State of Pakistan's Economy

What is the issue?

- With differences over the J&K issue, Pakistan is threatening to close its airspace to India and ban use of Pakistan land routes for Indian trade to Afghanistan, besides others.
- In this backdrop, here is an overview of the state of the Pakistan's economy.

How has Pakistan's growth rate been?

- According to the World Bank, Pakistan's GDP stood at $254 billion at the end of 2018; for India, the figure was $2.84 trillion.
- In other words, Indian economy is more than 11 times Pakistan's last year.
- Also, if India grows at 7% in 2019, it would add almost $200 billion in just one financial year or almost 80% of Pakistan's 2018 GDP.
- Pakistan's economy has had several fluctuations, but on the whole it has grown at an average of 4.3% between 2000 and 2015.

How is Pakistan's economy at present?

- Pakistan's economic momentum is fast slipping.
- It is expected to grow at less than 3% in both 2019 and 2020, according to the International Monetary Fund (IMF).
- To make matters worse for the average Pakistani, slower growth has not decreased the sharp rise in retail inflation, which was close to 9% in May 2019.
- Also, the Pakistan government's fiscal balance (similar to the 'fiscal deficit' in India and representing the overall level of borrowing by the government) has been rising.
- It is already at 8.9% of the GDP, reportedly the highest in almost three decades.
- Owing to the weak state of the economy, Pakistan's exchange rate has continued to fall.
- From levels of 140 to the US dollar in the middle of May, 2019 it has fallen to nearly 157 currently.
- Pakistan has a questionable record of borrowing money to sustain itself.
- As of March 2019, the country's outstanding debt was more than $85 billion (approximately 6 lakh crore in Indian rupees).

- It has taken loans from a very large number of countries in Western Europe and the Middle East. Its largest creditor is China.
- Apart from individual countries, Pakistan has also taken substantial loans from a whole host of international institutions.
- In May 2019, Pakistan reached out to the IMF for the 23rd time in its existence, seeking a $6 billion bailout. Click here to know more.
- The Pakistan government's revenues must go up by a whopping 40% in this financial year (2019-20) to meet the IMF's loan conditionalities.

What ails Pakistan's economy?

- The economic policies and defence of an overvalued exchange rate fueled consumption and short-term growth in recent years.
- However, these steadily eroded macroeconomic buffers, increased external and public debt, and depleted international reserves.
- There are also some structural weaknesses that have never been addressed.
- These include weak tax administration, difficult business environment, inefficient and loss making SOEs (state-owned enterprises), amid a large informal economy.
- The IMF has warned that current growth prospects would be insufficient to meet the needs of a rapidly growing population.
- It has said that without urgent policy action, economic and financial stability could be at risk.

Source: Indian Express

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