

Economic Outlook of Pakistan Economy

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ABSTRACT

The paper focuses on review of Pakistan economy in order to evaluate the performance of the economy to identify leading economic problems of Pakistan. It discusses various macro-economic problems indulging micro economic problems while highlighting the origin of these problems. It contributes in understanding of various concepts of macro-economic parameters with respect to the economy and developing the interlink between these concepts. The analysis achieved the conclusion that Pakistan is currently facing adverse economic problems that need to be rectified with systematic mechanism in order to retrieve the identity of Pakistan that had been achieved with innumerable sacrifices.

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Introduction

People are the pillars of any economy. The economy of any country is liable to provide basic fundamental of life to its people that must include food shelter and clothing. If the economy unable to meet the basic necessities of its people it lead to socio economic problems and if the strict actions are not taken against them they started growing and ultimately become social evils.

Pakistan is a country which is being blessed by all the factors which can make the country grow and make it as one of the developed countries on the globe but still Pakistan is unable to sustain and get stable as they should have done. The main reason for this drawback is the economic problems that the country is going through and made the conditions even worse for the people living in here. It's been 60 years of its independence but it never showed competent economic stability for even few consecutive years. The reasons behind this could be incessant.

As Pakistan is still a developing country so its not a matter of wonder that it is surrounded by a number of economic problems but the bone of contention is that its economic problems now touching the alarming levels and there is need to take some affective and committed actions to have Pakistan on the world map.

If the dialogue proceeded with shedding light upon leading economic problems of Pakistan it comes to no end. The echelon of leading problems of economy would be different for every individual because it depends on individual's perception, personal experience or circumstances' ones facing and the solutions required for them assumed by the them has to be different. The informal discussion about economic problems of Pakistan usually embrace relentless socio-economic instability, promising rise in inflation every year, consistent rise in unemployment rate, debilitating energy crisis, massive loss to all leading sectors of the economy, bad governance, euphemism for widespread corruption, poor allocation of resources of the state, invulnerability to tax aviation, devaluation of currency, reporting of budget deficit every year, imbalance of trade, mind numbing tragedies' and

many more. Nonetheless it is believed that there is no concept of ideal society in the world. All countries in the world has its own set of economic problems but the issue is the intensity of economic problems ones facing.

Performance Evaluation Methods



Flow of Performance Evaluation Methods

The resolution to the economic problems of Pakistan cannot be drawn until the long term review of the economy has been dwell to understand the consequences that are ailing the economic performance in current times. There are different approaches to scrutinize the performance of Pakistan's economy including GDP, General price level, Fiscal Operation, Public Debt, Investments and Balance of Payment. Although the most effective approach is GDP if represented in real terms instead of nominal values but all these approaches collectively play an effective role to decipher the economic performance of Pakistan.

1. Evaluation of Economic Performance W.R.T GDP

Economic prosperity is the backbone of welfare of any country in the world and it depends upon economic growth and economic stability of the country. One of the foremost indicators that can narrate the economic progress of a country is Gross Domestic Product defined as the monetary value of all the finished goods and services produced within a country's borders in a specific time period. If the analysis take over for the economic growth of last decade by pondering upon the GDP data of FY02 to FY14, the growth seems to be satisfactory if considered in terms of nominal values that are pretending a rosy picture of economy of Pakistan but its not the case in real values. The overall GDP growth in FY02 to FY14 is 4.7% but in between from FY02 to FY07 it showed

reasonably satisfactory growth of 6.6% than a nosedive occur and real GDP drops down to 3.5% from FY07 to FY13.

Current Economic Situation

It is seen that the leading economic indicators continue to exhibit unfavorable trends as in late 2014 Pakistan's finances both domestic and external are in critical state, high fiscal deficit because of which Pakistan back to borrow from IMF although the previous loans are still there to be paid, privatization of government ownership, sale of public sector enterprises, declining trend of public and private investments, removal of subsidies, price hikes and many other disturbances faced by economy. It can be stated the economic growth performance is insufficient to cope with the challenges posed by the economy involving unemployment level, low per capita income, high inflation, rising poverty levels, amidst poor governance, rampant corruption, deteriorated law and order situation and many more.

Poverty In Pakistan

The crucial issue faced by Pakistan since it's beginning is the never reducing its poverty levels. It can be witnessed by comparing per capita gross national income GNI of Pakistan by its comparators. Although the GNI growth in the past decade from FY02 to FY12 is 10% that appears satisfactory but still Pakistan is far behind from its closely related comparators as if its GNI (FY12) is compared to the GNI (FY12) of Malaysia it is 8 times than Pakistan and even the GNI of India is 1.2 times than Pakistan and the similar trend can be seen with others and if compared with high income advanced countries its not even eligible to be compared i.e. the GNI (FY12) of UK is 31 times while the GNI (FY12) of USA is 42 times than Pakistan.

It is to be mentioned here that this estimate cannot be considered authentic because of not having a census of population in Pakistan since 1997 and the un-documentation of huge underground economy. The estimated population of Pakistan is about 200 million wherever it was 60 million at the time of separation contributed by the migration of Afghanis after USA attacked on Afghanistan, escalating the population in Pakistan. The reason is the same because of which the accurate poverty level is undeterminable. But it is for sure rising on its peak because the economic growth is relatively low as compare to the population growth achieving per capita income growth even less than 1% expressing consequent erosion of well being of low income families who are burdened with rising cost of living, expensive basic food items, cost of fuel gas, electricity and petroleum products, prolonged load-shedding, shut down of business factories and a dismissal job market.

Sectorial Performance

Along this if a glimpse is provide to sectorial performance of Pakistan economy the structural changes witnessed in last decade from FY02 to FY12.



Flow of Major Sectors Of Pakistan Economy.

Agriculture Sector

Once the Pakistan was considered to be agrarian economy probably at the time of partition when it was yielding around 25.5% of GDP but now it cannot be said as in FY02 to FY13 its overall contribution to GDP was 3.4 while in between FY02 to FY07 it was 4.7% but it dropped down to 3.3% in FY07 to FY13 The reasons for this downfall in agricultural pattern have multifold dimensions. The major one is the structural shift in the economy towards the services sector, and the lack of will and stubbornness of the governments over the past quite few years to develop agricultural sector. Furthermore, due to significant drop in its major sub sector i.e. major crops and to some extent in livestock owing to the environmental fluctuations and the more prevalent incidences of flooding over the last quite few years. Besides other factors also contributed to slide down the share of agriculture including exemplification of agro-industries for this sector, un-documentation of dairy sales and production and un-endorsement to land reforms. Agriculture sector employs about 43% of the labor force, and so it can be said that the livelihood of major chunk of population depends upon this sector that is affected by the decrease in production of this sector. The declining agriculture sector is a matter of concern for us as the population of Pakistan is growing and food shortages and rising 'prices of food are also due to declining of agriculture sector's performance. Major exports of Pakistan are based on agricultural products and this will also cause a threat to Pakistani exports and further worsening trade deficit.

