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# **Charter of Pakistan's Economy 2023**

**Atr un Nisa**  
**Research Associate**



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**By**

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Pakistan has been suffered from chronic economic crisis, for many years. Low growth rates, high inflation, high levels of debt, low productivity and poor competitiveness have, last year's catastrophic floods among other factors, contributed to widespread poverty and slow development in Pakistan.

The economy experienced negative growth and shrank by 0.9 percent in FY 2020 for the first time in 68 years (Saleem, 2022).<sup>1</sup> The economic growth remained to stagnate in 2022 with additional and worrisome indicators including macroeconomic imbalances, i.e., large twin fiscal and current account deficits, a visible decline in foreign exchange reserves, progressively mounting pressure on the domestic currency and a severe balance of payment crisis. A substantial rise in foreign debt is another concerning challenge for Pakistan's economy as the external debt has risen from around US \$ 95 billion in 2018 to over US \$ 130 billion in FY 2022. Public debt is also high—approximately 71.3 percent of GDP—with rising sustainability concerns. Moreover, the recent devastating floods in the country definitely impact the economic outlook by adversely affecting the crops and agriculture performance. It is estimated that country have caused at least \$10bn (£8.5bn) of damage due recent floods of 2022.

The deterioration in the macroeconomic situation is reflected in mammoth, unsustainable fiscal and current account deficits. The fiscal deficit which is the difference between revenues and expenditures of the federal government- stood at 3.8 percent of GDP (Rs 2,565.6 billion) during the first three quarters of the current FY 2022 as compared to 3 percent (Rs1,652.0 billion) during the corresponding period of the previous year. According to the World Bank report "*Pakistan @100: Shaping the Future*" Weak governance is responsible for the fiscal deficit. A poorly regulated financial system facilitates tax evasion that contributes to the growth of the fiscal deficit.

The current account deficit reached to US \$17.41 (3.6 percent of GDP) billion during the fiscal year 2021-22 as compared to a gap of US \$2.82 billion (0.8 percent of GDP) in the

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<sup>1</sup> Farrukh Saleem, "Do we have an economic growth strategy?" News, May 12, 2022,

preceding FY 2020-21 which shows that the current account deficit of the country ballooned by over five times. The massive widening in the current account deficit may be attributed to the high trade deficit on the back of a significant increase in import bills. The import bill of the country recorded an increase of 42.21 percent to US \$80.18 billion during the FY 2021-22 as compared to \$56.38 billion in the preceding fiscal year (PBS). The massive rise in import bill resulted in a huge trade deficit.

The balance of payments crisis particularly stood out with the trade deficit which increased by 55.5 percent (US \$48.38 billion) during July- March (2021-22) against 8.6 percent (US \$32.09 billion) in the previous year (Shah, 2022)<sup>2</sup>.

Pakistan's foreign exchange reserves declined from US \$ 24,3978 million in FY 2021 to US \$15,537 million in 2022. Reserves also experienced a sharp decline in July and June 2022. The government is negotiating with IMF to enhance the package and more short-term loans from China and Saudi Arabia.

The average CPI inflation is recorded at 11.0 percent during July-April (2021-22) as compared to 8.6 percent in the same period of the previous year. This tremendous increase in inflation may be attributed to the increase in the prices of electricity gas and non-perishable food items resulting from a massive increase in the global petroleum and commodity prices. The Russia-Ukraine conflict has disrupted important supply chains leading global gasoline and food price surge.

“Moreover, Long-standing structural weaknesses of the economy, particularly consumption-led growth, low private investment rates, and weak exports have constrained productivity growth and pose risks to a sustained economic recovery” (World Bank 2022)<sup>3</sup>. “The economy is currently faced with include extensive government borrowing from the financial sector that crowds out the supply of credit to the private sector and deepens the sovereign nexus. It is further impeded by low domestic savings, underdeveloped capital markets, and low financial inclusion. Sharp and deep adjustments on the fiscal front suggested by the IMF might trigger stagflation, lowering GDP growth and rising inflation at an accelerated pace. The boom-and-bust cycle would persist, and Pakistan would again suppress demand by tightening fiscal and monetary policies” (Ani, 2022)<sup>4</sup>.

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<sup>2</sup> Faisal Shah, “Pakistan's FY22 current account deficit widens to \$17.41 bn” July 27, 2022

<sup>3</sup> World Bank Bi-Annual Pakistan Development Update Report,” World Bank, April 19, 2022

<sup>4</sup> ANI, “Structural weakness of Pakistani economy driving away investors: Report,” Business Standard, May 3, 2022

There is a dire need for a ***Charter of the Economy*** to solve the key economic problems of Pakistan with a broad-based political consensus and civil society support. It will identify the wide-ranging reforms and policies for raising economic growth, tackling inequality, creating jobs, reducing poverty, improving food security, and promoting human development.

