Pakistan's Economic Crisis

Why in news?

At the International Conference on Climate Resilient Pakistan (ICCRP) that began in Geneva, Pakistan's Prime Minister made a desperate plea for help from the current economic crisis that Pakistan is undergoing.

What is the crisis in Pakistan?

- Pakistan's economy is in dire straits with very high inflation, very low foreign exchange reserves, and global lenders like the International Monetary Fund (IMF) refusing to disperse further funds.
- This reflects the legacy of uneven and procyclical economic policies in recent years aiming to boost growth, but at the expense of rising vulnerabilities and lingering structural and institutional weaknesses.
- While the Pakistan economy has been doing badly for quite some time, the floods of 2022 caused unprecedented damage to the country with critical infrastructure destroyed and millions displaced.

What was the impact of Pakistan's 2022 floods?

- In 2019, Pakistan had come to an agreement with the IMF about an EFF worth $6 billion, which was later increased to $7 billion.
- To this precarious situation, the floods of 2022 brought unimaginable economic damage that took Pakistan to the brink of disaster.
- Deemed to be a consequence of climate change, the floods inflicted an estimated loss of $3 billion on the country, and caused over 1,700 deaths.
- The floods derailed any semblance of economic recovery, and Pakistan failed to keep the promises it had made to the IMF when the EFF was sanctioned.
- Thus, in November 2022, the IMF refused to release a pending payment of $1.18 billion due to the government's unwillingness to meet certain demands including assurances from Pakistan on
    1. increasing energy rates,
    2. imposing more taxes, and
    3. artificial control over the exchange rate.

What is the forex crunch that Pakistan is currently in?

- Currently, the country is in the midst of a severe cash crunch.
- Its foreign exchange reserves in the State Bank of Pakistan (SBP) is depleting to $5.576 billion during the week ended on Dec 30, 2022.
- Along with another $5.8 billion held by commercial banks, the forex reserves are just about adequate to pay for 3 weeks of imports to the country.

- As Pakistan still reels from the effect of the 2022 floods, servicing foreign debt and paying for crucial commodities such as medicine, food, and energy are among its chief concerns.
- According to data released by Pakistan's central bank, the reserves are less than half of what they were a year ago and at an 8-year low.
- However, Pakistan is scheduled to pay $8.3 billion to external lenders over the first three months of 2023.
- Without any relief, the country is set to default on these payments.

What is the solution?

- Currently, Pakistan sits on the verge of economic collapse with its hopes pinned on
  - getting concessions from the IMF on the Extended Fund Facility (EFF) established in 2019, and
  - getting help from friendly nations in the form of long-term loans or donations.
- Already, Pakistan has turned to friendly countries and other international aid for help.
- Help could potentially come from China, Pakistan's "all-weather friend".
- At the ICCRP meeting, Pakistan has received funding pledges from US, France, Saudi Arabia, China, and Japan, with the Asian Development Bank and Asian Infrastructure Investment Bank also promising help.

What is the situation of the people there?

- As its leaders try to rally global support and assuage concerns regarding Pakistan's capacity and commitment to its international obligations, ordinary citizens have been suffering.
- With massive spikes in prices of food products and other essentials, Pakistan recorded an inflation rate of around 24.5% in December.
- This number was even higher in rural Pakistan, close to 29%, according to data from Pakistan Bureau of Statistics (PBS).
- Prices of perishable food items have soared by nearly 56%.
- Wheat, a staple in the Pakistani diet, has seen prices increase by 57%.
- The nation could no longer sustain its energy consumption. In a slew of energy-conserving measures, shopping centres were ordered to close at 8 pm local time, and marriage halls and restaurants by 10 pm.
- 20% of government employees have been asked to work from home.

Reference

1. The Indian Express | Pakistan's dire economic crisis: Why PM Shehbaz Sharif is in Geneva, reaching out to the world

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