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Topic:

Pakistan's Economic Future: Can the country Achieve Sustainable Growth?

Outline

1- Introduction

- (i) What is Pakistan's Economic Future?
- (ii) General statement
- (iii) Thesis statement

2- Yes, the country can achieve Sustainable Growth by adopting following Reforms:

(A) Tax Reforms

- (i) Broaden the Tax Base
- (ii) Reducing Tax Exemption
- (iii) Improving tax yielding mechanism

(B) Reforms in Energy Sector

- (i) Privatization of Ipps and Discos
- (ii) Reducing capacity payments
- (iii) Shifting to renewable Energy sources

Date: _____

Day: _____

(iv) Eliminating Bill Exemption of influential people

(c) Create Fiscal Space

- (i) Reducing government spending
- (ii) Increasing Agriculture output
- (iii) Increasing exports

(D) Comprehensive and Resilient Policy Framework

- (i) Corruption Reduction
- (ii) Enhancing Transparency and accountability

3- Conclusion:

The Essay:

According to a United Nation's report Pakistan's economy is expected to register 'modest expansion' with growth expected at 3.4% in 2025 and increasing to 4.2% by 2026. Pakistan has been grappling with economic crisis since its creation. There are many causes of economic crisis in Pakistan but the country can achieve the sustainable growth by adopting comprehensive and effective measures such as by broadening tax base, reducing tax exemption, and improving tax filing mechanism; by reforming energy sector such as Privatization of IPPs and Discos, reducing capacity payments, not giving exemption to influential people, and by reducing circular debt and shifting to renewable energy sources; by creating fiscal space: reducing government spending,

increasing agricultural output and increasing exports. Last but not the least, in order to achieve sustainable growth there is a need to reduce corruption and enhance transparency at government level.

To begin with, there is a need to make comprehensive and resilient tax reforms. Because without taxation it is not possible to cope with budget deficit. Increasing taxation depends on broadening tax base. There is a need to increase the number of tax payers. In every country agriculture is a good source of tax while in Pakistan it is exempted. In order to broaden the tax base more and more tax payers should be registered with FBR and other tax bodies of Pakistan. If there is more number of tax payers there will be less budget deficit and the GDP of the country will also

improve. All those economies where **tax to GDP ratio** is above **13 percent** that economy performs well but in Pakistan it is dangerously low which is **9%**. Pakistan needs to increase its **tax to GDP ratio** by **13%**.

second comes the tax exemption which is a significant factor in increasing budget deficit and reducing ^{amounts} **subsidies** which ultimately impact economy. There is a need to reduce exemption in agriculture. As ~~Pakistan~~ Pakistan is an agrarian society ^{and} most of the labour is based on agriculture. Moreover, subsidies are also a major cause of economic volatility.

In **Fiscal Year 2021-22**, there were around 1.6 trillion PKR subsidies. ^{The} subsidies are given to lower middle class and middle class sections of the society. For example in **FY 2021-22** ^{there were ~~subsidies~~} more than 200 billion ^{subsidies} PKR on Electricity, more than

Date: _____

Day: _____

200 billion ^{PKR} on gas, and more than 200 billion ^{Subsidies} PKR on Benazir Income Support Programme (BISP).

Thirdly, there is a need to improve tax filing mechanism. There should be a proper documentation and automation of tax files. In the recent past two major steps have been taken by ^{the Government} such as ~~track~~ **and trace** system was introduced in the industries, and **Point of sale** was introduced in retailers and big cities. These measures have improved the tax collection, for example in Fiscal Year 2020-21 total collected tax was **47 trillion PKR** while in Fiscal Year **2021-2022** it reached to **6.1 trillion PKR**. By adopting a strict mechanism of tax registration and filing, tax collection can be improved. Moreover, for the proper functioning of the tax collecting bodies government should

spend more on them.

Similarly, problems in the energy sector is the need of the hour. Pakistan's Energy Sector has been struggling since its inception. In **1954**, the availability of electricity was only **44 percent**. In **1994** to improve electricity availability and deal with energy crisis the then government introduced Independent Power Producers (IPPs). According to **NEPRA** 100 IPPs are currently operating in Pakistan, **50%** are government-owned. The IPPs under government ^{control} are not operating properly. The flawed agreements of government with IPPs are contributing to energy crisis in Pakistan. When IPPs do not work properly capacity payments increase. Poverty and inflation are the major causes of increased capacity payments. Because when

the poor portion of the society fails to pay their bills the government has to pay those bills in the form of capacity payments, increasing external debt.

Furthermore, there is a need to reduce the capacity payments by privatizing the IPPs and DISCOs such as K Electric, FESCO and HESCO. It is reported that over the past ten years the IPPs have received capacity payments of **RS. 8344 billion**, and it has been projected that the IPPs will receive capacity payments of **RS 21 billion** in Fiscal Year **2024-25**.

