compare the current situation of Pakistan and India, Pakistan having 14.415 \$ billion and India having 648.7 \$ billion in its external foreign exchange reserves. So basically this dwindling foreign exchange reserves pose a great threat to economy. As dollar base economy of world measures economic stability in form of dollar reserve.

With this conundrum the issue of increase in the current account deficit of the country hits below the belt of Pakistan's economy.

This means country is importing more than it is exporting in fiscal year 2022-2023.

The current account deficit of Pakistan was just \$17.48 billion. Such kind of economic

challenges lead Pakistan towards default.

Ultimately the current account deficit forces the government to seek more financial resources assistance in shape of loans.

Similarly an other <sup>twin</sup> factor of current account deficit is fiscal deficit which is shortfall of government's income compared with its

spending. In fiscal year 2022-2023 the total collection of center was 4.3 trillion

PKR while the expenditure was 8.7 trillion

PKR the shortfall was around 4.4 trillion

PKR. Ultimately these twin deficit leads to a myriad of economic challenges and forces

government to seek more financial assistance

from international organizations like

IMF. Pakistan has been trapped in

vicious cycle of "loan seeking" since

its

Both of these challenges lead to another grave challenge that is lack of industrialization. This sector of industry act as a fuel of country's economy, and provide employment for its countrymen. But what about the economy of country if its 200 unit being shutdown due to high prices of energy and insufficient demand and supply ratio. In 2022 industries including textiles, automobiles and mobilephone companies closed their units in Pakistan. Moreover Pakistan import the parts of automobiles and assemble them. Youth of country is not capable of manufacturing these spare parts. According to Pakistan economic survey (2023-24) large scale-manufacturing has been declined by 0.1% while there was decline of 7.0% during last year. Similarly there is decline of growth in automobile industry 37.4%, Electric optical products 16%, Textile 8.3% and mineral products 3.9%. So instead of relying on import Pakistan's industry just contribute only 20% in GDP which is another factor

of fragile economy.

Further, the regressive taxation regime existing in Pakistan has caused another blow to the economy. When budget is prepared annually the revenue officials levy taxes on the majority of the middle class, putting more burden on their fragile shoulders, while a huge chunk of tax payable population stays out of this tax net. In Pakistan salaried is the worst hit. The ratio of taxes on the salaried class vary from 27% to 49% depending on salary size. Sales tax on service is approximately 27%. In Pakistan "industry is under severe burden, as production cost is expensive especially the prices of gas, electricity are 30% higher than of India and Bangladesh. On other hand they pay annual 17% GST. Moreover the mechanism of tax collection is not digitalized. In 1998 FBR collected almost 300 billion PKR while in 2023 FBR collected 6.7 trillion PKR. but state spent very less on FBR. Until unless proper documentation, automation and proper spending on FBR, sizeable increase in collection would remain in an elusive dream.

To start with, eradication of corruption is an agent of economic growth. When a society is corruption free then all participants get an opportunity to generate wealth.

Denmark, Finland, New Zealand are perceived as the least corrupt nations in the world while the most corrupt nations are Syria, South Sudan.

On corruption perceptions index for 2023 India ranked 93 out of 180 countries while of Pakistan rank is 133 out of 180 countries. Pakistan's overall score in transparency is 29/100 while that of India is 40/100 according to Transparency International Report. So now a corrupt society can flourish and prosper in world. The same situation is stated by a Journalist Maleeha Lodhi in her book "Pakistan Beyond the Crisis" states that the impact of corruption, clientelist policies and money laundering have not let our economic structure stand on its legs.

In 2021, a report revealed that the richest 1% of Pakistan's population owns more wealth than the poorest 50%.



This stark statistics underscores the severe economic inequality prevalent in the country. Despite its rich natural resources and strategic geopolitical position, Pakistan continues to grapple with wealth concentration in few hands. The development of an elite class in Pakistan is also tied to the emergence of industrial and business elites. Feudal lords diversified their interests into industries and businesses using their political clout to secure favourable economic policies and access to state resources. This intertwining of land ownership and industrial wealth has perpetuated a cycle of wealth concentration that remains unbroken. According to a rough estimate the top 0.0001% of Pakistanis earn 180 times more than the people equal to them living at the bottom-line. It means a rich earns in two days what it takes his poor counterpart to earn in a year. So the rich are getting richer at the expense of the poor. Hence is the absence of tangible steps taken to resolve this issue is further destroying the social fabric of Pakistan.

Moreover, the unprecedented rise in the inflation directly impacts the economic crises. To overcome budget, Trade, Current account deficit government increase the price of commodities which erode the consumers purchasing power. In Pakistan inflation has overshadowed previous boundaries and has created havoc on low middle income groups. According to the Pakistan Bureau of Statistics 2024 report the inflation rate in the country has reached 24.8% and is projected to increase further. According to the UN a person is deemed poor if he earns less than \$1.25 per day. This means that almost 37.2% of the Pakistani population is living below the poverty line. The situation becomes extremely gloomy if one moves the poverty threshold to \$2 per day for then about 60% of the population will fall in the extreme poor bracket. Hence such a dwindling situation leads to more corrupted economy.

Moreover, the reduced Foreign Direct Investment (FDI) in the country is also

11

a challenge. In fact first requisit of globali-  
-zation is the arrival of FDI. Investors  
seek those places where cheap labours  
available, and tax free heavens, trained  
and technical work force, <sup>and</sup> also favourable  
investment policies available. But in reality,  
lack of trained personnel, terrorism,  
Counterproductive trade and strict investment  
Policies of Government, coupled with bureaucratic  
apathy have turned Pakistan into a hell  
for the FDI. This lack of FDI leads  
to massive unemployment. According to  
IMF unemployment rate in Pakistan is forecast  
+ 8% in 2024. It means almost 6.61  
million people in Pakistan are unemployed  
which are burden on Pakistan economy.