Industrial Sector

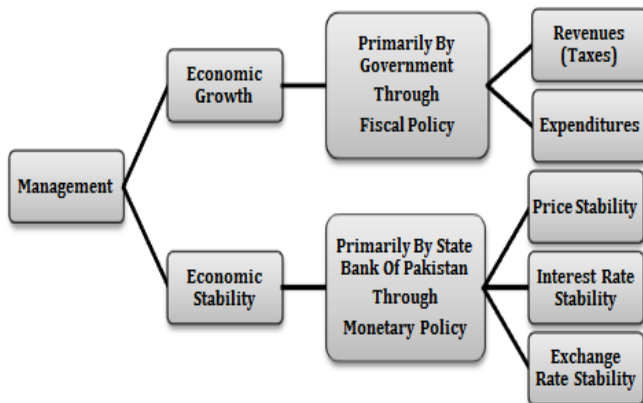
The similar trend has been seen in industrial sector as it did not show the satisfactory performance in last decade from FY02 to FY13 i.e. the overall growth rate was 5.9% but in between from FY02 to FY07 it was 9.8% while from FY07 to FY13 it dropped down to 2.8%. it was mainly because of the significant drop down in it major subsector i.e. LSM that did not made its headway in economy even the favors were given to it in terms of policy and incentive regulations. It happened might be due to shocks that affected after separation i.e. the wealth accumulation in few hands, autocratic business model, and privatization of national business unit. These reforms contributed only on domestic level but it did not help get rid of infant industry syndrome and also no assistance was provided to improve exports. Whereas the current underlying reasons are crumbling infrastructure, dire shortage of energy resources, war on terror, foreign direct investments etc. that causes a shift of share of textile industry to cement, chemical and energy sectors. The share of textile industry has declined and is replaced by the cement, chemicals and energy. If the performance of the Industrial Sector of Pakistan has been compared with its comparator countries it will come to the conclusion that due to massive inflows of FDI's the sector's performance has greatly influenced the fate of the comparator countries. Moreover, due to political instability and various issues not only foreigners but also the local investors of the country are taking their money out of the economy. Because of this reason, economy is witnessing high rates of unemployment in Pakistan. However if discussion is carried upon performance of small and medium scale enterprises their growth is not up to the mark, as government hardly provides any incentives for its promotion and development. In order to open up a small-scale business in the cities like Lahore, a person has to obtain 27 permits, and surely it is the most discouraging part in the infancy stage of an entrepreneur.

Services Sector

The slightly different but similar trend can be seen in services sector in the last decade from FY02 to FY13. The overall growth reported by this sector was 5.1% that seems extraordinary for a developing country but it was there. While in-between from FY02 to FY07 it was 6.6% and in FY07 to FY13 it dropped to 3.9%. Although its main subsector was considered wholesale and retailing once but in recent years it was overtaken by private personal service sector. Mostly, the SMEs are operating in this category as private partnerships due to which government has no clue on how much they are earning on daily basis, and there is much extent they are camouflaging from tax collections. The bad notion about this segment is that it largely constitutes undocumented economy and is mostly affected by socio-economic problems because it involves mostly daily wagers and salaried personal. It can be witnessed through the fact that on every other day there is protest against rigging or against any resolution one recent example is Azadi March that prevailed for months and due to which business circle was adversely affected yet in a process of recovery.

Management of Economic Growth And Stability

The management of economic growth and economic stability is not a sole responsibility of government of Pakistan but it's a process of management done by operations of government and state bank of Pakistan known as fiscal management and monetary management respectively.



Flow of Management Of Pakistan Economy

Management of economic growth is the prime responsibility of government of Pakistan through fiscal policy involving regulations to collect tax from all economic sectors by making an effort to uncover the un-documented economy. It can only be possible if the tax net offered fair enough and the burden to the taxpayers endurable. Then the collected tax revenue should be spend on only and only state own economic expenses not necessarily add on to the personal accounts or Swiss accounts of the government entities. Thus government should take step to achieve fiscal sustainability through regulations.

Where as management of economic Stability consists of certain elements like price stability i.e. controlling over inflation, interest rate stability and exchange rates. The prime responsibility of managing these elements is of state bank of Pakistan mainly through monetary policy.

2. Evaluation of Economic Performance W.R.T General Price Level

Economic performance can also be evaluated through the trends of inflation prevailing through the last decade in Pakistan. Inflation is the persistence rise in general price level that never comes down in the history of Pakistan.

Outcomes of Inflation

High inflation causes adverse effects on the well being of general masses in an economy. The price increase generally results in the decrease in the real value of the money, and hence resulting in the decrease in real purchasing power of money and real net worth of financial assets. Inflation also tends to discourage investment and long-term economic growth. This is because of the uncertainty and confusion that is more likely to occur during periods of high inflation. Inflation leads to a fall in the value of money that makes savers worse off that can be witnessed, as often it is pensioners who lose out most from inflation.

Inflation And Money Supply

The inflation is not a consequence of single phenomenon; instead it is the outcome of various economic activities. Money creation is one of the major sources of inflation because it increases the money supply and when money supply increases the purchasing power of money decreases causes too much money needed to chase too few goods.

The Term Money Is A Myth In Pakistan

Pakistan is facing a colossal issue about the interpretation of term money. There are different senses prevailing in society to decipher the term money. The classical sensed states money is a measure of value, medium of exchange and a store of value. Although money is a poor medium to store value because it erodes its value over the time due to general rise in price level. Economic sense states the concept of real and nominal money balances where real money is the nominal money adjusted for inflation. Financial senses states money and near money cash is a short-term liquid assets that are as similar as other liquid financial assets. The most controversial sense is the folkloric sense that simply states money is composite of currency and coins. The most interesting fact in this is that people think government can increase money supply by printing notes and the currency is convertible to gold. Whereas in reality the money consists of currency plus coins 20% and deposits 80% in which the State Bank of Pakistan issues currency which is its liability and the asset of the holder and coins are the legal tender minted by the government of Pakistan. On the other hand the most important fact is that the currency is not backed by the gold instead SBP has to maintain counterpart assets i.e. gold coins, gold bullions (4% to 6%) and foreign exchange reserves.

