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Q) Pakistan's Economic Crisis is Rooted in

Q What are the root causes of inflation...

Introduction:

Pakistan's economy is defined by a combination of high inflation and an inability to generate sufficient employment. The core of these problems lie in a self-inflicted cycle of poor economic management and political short-sightedness, which creates uncertainity, discourage investment, and prevent the economy from growing in a stable and sustainable way.

Background:

The economy has historically been built on a fragile base: low productivity agriculture, a narrow industrial export basket dominated by textiles, and a heavy reliance on imports for essential goods and energy. This structure makes the economy of a country with a

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population exceeding 240 million and a median age of around 22 years, highly vulnerable and translate directly into the persistent crises of inflation and unemployment that plague the nation.

The Drivers of Inflation and Unemployment:

1- The Government fuels inflation by Printing Money to Cover its Deficits:

To finance its large and persistent budget shortfalls, the government resorts to borrowing directly from the State Bank of Pakistan. This process is eroding the purchasing power of every citizen by increasing the money supply without a corresponding increase in economic output. The fiscal deficit of of year **2024** was recorded at **6.8%** of **GDP**. (State Bank of Pakistan).

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2- A Weakening Currency makes essential imports expensive for citizens and industries:

Pakistan's heavy dependence on imported oil, food, and industrial inputs means that the rupee's value greatly affects inflation. A sharp depreciation makes these essentials more expensive, a cost that is passed directly to consumers and cripples import-dependent businesses. The PKR depreciated from approximately Rs. 115 USD in 2018 to over Rs. 280 USD in 2025. (Pakistan Bureau of statistics).

3- The tax system and energy crisis place a heavy burden on both consumers and businesses:

The government's reliance on regressive indirect taxes, such as General Sale Tax, inflates the price of nearly every good and service. Simultaneously, the massive circular debt in the energy sector forces the government to rise power

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tariffs, which increases production costs for factories and the cost of living for households. According to IMF report, over 60% of the FBR's tax collection comes from indirect taxes.

4- A Chronic lack of investment prevents the economy from creating new jobs:

Policy uncertainity and a difficult environment deter both foreign and domestic investors. Without new capital, existing industries cannot expand, resulting in an economy that fails to create the massive number of jobs. Pakistan Institute of Development Economics estimates the country needs to create over 1.5 million new jobs annually.

5- The education system fails to equip graduates with skills needed by modern economy:

the education system produces a

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surplus of graduates in certain fields while failing to provide the technical and vocational skills needed for a competitive industrial and service sector. A World Bank Report found that only 8.5% of Pakistan's labor force has received vocational or technical training.

Poor Governance and Policy Inconsistency

1- Frequent reversals in economic policy destroy investor confidence:

With every change in government, key policies related to taxation, tariffs, and industrial promotion are altered or reversed. This "stop-and-go" cycle creates immense uncertainity. The World Bank's Ease of Doing Business Report has consistently cited "policy instability" as a top constraint for businesses in Pakistan.

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2: Inefficient state-owned enterprises drains billions

Loss-making State-owned Enterprises (SOEs) in sectors like aviation, steel and energy are a massive drain on public finances. The subsidies required to keep them afloat divert crucial resources. The government's financial support to SOEs has consistently amounted to over 1% of GDP annually.

3- A Narrow tax based forces the government to rely on inflationary revenue measures:

Due to poor governance and a lack of political will, vast sectors of the economy, such as agriculture and wholesale retail, remain outside the tax net. This forces government to over-burden a small documented sector and rely on indirect taxes. According to Federal Board of Revenue, out of a population

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of over 240 million, only around 3.5 million individuals file income tax returns.

4- Political instability prevents the implementation of long-term economic strategies.

Governments preoccupied with short-term political survival consistently abandon essential long-term reforms. This means that critical issues like energy sector reform, tax based expansion, and public sector restructuring are delayed.

A pragmatic way forward:

Pakistan can chart a pragmatic way forward by adapting proven global models to its context, rather than starting from the scratch. Following Indonesia's lead with a robust, technology-driven documentation drive can expand the narrow tax base and shift reliance from inflationary

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indirect taxes. To rebuild investor trust, a cross-party '**Charter of Economy**', guaranteeing policy consistency for a decade, is essential. Furthermore, a skill development fund inspired by Singapore's **SkillsFuture** initiative can bridge the critical gap between education and market needs. Finally, learning from Malaysia's **Khazanah Nasional**, a professional and transparent privatization program for state-owned enterprises would stop these entities from draining public finances and spur economic efficiency.

Conclusion:

To conclude with, Pakistan's major economic problems of high prices and lack of jobs are mostly handmade. The real issue is not a lack of solutions, but a lack of good governance and consistent policies. To fix this, the country must commit to long-term, stable policies

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that encourage investment and build a skilled workforce. By learning from other countries and showing political will, Pakistan can break this cycle and build a more stable and prosperous future for its people.