Pakistan’s Economic Slowdown

Why in news?

Pakistan could be staring at its worst crisis in decades as it faces political and economic destabilization and even the return of terror.

What is the crisis in Pakistan?

> *Inflation stands at 28%, the highest in almost five decades, the Pakistani rupee has lost 17% of its value in seven days, edging closer to PKR 300 for one U.S. dollar.*

- **In need of donation** - Pakistan’s economy has been in a state of a perpetual crisis, dependent on the endowments of donors, international financial institutions and charity from so-called ‘friendly countries’
- **Financial catastrophe** - Pakistan is facing multiple crisis like financial catastrophe and in a dangerous situation of default with a Sri Lankan-type situation staring it in the face.
- **Partial default** - Foreign exchange reserves stand near $3 billion only not even enough for a month’s imports.

To know more about Pakistan's economic crisis, click here

What is the cause of the crisis?

- **Political instability –** Politics will likely consume much of Pakistan’s time and attention and the struggle for power in Pakistan continues into 2023.
- **Political confrontation** - Most of Pakistan’s population faces a situation of no longer having an elected government because of a political confrontation.
- **Dysfunctional state** - Pakistan has become a dysfunctional state where its elites have revealed their incompetence and excessive pride in failing to address fundamental and day-to-day issues.
- **Military dictatorship** – Building up the wealth and being unresponsive to the needs of the citizens, they continue to rule through extended periods of military dictatorship.

What needs to be done?

- **Agreement with IMF** – The initial talks of International Monetary Fund (IMF) to unlock its stalled funds from a $7 billion bailout will be a treasure hunt for the battered Government.
- Also, this is Pakistan’s 23rd agreement with the IMF causing a grave concern.

- **China's help** - The country needs $20 billion for the next 12 months to make payments arising from debt obligations so it should ask help from china an "all weather friend" of Pakistan.
- **Energy corridor** – The corridor running from the Arabian Sea to China's western provinces and strategical port of Gwadar can help in developing the forex.
- **Replenishing foreign reserves** – If Pakistan's reserves raise to confident it will gain its resilient nature.

What does it have for India?

- **Exports decline –** The crisis will affect the exports of products to Pakistan from India.
- **China's influence –** It may also increase the influence in the country that may directly or indirectly can affect India which had been loggerheads at Line of Actual Control (LAC)
- **Influx of refugees –** While India is already facing a lot of refugee problems, more recently Rohingya refugees from Myanmar, the crisis in Pakistan may cause more influx of refugees to India.

Quick facts

- **Inflation -** Inflation is the rate at which the value of a currency is falling and, consequently, the general level of prices for goods and services is rising**.**
- **Foreign reserve -** Forex reserves are assets maintained by monetary authorities to check the balance of payments, deal with the foreign exchange rate of currency and to maintain financial market stability.

Reference

1. The Hindu| A polycrisis that is depleting Pakistan's resilience

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