Money Creation Lead To Rise in Inflation

Money creation is one of the actual sources of inflation. Money is created through deposit creation, as it is a major constituent of money supply and the creation of currency. Monetary expansion also have conflicting story. The textbook views states when the deposit base increases in the banking system the multiple deposit creation takes place and the money supply increases. In Pakistan money multiplier was 3 at start of decades; it slightly increased to 3.4 in the later years of decades but remain fairly stable. Whereas the practice view states when the reserves of banking system either through borrowed reserves in which banks temporarily borrow funds from discount window of central bank by pledging out their government securities or through non borrowed reserves in which banking reserves increases when central bank purchases government securities through open market operations while injecting liquidity causes banking credit increases leading to increase in money supply.

Whereas the currency which consists of coins the legal tender having a remarkable history in all nations for example in Islamic history the importance of coins can be recalled as

sika-e-rae-jul-waqt in the legal contract of marriage that are always issued by sovereign state and it consists of small percentage of currency. On the other side the currency notes creation involves the printing of money by SBP by placing counterpart assets at the back i.e. gold coins, gold bullions (4% to 6%) and foreign exchange reserves.

Hence, monetary expansion lead to increase in money supply which ultimately lead to rise in general price level because of the fact too much money needed to chase too few goods.

Forms of Inflation

The inflation appears in different forms for example cost push inflation or wage push inflation that emerges due to rise in the price level of raw material especially the labor cost in which usually the labor cost is high as compare to other associated costs in developed countries but in Pakistan unfortunately the labor is cheap that of other raw materials. Demand-pull inflation is another form originates when domestic demand of goods is greater than domestic supply of goods and imported inflation play its role when the prices of imported goods rises. Although it is affects to specific class who is more immune to imported goods but their are some imported goods on which Pakistan is dependent like oil, gas and petroleum products and fluctuations in the prices of the goods lead to devaluation of domestic currency.

Inflation and Excess Demand

The major source of inflation is the excess of aggregate demand over aggregate supply. The source of excess aggregate demand could be public sector or private sector of Pakistan. The excess demand can be interpreted as follows:

$$AD = (C + I) + (X - M) - (R - Exp)$$

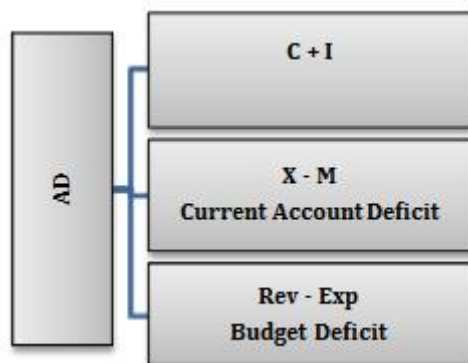
where, AD: Excess Demand

C + I: Consumption + Investment

X - M: Exports - Imports → Current Account Deficit

R - Exp: Revenues - Expenses → Budget Deficit

Current Account Deficit + Budget Deficit → Twin Deficit



Flow of Aggregate Demand

Private Sector And Excess Demand

$$AD = (C + I) + (X - M) - (R - Exp)$$

Private sector has limitations in its excess demand because they have cap in their consumption and investments as their spending depends upon income level, taxes and cost of borrowings i.e. interest rates. Hence the private sector is not a major contributor in rising inflation.

Public Sector and Excess Demand

$$AD = (C + I) + (X - M) - (R - Exp)$$

Public sector on the other hand has no serious limitations on excess demand. Government of Pakistan keeps on spending beyond its revenues not only the current government but it is an evergreen trend of all the government who ruled over for even small period of time.

Government is financing its excess demand either from domestic borrowings or foreign borrowings in which the major sources are banks, financial systems, SBP and public hence become a source of money creation leading to excessive money supply hence the inflation.

Impact of Import And Export On Inflation

$$AD = (C + I) + (X - M) - (R - Exp)$$

Pakistan is consistently facing current account deficit because its imports are greater than exports because of inability of its major sectors to contribute in it to its full potential. The imports of Pakistan facilitated by Pak-China trade that provides products at low cost than they could be produced domestically that hampers the extension of manufacturing facility in Pakistan. Whereas if the exports are considered in contrast, Pakistan's biggest export is yarn that show the tragedy if comparison is taken over between Pakistan's imports and exports.

Measurement of Inflation

Inflation is measured by different indexes. The most commonly used indexes are consumer price index, wholesale price index, general price index and sensitive price index and all these indexes based upon basket of goods including essential items of use. Out of all CPI or cost of living index is most efficient and widely accepted in Pakistan. Its major components are food, clothing and housing having greater weight as compare to other items. The inflation trend of FY02 to FY14 showed CPI 9.7% while in between FY02 to FY07 it was 6.5% and in FY07 to FY14 it was 12.1%. In Pakistan the food inflation is greater than non-food inflation hence affect lower income group more severely than high-income group. Inflation, according to ADB report, is now expected to average 8.2% in FY15, slightly lower than FY14. However, security challenges, floods in September 2014 in parts of the country, and political demonstrations pose downside risks to the FY15 forecast. Whereas according to SBP Annual Report 2013-14, the expected inflation in FY15 will be about 6.5-7.5%, which is lower than the target of 8%. It is mainly because of the dramatic downfall in the oil prices. However, the expected rise in the prices of food, following the recent floods in agricultural lands and the upward adjustments in the administered prices which includes: Tariff hikes because of the IMF conditions, piped gas tariffs, rise in overall commodity prices because of the regional disturbances in middle east and the disturbances in the political scene of Pakistan.

Management of Inflation

Government of Pakistan can achieve control and manage inflation through fiscal management that is a process of generating revenue to cover the expenses effectively and efficiently. The government's sources of revenue are taxes that may be direct taxes or indirect taxes and the expenses could be anything for the state welfare. But in case of Pakistan government priority expenses are life time benefits to parliamentarians, maintain VIP culture or corruption in huge projects that started in the name of state welfare although few expenses cannot be cut down especially on defense and debt services. Government of each tenure does its best to fill their personal accounts as much as they can and left the problems of country to be handle by next government and the process goes on. On the other hand the collection of taxes in Pakistan is a big challenge because there are many tricks to get out of tax bracket especially the exemplification of agriculturist from the tax net provide a way to people to get rid of taxes and the un-

documentation of huge population contributed secondly. Hence the fiscal management is failed in Pakistan.