## **Charter of Economy**

### **I. Good Governance**

- i. Good governance is required to protect the larger public interests and to ensure the national sovereignty, financial discipline, consistency, and effective delivery of services.
- ii. Transparency and accessible information on politicians' track-records of reform and service delivery is required along with the improved transparency of budget documentation.
- iii. Strengthening of regulatory agencies including the SBP, SECP, CCP and NEPRA is also essential for economic development
- iv. Strengthening of federation is required by full implementation of 18<sup>th</sup> amendment and complete the devolution of responsibilities and resources to local governments.
- v. Information and Communication Technology (ICT) initiatives should be streamline to provide avenues for citizens to hold service providers accountable. Provide levers for citizens to sanction public officials and political leaders when policy and service delivery do not meet their expectations.

### **II. Resource Mobilization and Physical Capital**

- i. Progressive tax reforms are required.
- ii. There is dire need to improve tax administration, making it taxpayer friendly, more efficient and better able to leverage modern technology, and tax policy through simplification and ensuring federal-provincial harmonization and integration.
- iii. Regulatory reforms should be introduced by leveling the playing field for all firms and reducing red tape, and the scope for excessive discretion and arbitrariness.

### **III. Health -- Human Capital**

- i. Reduce fertility rates through the implementation of comprehensive awareness programs to encourage informed decisions on parenthood, including information on birth control, reproductive health, young women's health, and child development through health, nutrition and stimulation
- ii. Implement early childhood development programs including immunizations, deworming, malnutrition treatment, and early stimulation.
- iii. Improve efficiency of public spending, and as fiscal space increases, increase spending on health and education

### **IV. Education**

- i. The priority needs to be fully restored for school education and simultaneously there is need for consolidation of higher education. A moratorium should be imposed on new higher education institutions and efforts made to ensure full faculty presence at universities.
- ii. The emphasis should also be on technical and vocational education in relevant market-based skills in partnership with the private sector with link to microcredit

#### **V. Raising Employment Opportunities**

- i. There is need to create jobs in manufacturing, construction, and services.
- ii. There is a dire need for absorbing the 'youth bulge. Expansion of technical and vocational training with access to micro credit must be a key component of the absorption strategy. There is need to launch food for work and rural employment guarantee programs. Also, the development of information technology and rapid digitization will provide more employment opportunities for educated youth.

#### **VI. Rising the level of Investment**

- i. Raise and prioritize the development Spending in in hydel-power, irrigation, power generation, transmission, and distribution.
- ii. The Federal PSDP should focus more on trunk infrastructure projects and less on projects the benefits of which are limited to a region.
- iii. Regulatory reforms should be introduced by leveling the playing field for all firms by reducing red tape, and the scope for excessive discretion and arbitrariness.
- iv. The tariff structure should be simple and transparent with reduced tariffs and clear and transparent rules governing the use of discretionary provisions. Support greater integration efforts within the South Asia region
- v. There is dire need to promote private investment by creating of a favorable business environment with economic and political stability consistency and continuity of economic policies, The presence of accurate and adequate infrastructure, greater ease of doing business and relatively high levels of post-tax corporate profitability is also required.

#### **VII. Improving Balance of Payment**

- i. Balance of payments should be improved by adjusting the exchange fully not only to the difference between the domestic and the global rate of inflation but also to any fall in dollar prices of exports.
- ii. Containing imports is essential to restrict the size of the current account deficit in coming years.

#### **VIII. Accelerating Economic Growth**

To accelerate economic growth several sectors including;

- i) Agriculture sector should expand the irrigation system, higher research and development of improved seed varieties, appropriate procurement and support pricing policy, increased protection through higher import tariffs and so on.

- ii) There is need to emphasize the backward linkage of manufacturing with agriculture. The risk is that unless the cotton crop is restored the future of the textile sector and Pakistan's exports is problematic
- iii) The industrial power tariff should be reduced. Increased production by the sector will generate more tax revenues than the revenue loss due to the tariff reduction
- iv) Measures are required to support the SMEs include higher exemption limit on sales tax, simplification of the income tax system, setting up a Credit Guarantee Scheme for SMEs by the SBP and higher income tax deductibility to banks against bad loans

#### **IX. Environmental Sustainability**

Institutions, regulatory frameworks and information systems (monitoring, measuring) should be strengthened for water management. Elimination of environmentally damaging subsidies are essential.