

Question #06

(Pakistan's Economic Plight in Term
of the Given Statement)

1- Introduction

Pakistan's economic plights is becoming a never-ending reality. It is currently faced by all the macro-economic indicators. To solve these, it acquires loan on interest. With currency depreciation, the country has been stuck in paying interests as well as the loans. Each loan package comes and spent away without any analysis; hence, no result is achieved even after years.

2- Never-Ending Story of Pakistan's Economic Plight

In the early 1950 and 60s, Pakistan was considered "Asian Tiger" due to its booming economy. However, ever since that period, it has never been able to put an end to economic and fiscal plight. There are various macro-

economic indicators being faced by Pakistan. The problem of twin deficit, circular debt, highest inflation etc. All of which accompanied by political instability, Pakistan is in reality becoming a perfect recipe of disaster.

a- The Issue of Twin Deficit

Twin deficit i.e. fiscal or current account deficit and the trade deficit, both have been persistent problems. The fiscal deficit of FY 24-25 is 7.28 trillion Rs., of FY 23-24 was 6.92 trillion Rs. On the other hand the trade deficit — this year stood at 463 billion Rs. in December 2024

b- Circular Debt is a Vicious Cycle

Pakistan has been stuck in a vicious cycle of circular debt i.e. energy related debt. The government has made expensive agreements and is bound to pay

'Capacity payment'. Resultantly, the government is under the ever-increasing debt to repay the Independent Power Producers (IPPs)

B- Tax Evasion Generate Less Revenue

Pakistan has long faced the issue of tax-evasion. From elite to poor class, all fall under the bracket. For example, according to IMF, 23-Mega cities do not fall under the tax-bracket. Similarly, cottage businesses are not registered, Retailers and real-estate document less items and plots respectively, all to avoid paying the taxes.

d- Remittances Have Been Arriving Illegally

Remittances are one of major life lines for Pakistan's economy. Until recently, citizens living abroad would use Hawala/Hundi channels to send money in Pakistan. These illegal

channels would not charge them taxes. Once the crackdown on Hamal/Hundi, the legal remittance ratio has increased by 6% in December 2024.

c- Dollar Flight Reduces FX Reserves

Pakistan is an import based economy. It buys lots of essential items from the international market in dollars. The imports put pressure on the reserve so the dollar flows out. On the other hand, Pakistan's Hamal/Hundi channels have been used to finance terrorism, according to FATF reports. Resulting in less dollars in the market.

3- Pakistan's Inclination to Quick Money

Pakistan has had an inclination to 'quick money'. Everytime it's stuck in an economic deadlock, it seeks loans, aids or grants. Aids are financial assistance by friendly countries

to enhance bilateral relations. Whereas, loans come with strict austerity measures and condition. Currently Pakistan is paying loan to IMF. Similarly, countries like Saudi-Arabia and UAE helped in maintaining FX reserves and fill the budget deficit-gap.

4- Paucity of Self-Analysis: Policy Without Planning

The major focus of Pakistan has been to gain money without proper planning. The country has never had a single, long-term policy. A single, long-term policy allows the leader to analyze the drawbacks, positive and negative impacts. Without such an analysis, it is practically impossible to have positive results. Without any feedback process, the leaders take impulsive reactions only to be stuck at a dead end.

5 Roadmap to Having a Booming Economy

a- Separate economy and politics. The political intervention and instability do not let a policy have a test run for even four years

b- Digitalize many aspects of financial administration to reduce red-tape bureaucracy

c- Instead of loans, demand ^{climate justice} swap from major loan contributors

d- Offer currency swap with countries in business to reduce dollar flight

e- Convince the organizations like IMF for public-friendly policies as loans are actually repaid by governments' money public's

6- Conclusion

In conclusion, the statement given is the fact of Pakistani economy. Had there been a dedicated analysis and research to figure out the future road, the could survive with a little better economic condition.