Along fiscal management, monetary management can also play an important role in controlling and managing inflation where monetary management involves a process of lending to government for deficit financing. The one of the main objective of monetary management is to achieve stability of inflation along with fiscal management but in practice fiscal management and monetary management do not operate in harmony because SBP resist to lend to government during high inflation by raising their policy rate to increase the cost of borrowing for private sector also but that create problem for government because they cannot cut their expenses on their luxuries hence use their political power to change governor of SBP leading to discontinuity of policy framework.

3. Evaluation of Economic Performance W.R.T Fiscal Operations

Fiscal operations refer to the operation in which government has to manage revenue collection and finance its expenses. For the past decade the government of Pakistan keeps on reporting fiscal deficit i.e. their revenues are less than their expenses.

The reason behind the budget deficit is Pakistan is living beyond its means for very long time and the attitude of our government is nowhere to change. The government most of the time trying to portray rosy picture of economic growth in terms of GDP figures with innovative accounting procedures but the truth cannot be hidden at all.

Foundation of Fiscal Deficit

It has been assumed that the government of Pakistan is spending more than 100 rupee for each 100 rupee collected as revenue in which the major chunk goes to their prioritize core items leaving nothing for social sector like health, education, maintenance of infrastructure that are vital for social welfare and economic growth.

It can be witnessed through the fact that in FY07 for 100 rupee government spend 120 rupee which include transfer of 27 rupee to province as it is a constitutional requirement not a expense because it is actually a discretionary fund to be spent on public, 41 rupee to debt service, 21 rupee to defense, 17 rupee to development projects and 14 rupee to administrative expenses like salaries, pension plus VIP perks, protocol, security, residence and other luxuries of government elites. Hence the revenue left to federal government gets lowered to spend upon other needed activities. The situation got worse in FY13 that 120 rupee reached to 167 rupee and in FY14 it was 154 rupee. Hence the budget deficit kept on soaring high i.e. 10% in FY13 and 8.7% in FY14.

On the other hand taxation, which is the major source of revenue for government and the most effective instrument to shape up and influence the socioeconomic dynamics of a country has not received due attention in Pakistan. Another reason is that the contributions of major sectors in tax is declining especially from agriculture sector after 18th amendment because its now responsibility of provincial government to collect tax from them. Public of Pakistan no more hold trust on government that the tax paid by them will be spent upon them causes them to go beyond their obligation to pay tax. Another contributing factor is that the corporate income tax is 34% that also resist people to pay as they struggle hard to earn in a country like Pakistan. But this is the half of a story that on the other side expenses of government are uncontrollable such as discretionary expenses and government fail to control it.

Problems Arises Through Fiscal Deficit

Due to consistent budget deficit government need to borrow liquidity to fill this fiscal gap to meet these payments with the expectation that they itself cannot fill this gap because of huge un-documentation of economy and entrenchment of tax payments i.e. even the richest, powerful lawmakers or owners of business tycoons are not paying taxes they owe. Most of them are not even filed for taxes and instead applying for exemptions. Whereas the tax burden affects more severely to low income and salaried people because indirect taxes have to be paid by all segments of society regardless of their income levels. It can be witnessed through the fact that GST is 17% so if someone of having 1000 rupee income have to pay 17 rupee on each 100 rupee than how can he survive or improve his financial status as compare to a person of having more than a core of income who might is independent of that fact.

Financing Of Fiscal Deficit

The fiscal operations over FY02 to FY14 shows government was running its fiscal operations through borrowings from SBP, banking system and public at large that included both domestic and foreign borrowings to support fiscal deficit each year. The finance mobilizes from tax system first, than from borrowings form financial institutions than from public through prize bond scheme or national saving scheme. In FY14, 6% of federal deficit financed by foreign borrowings whereas 94% financed by domestic sources in which major contributor was banking system.

Past Trends of Revenues And Expenses Growth

The past decade shows significance growth in federal revenue through both tax and non-tax revenues from FY02 to FY14 it was 15.3% i.e. 5.5 times increase in average growth and that is an incredible growth. The tax net is still narrow though some portion of un-documented economy dragged into the tax net leading to rise in tax revenue at 14.7% in FY02 to FY14 and non-tax revenue at 17%. It has been assumed that indirect tax i.e. sales tax is most regressive tax and it is larger than direct tax i.e. income tax. Hence Pakistan revenue depends upon indirect taxes that have to pay by all income groups. Along this the growth rate of transfer to provinces was 19.1%.

Whereas federal expenses were 13.3% in FY02 to FY14 but in between FY02 to FY07 it was 7.5% and in FY07 to FY14 it was 17.5% that shows expenses are rising erratically over revenues. The federal expenditures mainly consist of current expenditures having growth rate of 14% in the last decade and development expenditures having growth rate of 27.2%. Development expenses including expenses of investment programs in water and energy resources and public infrastructure that currently are miserably inadequate but majority of these projects are still on paper. It is to be mention here that the debt service payment expense is one of the largest in current expenditures having growth rate of 15.8% in the last decade. Other noticeable expenses are on defense as the security issues are major concerns of today. All these lead to consistent rise in budget deficit i.e. 13.2% in FY02 to FY14 while in between from FY07 to FY14 it was reported highest in the history i.e. 24.3%.

Government Irresponsibility Lead To Fiscal Deficit

The early years of past decade lead to deceptive perception that the performance of fiscal operations brought Pakistan out of fiscal deficit and Pakistan no longer dependent upon borrowings.

At that time program for energy, water and public infrastructure were inadequate relative to forecasted increasing demands in future and the government keep on neglecting these facts. This neglecting came out later as a down turn of economy. On one side the funds were needed for infrastructure while on the other side social sectors like health and education starved for funds. This was compensated by the government by offering laptop distribution schemes, poverty alleviation, Benazir Income Support program or flood relief grants without paying attention to public finances, deficit and to finance these deficits hence inclined towards borrowings again from financial system. Government did increase financing for development projects, grants, subsidies and entitlements, disaster relief and war expenses but with the borrowing not from revenues and left nothing for social priority.