Aside from reducing capacity payments there is a need to shift from hydrocarbons to renewable energy sources. Pakistan's energy sector is overly dependent on oil, gas and coal. According to Economic survey of Pakistan

2023-24 the total installed capacity is **42,131 MW** out of which **57 percent** is dependent on thermal power (coal, gas and oil), **8 percent** on nuclear energy source and only **10 percent** on renewable energy sources. Over-reliance on hydrocarbons increases the burden of importation bills.

Furthermore, depreciation of rupee value in comparison with dollar ^{further} exacerbates ~~the~~ straining condition of the economy.

As Pakistan has to pay in dollars so, the payment of importation of hydrocarbons significantly contributing to economic crisis of the country.

Last but not the least, the major contributors to energy crisis in the country is the exemption of the influential people. The influential people who have links with the energy producing companies are exempted from electricity bills. As a result

capacity payments increases and which ultimately increases the circular debt. According to Economic Survey of Pakistan the current circular debt of energy sector has increased to Rs 2.636 trillion. There are many other factors that contribute to rising circular debt such as poor supply chain, outdated system and infrastructure, and electricity theft. Proper and comprehensive reforms are needed to reduce the energy crisis. This crisis can only be reduced by the privatization of energy producing companies, shifting to renewable energy sources and enhancing the transparency and accountability of the state holders. As energy sector is considered as the backbone of the economy of any country so unless the reforms in ^{the} energy sector are made economy can not

be stabilized.

Additionally, creating fiscal space is essential to improve economy.

Fiscal space can be increased by reducing government spending, increasing agriculture output and by increasing exports and reducing imports. Recently, the Government has announced to increase of 25 percent in the salaries of government officers. In the year 2024 where there was an extreme economic strain the Sindh government announced the provision of luxurious vehicles to civil servants. When the major chunk of the budget will be spent on the wishes of the government employees fiscal space is difficult to be created.

Moreover, Pakistan's agriculture sector also demands some reforms. As Pakistan is an agrarian society so efforts must be made to improve

agricultural output. In order to enhance agricultural production availability of water is also essential, because Pakistan is shifting from being "water stressed" to "water scarce" (UNDP). ^{These} ^{unconventional} is a need to cope with this imminent threat as in Pakistan water week 2024 the speaker Mark Smith stressed to adopt innovative and collaborative policy to deal with the water crisis.

Similarly, the exportation of the country should be enhanced. In recent times Pakistan has deduced its importation but no measures have been taken to improve exports. By enhancing exports revenue ^{will} also increase. As the export payment is made in foreign currency so dollar reserves also improves. According to Pakistan Bureau of

Statistics, the exports reached 5.1 billion dollars in the month of August 2024. This increase in exports resulted in decline of country's trade deficit. Hence these stats show that exportation is an effective remedy for stabilizing the economy of the country.

Lastly, without comprehensive and resilient policy framework stability of the economy is not possible. Corruption is the major hindrance in the development of the country. All the power producing companies and big businesses have links with the elite fraction of the society. These links are ^{also} responsible for the strained economy of the country. Since the creation of Pakistan, every political leader has been charged with corruption.

in one way or the other. Corruption in Pakistan significantly ^{vastly} reducing the investment in sectors like health, education, job creation and other public and social development programs. In energy sector due to lack of surveillance major chunk of electricity is ^{being} captured by the corrupt elite who do not fear of accountability. This illegal capture of electricity results in capacity payments. As according to a recent report of Economic Survey IPPs will receive Rs. 2.1 Trillion capacity payment in Fiscal Year 2024-25. In order to make these capacity payments the government has to take loan and then vicious cycle of debt payment further straining the economy. There is a need to enhance surveillance in power producing companies so that the consequences of capacity payments

Date: _____

Day: _____

on overall economy of the country can be reduced.

Lastly, there is a need to enhance transparency and accountability. Because without transparency development is not possible. As in the past government took certain measures in tax collection ^{system} like digital monitoring and documentation and improvements have also been witnessed.

So government should take such initiatives which could enhance the transparency and accountability of the stakeholders. The year of accountability is essential to make the system work efficiently.

Accountability increases the sense of responsibility in individual and once the sense of responsibility is achieved the development of the whole system ^{will} become possible.

To conclude, Pakistan's economy can make sustainable development by adopting the following measures

such as by making reforms in taxation system which includes broadening tax base, reducing tax exemption and improving the filing mechanism; by making reforms in economic sectors including privatization of Independent power producers (IPPs) and distribution companies (DISCOs), reducing payment cost capacity payments and shifting to renewable energy sources; by creating fiscal space: Reducing government spending, increasing agricultural output and increasing exports; and by adopting comprehensive and resilient policy framework such as increasing transparency and accountability. Unless all these measures are ~~not~~ adopted in the form of a comprehensive and collaborative policy framework the economy of the country can not be stabilized. As Pakistan is an enthusiastic and patriotic nation

Soth people are determined to deal with the crisis. As it has been witnessed that in the ^{recent} tense circumstance overseas Pakistanis' remittances has enabled the country's economy to ^{become a bit} stable. In the same way effective policies and ^{the} will of the government will lead to sustain able growth of economy.