Though the situation described  
above may paint a frightening picture of  
economic future of the country. But whenever  
we talk about rising the prices of  
utility bills just to compensate immediate  
fiscal deficit. Firstly it increases  
revenue for utility companies, enabling  
them to invest in infrastructure improvement  
and service quality. Secondly government

may benefit from higher taxes and levies on utility services, providing short term fiscal relief and potentially reducing budget deficit. However these benefits are often temporary as nations is already facing grave challenges of economy, rising utility bills further fuel up the inflating the fragility of economy. So, instead of raising utility bills there is a need of lot of reforms at national and policy making level.

The very first and remedial measure is to create employment opportunities so that youth of country should engage in some constructive nation building tasks. As Pakistan has an agro-based economy, it needs to involve agro-machinery. Also industries should be developed to shift gradually from agricultural to industrial economic structure. In fact, to say that a country should move forward without industrial modernization is entirely wrong. The development is only possible through modernization which is not only urgent for Pakistan,

but also highly critical on account of the pace the world is marching on this path. This will reduce the number of unemployed youths, leaving no impetus for them to commit crimes, or engage in unhealthy activities, Hence more job opportunities will help in curb the economic issues too.

The second remedial measure is to initiate poverty alleviation programmes which can turn Pakistan from a terror-corn country into a prosperous nation. The issues such as distribution of funds need to be streamlined. Instead of giving away money, technical and vocational training should be provided to make the youth self-sufficient, skilled and independent. Not only it will solve the issue of unemployment but will also reduce the crime rates in society. The Greek sage, Aristotle said "Poverty is the parent of crime and revolution" and he seems right about it when we see rampant poverty in Pakistan. Despite several efforts made by government

including the Benazir Income Support Programme, Pakistan Bait-ul-Mal and Women Welfare Funds, Pakistan has failed to improve the situation. Hence a comprehensive and elaborate plan needs to be devised for the alleviation of poverty.

Thirdly, China - Pakistan Economic Corridor (CPEC) is the harbinger of robust economic growth. Through CPEC

Pakistan will be a safe place for foreign investors. So CPEC is a project which is directed at economic stability through trade and business infrastructure development. It is estimated that a total of 64 \$ billion worth of foreign investment is going to arrive through this megaproject. This will provide a safe haven for foreign industrialists and investors. Pakistan by properly availing this golden opportunity, can easily come out of the existing economic mess.

To start with, eradication of corruption is an agent of economic growth. When a society is corruption

free all the economic participants get an opportunity to generate wealth via a healthy and efficient competition. Germany for instance is one the least corrupt country. So when corruption is free minimal, all the participants of the country are able to perform in an inclusive way contributing vigorously to engine of growth. It is because a corruption-free society operates on the principles of fairness and equity. So eradication of corruption stimulates economic growth.

Furthermore, we must target a balance budget. A balance budget is that which is consistent with reducing the debt growth. This can be achieved by managing expenditure growth, supporting sustainable progressive and simple tax burden by bringing the retail sector into fair net and ensuring property taxes. We should consider our income first then expenditures should be accordingly especially Government should reduce its personal expenses. Moreover before introducing new projects and schemes

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The previous projects should be completed on priority bases and a strategic and long term planning should be devised to eradicate abnormality and fragility of economy.

Additionally, Increase the tax-to-GDP ratio through strategic recalibration of the tax systems. The tax collection should be done across the board with a primary emphasis on introducing new filers in the tax net instead of increasing taxes on those who are already in the tax net. The rate of sales Tax should be reduced and there be an introduction of a progressive tax regime in which all incomes are taxed, all consumptions are taxed and any exemptions are expunged. New taxes should be applied on real state and landlords. By simplifying the complex tax code and enhance compliance procedures through digitization. Make filing tax returns compulsory. Eliminate counter-productive taxes, such as those on cash withdrawals. By following



7

these strategies we can increase our tax to GDP ratio which is a key indicator of a balanced economy.

The most important factor is the presence of the private sector. In fact it is the private sector that takes the lead. Almost all the existing ventures in the United States or any other countries are in the private sector. If the Pakistan private sector woke up to the reality that this void of the economy is to be filled by this sector, it can contribute immensely towards <sup>the</sup> right direction of economy. However it is also the responsibility of Government that it should legislate and provide necessary subsidies to the private sector to employ the youth bulge of country in constructive way. So private sector should ensure to improve economic efficiency and reduce the burden on the national exchequer.

To end this argument concisely, it is fair to state that though Pakistan is a resource rich country, yet mismanagement and leadership deficit have made it

13

a state which has failed to fully realize its potentials, there are numerous socio-economic problems prevalent in the country which need to be sorted out. Raising the prices of utility bills is no doubt a serious problem that dwindle our economy instead of building it. Proper wise and viable policies can improve gamechanger for Pakistan. Pakistan needs is visionary leadership, having the will to implement the policy recommendations. Although the situation appears dismal, yet one must not lose hope. Strong will power and faith can turn the tide of the efforts of the governments. Also some measures such as quality education, job opportunities, poverty alleviation programs and elimination of terrorism can make Pakistan a stable and prosperous country. Therefore instead of focusing on rising prices of bills, these measurements should be taken. Therefore, Pakistanis should not lose hope, because Thomas Carlyle

has said " He who has hope, has everything". However, in case proper steps are not taken to deal with these issues, the widening cracks in our social fabric may devour our beloved Pakistan, Heaven forbid it.