Government Priorities Of Expenses

The biggest tragedy of Pakistan is that the priority of public sector is not the investment in developing human capital i.e. government do not spend upon provision of basic primary education instead when it comes to investment in this sector it stress upon higher education. This can be witnessed through the fact that there are more than 450 ghost schools in Tharparkar. All this lead to increase in illiteracy rate and dysfunctional graduates who do not possess skills to earn decent wages and are unable to contribute in economic growth.

Moreover, the big government institutions such as PIA and Railways that are supposed to be a source of revenue facing severe downturn. The aim behind the establishment of these institutions was that they could help to generate revenue and contribute in the economic growth but after the independence government of Pakistan do not ever get able to extend railways lines to approach more areas instead even the maintenance of existing lines are not carried out properly because government do not consider it while making a list of expense needed to be done for the welfare of state. The more worst happen to PIA. It can be witnessed through the fact that PIA is now banned in few countries like Germany because they don't want their citizen's life to be at stake while traveling on planes who possess obsolete engines. Government elites contributed corruption, mismanagement and bad governance and made these institutions worse causing them to face loss for past decade. The government invest in alternative of this that it spends billions of rupees to provide transportation facility to nation by Metro Bus Service that is soon going to lunch in Islamabad also. It will take decades to cover cost of this Metro Bus then another decade to generate profit.

The VIP culture is mandatory for any politician. The lifestyle of politician becomes a definition of this profession. The huge amount of budget goes to the perks designated to parliamentarians or other government elites for the lifetime. It can be witnessed through the fact that the development funds provided by federal to provincial government are not being used for development but distributed to political elites as appeared vibrantly in case of Baluchistan because no development has been witnessed in that region although the share has been transferred regularly. Government priorities of expenses are never been with the priorities of nation that is why Pakistan's economy never comes up at its full potential.

Management of Fiscal Operations

Effective fiscal management and accountability can help Pakistan to effectively overcome fiscal deficit.

Once fiscal space created by good governance, the government can focus on providing basic amenities like pure drinking water, health, education, transport and housing to the general public. Government than can also focus on resource mobilization i.e. they can give priority to building infrastructure, facilitating growth of small and medium sized firms in the industrial sector and also of small farms in the agricultural sector. This would set the stage for a structural change that could help achieve economic growth for the people and by the people that is presently confined to the elites only.

4. Evaluation of Economic Performance W.R.T Public Debt

Government of Pakistan spends beyond its means i.e. fiscal deficit and finances its beyond means spending through financial system including internal and external sources. The debt accumulation of Pakistan approaches to billions and become an abstraction for the layman. While government of Pakistan of every era tries to deceive the nation with a notion that the burden of debt decreases with reference to nominal values whereas its keep on increasing in real terms. The growth rate of total debt and liabilities was 13.6% while in between it was 5.9% in FY02 to FY07 whereas from FY07 to FY14 it was 19.5%.

History of Pakistan Debt

The public debt has a long history with Pakistan. At the time of independence the debt burden was zero than it kept on increasing with a low potential until mid-1950s. At the time of truncation of Pakistan in 1971 the debt liabilities transferred to Pakistan since it's always a government obligation that raises the debt burden on Pakistan. Afterwards the story of debt accumulation keeps on extending and now its in billions.

Debt Share per Household

The rise of Public debt has tremendous burden on the economy of Pakistan, and not only that, it poses a major burden on the well being of general masses. The debt accumulated especially over the past decade is not even remain possible to be repaid by the generations to come but it could be if some miracle happen. The debt burden accumulated on households keep on increasing and shows the record trends in the last decade i.e. in FY02 to FY14 debt per household of six person grown to Rs. 595,424 with the assumption that the population is around 180 million. Here the deficit is provided by the increasing population that greater the households lower the debt burden on them.

Debt Structure

The deficit financed by domestic and external sources. Although the proportion of external debt was high in the past but now the trend reversed i.e. in FY02 domestic debt was 45% and foreign debt was 55% but in FY14 domestic debt was 65% and foreign debt was 35%.

The average growth rates of debt in the past decade shows that in FY02 to FY14 the domestic debt growth rate was 17.2% while in between from FY02 to FY07 it was 9.8% and in FY07 to FY14 it was 33.2%. Whereas the growth rate of external debt in FY02 to FY14 was 9.4% while in between from FY02 to FY07 it was 2.1% and in FY07 to FY14 it was 15%.

Domestic Sources of Debt Financing

The domestic public debt consists of federal and provisional government debt and public sector enterprise debt. The federal government debt can be classified into three categories i.e. permanent debt that include trading of government bonds through PIBs in the capital market having

growth rate of 22% in FY02 to FY14, floating debt is the largest form of domestic debt involving borrowing instrument T-Bills that are traded in money market mainly in primary market first than in secondary market with repurchase agreement and this is also a source of inflation with the growth rate of 19.2% in FY02 to FY14 and unfunded debt which consists of National Saving Scheme based borrowings that have no market for trading but earn higher rate of return for investor having growth rate of 9.3% in FY02 to FY14.

National Saving Scheme possesses different instruments like Defense Bonds and Bahhood Certificates having long-term maturity that can be purchased from any bank. It is a process of lending to government although the instruments are called saving instruments but they are actually borrowing instruments.

Government also borrows from central bank by issuing T-Bills through them that central bank auction to banks. T-Bills are the source of inflation because it is a convenient instrument for government to raise money when the have to make any repayments of loans. The quantity of T-Bills issued by government of Pakistan is much greater than any other country because the government is actually bankrupt it does not have money to repay that is why it issue more and more T-Bills at T-Bill rate whereas SBP tries to keep discount rate low in order to have low cost of debt.

The largest lender to government is banking system and public which is targeted from two sides i.e. on one side it directly lend to government through different sources and on the other side it lends indirectly through the banking system. The total borrowings in FY14 from financial system was 68%, from banking system 44%, from SBP 24% and from public 23%. If the data is carefully analyzed it shows that the major chunk of lending was provided by general public i.e. $44\%+23\%=67\%$ because the deposits placed by general public in banks ultimately become a part of lending to government from banking system so the households play twin role i.e. as financier and as tax payer but the tragedy in this fact is that general public is unaware of these exercises.

Deficit Financing In Common Parlance

In common parlance the government finance the budget deficit by printing of money although it involves printing of money but this phenomenon is not directly related to deficit financing. When the deficit is financed by issuance of T-Bills to banks no printing of money is involved and banks simply hold certificates and credited the amount to the account of government. These banks are the agents of government namely HBL, ABL, UBL, NBP and MCB that provide these services to government of Pakistan. Likewise no printing of money is involved when government borrow money from public through National Saving Scheme. While it involves printing of money when government borrow money from central bank depending upon its liquidity issue. Printing of money takes place when central bank decided to issue more money for increasing money supply and its mechanism is it holds T-Bill of let say Rs. 60-65 it issue Rs. 100 against this while holding counterpart assets at back. In short printing of money involves chain of interlinked activities i.e. money creation, budget deficit and debt financing that decided printing of money has to be done.

External Sources of Debt Financing

In addition to domestic borrowings government also borrow from overseas heavily to finance budget shortfalls in the name of policy support and structural adjustments which does not prove supportive for economic improvements but put

debt burden only whose repayment liability transferred to the public because in actual these borrowings added to the Swiss accounts of government elites or enhance their wealth by holding buildings in foreign countries.

The external debt consists of public external debt and private non-guaranteed debt including public sector enterprise and private non-guaranteed debt. The public external debt has growth rate of 4% over the past decade from FY02 to FY14. In FY14 the share of public external debt in total external debt was 83.5% whereas the share of public sector enterprise and private non-guaranteed debt was 16.5%. It shows government mainly borrows from public external debt sources that constitutes of multilateral financial institutions including IMF, World Bank and Asian Development Bank. Out of all these multilateral financial institutions IMF had 4.5% share in total external debt in FY14

In external lenders the major role played by IMF through which Pakistan borrowed short term loans several times and always unable to meet deadline of repayment and usually carried out rolling over liability process to meet repayments i.e. borrow from other sources and pay. The biggest borrowing from IMF was done in 2008 for about US\$11.3 billion. IMF always put conditions on Pakistan before granting loans like eliminate subsidies, raise tariff on utilities, raise prices of energy imports and the like but Pakistan always disappointed the IMF and keep on asking for negotiations on extended fund facility. Pakistan made the record history of indulging into 14 agreements with IMF up till now and never ending up meeting there conditions. Government of Pakistan try to deceive IMF in term that recently the report is published on truth deficit that states the government is trying to decrease budget deficit by delaying its expenditure and reporting routinely withhold payments due to provinces for showing a better picture of budget deficit but this is a fallacy picture as they just wanted to show to IMF that the government is trying its best to fulfill their condition. Perhaps Pakistan is the only country where IMF refuse to enter even than Pakistan ask recent loan of 6.5 billion but IMF refuse to give at once and they will give in payments after evaluating projects on which the money is going to be spent.

Pakistani public holds the impression that these multilateral financial institutions imposed the burden of debt over the past decade where these institutions desperate to lend Pakistan. Government of Pakistan need external financing for managing fiscal deficit but it cannot grant loans for that reason because no one lend Pakistan for deficit financing but lend for social reforms or structural improvements. It can be witnessed through the incident where World Bank granted Rs. 35 billion to Benazir Income Support Program and Rs. 2 billion for development of Tarbella Dam. The issue is that where these funds actually goes because the audits of these projects show nothing because of which these projects stops. The reason behind this is that there is no accountability for government expenditures.

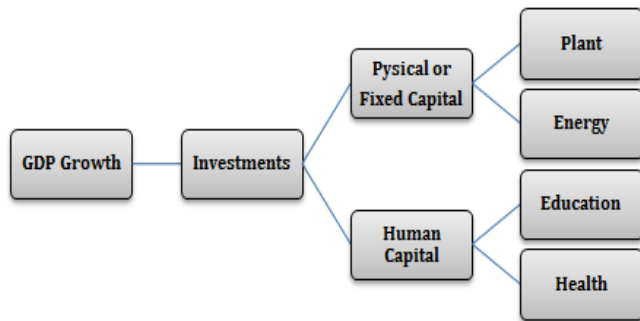
Management of Debt

Pakistan can create a safe exit out of the menacing debt trap by discouraging reliance on debt i.e. policy makers should not use the debt to finance the fiscal deficit rather there is a dire need to enhance efforts to stimulate the revenue or reduce the current expenditures. Along this Pakistan should exploit its indigenous resources like huge reservoirs in the shape of its human capital, unexploited mineral deposits, hydel power potential, and huge agricultural and industrial potentials in order to increase revenue generation.

5a. Evaluation of Economic Performance W.R.T

Investments

Economic growth is dependent upon investments especially in case of developing countries that are living beyond its resources i.e. domestic savings. The investments in the economy should be done by public and private sector both. The GDP growth is dependent upon the level of investments in any country as the investment is the foundation of production in the economy. The total investments in Pakistan can be split into investment in physical or fixed capital and investment in human capital where fixed capital involves investments in fixed assets i.e. machinery, equipment, plant and alike. This is called investment because it is the investment in production capacity and technological growth.



Flow of Investments

Importance Of Public Sector Investments

The role of public sector to undertake investments in heavy infrastructure is beyond the capacity of private sector even in current times. Public sector investments are important in energy, transport and other facilitates because these are necessary components for industrial and business development. In short the physical capital along with inducement of technology is required for businesses to get foothold and to survive in competitive markets. Public sector investments are also needed in human capital that is critical for learning and acquisition of modern technology in order to promote growth.

Trends of Gross Fixed Investments

The gross fixed investments in FY02 to FY14 was 13.6% while in between it was 21.7% in FY02 to FY07 and in FY07 to FY14 it decreases 8.2%. The share of public sector in gross fixed investments was 13.9% that was 21.1% in FY02 to FY07 and 9% in FY07 to FY14 whereas the share of private sector was 13.5% that was 21.9% in FY02 to FY07 and 7.9% in FY07 to FY14. The trends shows that the capital accumulation declined in the country that causes decline in economic growth, rise in unemployment, decline in real incomes while other contributing factor are decrease in GDP growth and inflation.

Share of Public and Private Sector

The proportion of public sector investments including investment of federal, provincial, local government and public sector enterprises was one fourth of total gross fix investment i.e. 25%. In other words three fourth gross fixed investment that is the largest part hold by private sector i.e. 75%. So the impact of private sector investment is much larger than public sector investments on GDP growth, total output and national income.

It has been identified that the largest investment of public sector was in electricity 13% and transport 10% whereas the private sector largest investment is in LSM not in SMEs which constitute huge portion of economy and in spite of a lot of incentives and subsidies provided for the development of

SMEs. While with the investment in SME the comparators achieved the contribution to nurture the supply chain of LSM that lead to development of large corporate businesses.

Reasons of Lack of Investments by Public and Private Sector

Private sector investments cannot happen without the prospect of profitability and unless they get confidence of safety of their investment provided to this sector. Private sector reluctant to enhance its investments because of deteriorating law and order situation, war and terror, national tragedies, crumbling infrastructure, energy shortage, undocumented economy contributed by attractive opportunities of investments in US real state causes the capital outflow from the country. Before financing private sector's major concern is enabling environment i.e. basic infrastructure like roads that facilitates the traveling while trading and without this the investment in private sector is of no use or simply not possible. It can be witnessed through the current condition of Pakistan's Railway that can be an effective source of transporting heavy goods and be a source of revenue but government pay no attention towards it even though they spent on purchasing engines from which half are already destroyed. Instead to pay attention to this, the government keeps on announcing new heavy investment projects. All these facts contributed to place Pakistan very below in business friendly index i.e. it is currently at 110th number.

The credit of public sector's inability to enhance its investment goes to 1990s reforms that support liberization greatly, due to which huge volume of nationalized institutions got privatized. Although in current time further reforms and privatization demanded by IMF for extended fund facility that once again give the opportunity to powerful government elites to acquire remaining PSEs at bargaining power as they did in 1990s reforms. The underlying reason is that government is not eagerly willing to take actions to restructure the government owned organizations by making efforts to improve their management, operational facilities, managerial operations, overall infrastructure and to take action to catch out defaulters. Revival of these organizations need massive investments where government try its best to provide discretionary funds to government contractors in the name of local development projects whose inauguration no doubt announces but public keep on waiting for the implementation of these projects. Although government try to uplift entrepreneurship by establishing one stop shop policy for limited liability companies whose purpose is to encourage small business by reducing the steps in the process of providing possession to operate but this initiative does not work at all in Pakistan.

Dilemma of Private Sector Investments

Private investment is taking place all the time whether through self-finance or by borrowings from banking system. This segment is large as includes small workshops to large business tycoons though much of it is undocumented. The institutional financing of private sector is well documented but a huge part of their investment is not captured in national accounts that constitutes in small businesses that remain outside the reporting network. The major segment that is outside the reporting network is real estate and housing sector in which there is lifetime investment of masses. The same is the case in stock market investments although the stock traded is reported but the origin of investor and the size of investment is not documented. Another examples can be witnessed in daily routine visit of market where huge chunk of whole sale

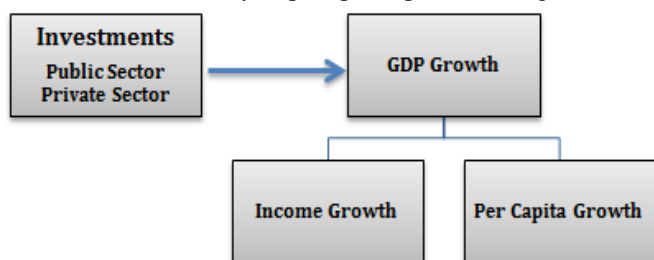
markets, gold market, food market and many general merchandise markets in which millions of personal is associated and they are not captured in the tax bracket.

History

At the time of independence Pakistan had no investments and no growth but how so ever it manages and survive. Later in 1971 the truncation of Pakistan gifted the massive losses that worsen the situation once again. Than 1990s reforms of nationalization further contributed to bring down Pakistan's public investment stability as it hits the major sectors like LSM, energy and infrastructure but agriculture sector didn't suffer because it was already suffering from the invasion of feudal lords.

Impact of Investments

Everything happen in the world is the outcome of its cause so is the economic growth. Investments are directly linked with economic growth refers to GDP. GDP is the total output produced in the economy so it is the source of income where output is supported by investments. In short investments are directly impact per capita income growth.



Flow of Link of Casualty

Human Capital

In the discussion of total investment the discussion on human capital investment is missing because there is less focus on this especially by the public sector of Pakistan. Human capital refers to the spending upon education and health of the general public by the public and private sector both.

Public and Private Sector Investments In Human Capital

It is a known fact that physical and human capital is the backbone of growth of any country. While in case of Pakistan education of young ones is never being the priority of government of Pakistan as many schools are only on paper that don't actually exists. Public sector neglected investment in human capital although there are colleges and universities established by government but they do not focus on providing primary opportunities although the laws also has been passed to arrest the parents if they don't send their children to schools at early age. Investment by private sector in human capital constitutes greater portion in total as they are investing heavily in that, as all parents want their children to provide their children the best education.

Relevance to Fixed Capital Investment

Investment in human capital is needed if investment done in fixed capital because trained personal is required to operate new technology and for that purpose many companies are now sending their employees to foreign study trips to get themselves eligible to work according to technological advances. In short labor embodied technological growth is critical in investment.

Comparison with Comparators

If comparison is taken over with comparators it can be observed that they give more attention to educate its people at-least up to secondary level whereas the primary education is free in many countries.

Public sector investment is very high in India, Malaysia and in China there is only public sector investment. It attracts foreign direct investment where like in India foreign direct investment is very high because foreigners consider India a better opportunity for investments than Pakistan because Pakistan is in war and terror along with the conflicts on religion is also there causes to have limited multinational companies.

Management of Investments

Government should make efforts to re-engage public sector into capital accumulation that would furnish the base of private sector investment by easing the access to banking system and capital markets. It should also ensure enabling environment by reducing corruption although to eliminate it completely is not possible. Along this try to made business friendly environment to get up in the list of business friendly index in order to attract more foreign direct investments.

5 b. Evaluation of Economic Performance W.R.T Savings

Savings are the residual after consumption expenditures if deducted from the income it will be found identical to investments. It can be expressed as follows:

$$Y = C + I$$

$$I = S$$

where, C = Consumption

I = Investment

S = Savings

Interpretation

The equation interpreted as if the investments are positive only then the savings will be positive. It means no country can invest more than its savings or in other words no country can have investments larger than its savings. If investments are greater than its savings it must be financed through foreign borrowings called net external resource inflow.

Importance of National Savings

Investments are being financed with national savings and if savings are not enough to finance the investments it should be financed through external resources i.e. foreign borrowings or grants in aids. Pakistan year after year save less and spend more where its domestic savings are not enough to support its high levels of investments. The declining trend of GDP followed by declining trend investments. Foreign savings financed fixed investment, as Pakistan would not achieve growth without it.

Share of Public And Private Sector In National Savings

Private sector savings constitute 75% of national savings. Private sector savings are fairly large than public sector as government is consistently reporting deficit. The average annual growth rate during this period FY02 to FY14 was 12.2%. The share of public sector saving during this period was 2.2% while the share of private sector was 13%. Public savings vibrantly decline in last few years FY02 to FY14 even figures are negative showing no savings at all. Public sector is implying borrowings from SBP, banking system and households to finance its deficit. In private sector the savings of households 12.5% and corporate savings 15.8% was prominent. The corporate sector does not contribute to its full potential in national savings because they operate on thin margin of liquidity. Along this they do not put their savings in accounts as households although they have surplus at the end due to get rid of tax net or security concerns in Pakistan.

Sources of Financing Shortage Of National Savings

Shortage of investments financed by multilateral institutions including IMF, World Bank and Asian Development Bank and bilateral institutions in which

government to government borrowings takes place where in case of Pakistan, Saudi Arabia is the prominent financier. The countries who save more and invest more grow faster while who save less and invest less grow slowly. Pakistan is one of them who save less and invest less due to which it has to beg for borrowings on which it is bound to fulfill the conditions of lender. It can be witnessed through latest borrowing from IMF where it approved a three-year arrangement for providing \$6.64 billion to Pakistan to support its economic reforms and growth. The approval enables an initial disbursement of about \$544.5 million while the remaining amount will be evenly disbursed over the duration of the programme, subject to the completion of quarterly reviews. The arrangement under the Extended Fund Facility aims to support the country's economic reform programme to promote inclusive growth that can help the economy rebound, forestall a balance of payments crisis and rebuild reserves. The reforms package would also reduce the fiscal deficit, and undertake comprehensive structural reforms to boost investment and growth. The IMF reminded the government that adherence to the programme would catalyze the mobilization of resources from other donors.

Cross Country Analysis

If Cross country analysis is taken over involving few prominent Asian countries like China, Sri-Lanka, Philippines, Thailand, Bangladesh, India, Indonesia and Pakistan it will be concluded that Pakistan has low saving and investment rates along with high consumption spending over the past two decades have characterized the economy. These East Asian countries show a high rate of domestic saving and investment not only in absolute terms but relative to Pakistan as well.

Management Of National Savings

The investment and saving rates in Pakistan could not achieve significant growth in the past two to three decades and resulted in stunted economic growth. Moreover, comparison with the East Asian economies reveals clearly that Pakistan has long way to go. To be at the same level of growth with these fast growing economies, Pakistan needs to finance the desired investment through increased domestic saving without undue reliance on the foreign resources as these introduce an element of unsustainability. So, it is essential to get the saving rate up to 20-25 percent, if we want to follow the model of these countries. There is need to boost up the saving and investment in the country through effective policies giving due consideration to the effectiveness of the potential determinants.

Conclusion

Hence, the overall review of Pakistan's economy clarifies a picture of all the economic issues from different angles that shows that Pakistan is currently facing anemic problems that are now touching alarming levels and there is need to take some serious action if the government and the nation want Pakistan to be on world map. Although no country is free from economic problems. These problems are present in every country but the winners are those who overcome most, if not all of them. Though world is currently facing a lot of economical problems but it doesn't mean that it is going towards its end. Nations face diverse problems but together they work for towards the solution. The same is the need of hour. Government as well as every single citizen has to play its own specific role to bring about a positive change.

Relevance to a Common Man

Perception refers to anticipating something. It is something based upon someone personal experience,

circumstances or views. Topic of discussion could be anything but it ultimately falls on individual's previous notion. If the discussion carried on the fact that how the Pakistan economy is related to every citizen of Pakistan regardless of paying attention to demographics it will come to know human well-being in the economy is not a random phenomenon. It depends on many factors ranging from sociology to economics. A common man is not eligible to understand the mechanism of various operations of economy. Although there are many factors that affect him but he is unaware of them, the only thing is inflation what matters to him at all. It does not mean other factors are not important but inflation is most important to him. The reason behind this is that the survival comes first than any other requirement of life. The basic necessities of life is now becoming out of range for strata of low income group or the group of people who don't even have a source of income for consistent period of time. People belonging to different income groups hold different priorities based on their perceptions, the mass is starving for food on one end while on the other side businesses are striving for profitability, graduating students are concerned about their jobs and career development, politicians are worried about their posts and alike. The understanding of Pakistan economy lead to development of image that it goes beyond the soul of single person the economy indulges the nation as whole in itself. To understand the Pakistan economic circles just for the sake of evaluating economic dynamics for only job or a business attainment is no more a case. There is no space anymore to just think about oneself but the need of our to settle the issues for survival of human being in Pakistan. The understanding of economic parameters could help to a common man to understand the root causes of fluctuations of these parameters and define the way to get his way while coping with these issues. If the understanding is developed about economic pillars among general public it can lead to betterment of economy half way as it improves the decision making of people that is the foundation of every success.

Recommendations

Pakistan should not take temporary action to make only survival possible but it should take steps that enable it to grow and lead it a part of race of modern developed countries. It is a known fact that those societies who do not give importance to justice cannot progress because they don't concern with poverty so first Pakistan should reduce the gap between rich and poor by ensuring equitable distribution of income as income distribution in Pakistan is highly skewed i.e. income is concentrated in few political families. Moreover the education system of Pakistan has failed to develop the well equipped personal to cope with the upcoming challenges of creativity and innovation, there is a need to break the boundaries of resistance towards change and lead the Pakistan to come out of the box as it possesses the talent that needed to be polished. There is a need to appreciate difference of perception not to get into conflicts on the basis of difference of perception i.e. to create a sense of empathy among people so they can accept the change of views. The GDP growth is always a hot matter of discussion in economic topics but the growth of 4.7% is no less than if compared with any developed country like Japan that has a growth of no more than 1% in 25 years. The contributing factors behind their growth is education, innovation, less population, no conflicts of religion and alike. These factors should be considered in Pakistan and make efforts to incorporate them. Along this the importance should be given to provision of equal rights to all citizens without any

discrimination on the basis of gender, race, religion or else. Population growth be controlled by spreading awareness about the advantages of small families among the masses through media and Poverty alleviation programmes be initiated to reduce poverty. In short there are so many problems in Pakistan and there is only one thing that can help Pakistan in solving all the problems that is the self-improvement of each and every Pakistani. All citizens should be patriotic, honest, and hardworking and respect the laws of country. Only then the Pakistan's condition could be changed.

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