Economic State of Pakistan
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Inflation

Pakistan has experienced extremely volatile inflation rates over the past decade, and has only recently seen some stability in it after a long period of high inflation. With it peaking at 25% back in 2008, it wreaked havoc on the economy as it caused a rapid rise in costs and lowering of currency’s value. It has since been on a steady decline and is currently hovering between the 4-5% mark \(^{[1]}\). Although the interest rate is still relatively higher than the ideal of 1% to 3%, the government has been taking initiatives to slowly bring it down to that level. An example of this is how the Bank of Pakistan (BOP), controls the borrowing interest rates depending on spending and foreign exchange markets \(^{[2]}\). In case the inflation rate drops too low, the bank will decrease its interest rates to encourage loaning and spending, and as a result increase inflation and aggregate demand. If the inflation rate crosses the upper desired limit, the bank will do the opposite so the inflation and aggregate demand declines. In summary, BOP controls the borrowing interest rate to achieve the desired result on aggregate demand and inflation.

Economic Growth

Other than the low GDP growth of 1% back in 2009 during the global economic crisis, Pakistan has managed to maintain a consistently high GDP growth of around 5% and is expected to maintain this growth rate in the upcoming years \(^{[3]}\). This consistent upward GDP growth suggests that Pakistan is currently undergoing the expansion phase in the business cycle. In order to keep this trend going, the Pakistani government is taking several steps to keep the economy steady and avoid a potential recession. Primarily, the government is focusing on vast spending on infrastructure, and joint ventures with foreign countries to increase private investments and openness to the international market \(^{[4]}\). An example of such initiative is the large infrastructure project known as the China-Pakistan Economic Corridor (CPEC). By partnering up with China, Pakistan aims to improve its infrastructure and increase private investments in the country to encourage economic growth. This project will connect China to Western Asia, and Pakistan being the medium will mean it will collect various tax and duty charges.
Unemployment

Pakistan has managed to maintain a steady level of unemployment of 5-6% over the past decade, with the most recent recorded unemployment rate of 5.9% back in 2017 [5]. The ideal level of unemployment being 3-5%, this means that the level of unemployment in Pakistan is close to ideal and shouldn’t be a primary concern for the government. Some level of natural unemployment is bound to be present in a healthy economy due to structural and frictional unemployment. This issue of a slightly high unemployment should be resolved in the coming years as the country undergoes economic growth through improved infrastructure and joint ventures with foreign countries. This expansion will create more jobs and allow the citizens to be less dependent on the government because as private investment increases, people will naturally shift from government to private sector jobs [4].

Equity in Income Distribution

The GINI coefficient is an indicator of income distribution, with a value of zero indicating perfect income equality and a value of one indicating perfect inequality. With Pakistan’s GINI coefficient being measured at 0.307 in 2013, it suggests that Pakistan has moderate income inequality [6]. Although it has relatively low-income inequality compared to its neighboring countries such as India, its low GDP per capita means that a large population of the citizens have to live below the poverty line [7]. Not much is currently being done by the Pakistan government to deal with this issue, but certain policies are being implemented such as progressive taxing. This means that as an individual’s income increases, so does the tax rate [8]. This can be beneficial for the lower income citizens as the revenue collected by the high-income tax payers can be used to support them.

Improving Inflation and Equity in Income Distribution

Inflation, economic growth, low unemployment, and equity in income distribution are the four main macroeconomic goals that countries take into account. Out of these, Pakistan should shift its focus towards controlling inflation and improving income distribution in order to improve its overall economic situation.
High and volatile inflation rates are detrimental to an economy as it increases the costs of products and decreases the interest of foreign investors. This is an issue that has plagued Pakistan over the past decade, as the government has been unable to keep the rate of stable and within the desired range. Steps have been taken by the central bank in order to deal with this issue by implementing a varying interest rate on loans. In order to keep inflation with the desired upper and lower limits, the bank lowers and raises its interest rates to achieve a stable level of inflation. Due to their being a high rate of inflation in the country, the bank focuses on keeping interest rates high in order to decrease borrowing and spending, and therefore also inflation. Although this successfully lowers inflation, it can have damaging side effects on the overall economy. The reason for this is that as spending decreases, so does the GDP. Another policy that the Pakistani government can implement to control inflation rates is pegging the Pakistani rupee to a foreign currency such as the US dollar. A reason for high inflation in Pakistan is that it has faced regular devaluing of its currency over the past few years. Also, a devaluing of currency can also have various negative side effects such as increased costs, because as a country’s currency loses value, the cost of imports increase. Luckily, this is an issue that can simply be resolved by pegging its currency. This will increase the stability of the currency and help deal with one of the causes of high inflation in Pakistan.

Pakistan should also turn its focus towards resolving its issue of income inequality, as dealing with this issue can simultaneously help them achieve various other macroeconomic goals as well. Pakistan possesses a very low GDP per capita of 1,443 USD as recorded in 2016. This low GDP per capita means that there is very little leniency for income inequality as it risks pushing a large proportion of the population to living below the poverty line. This is an issue that Pakistan is currently facing, and governmental policies such as progressive taxing can help resolve it. Progressive tax is a policy that refers to a system of taxation where the income of a person is directly related to the tax rate that they have to pay, meaning as an individual’s income increases so does his tax rate, and vice versa. Progressive taxation can majorly support the government in its efforts of helping the less fortunate as it is a great source of revenue for them and puts less of a burden of taxation on backs of lower and middle-
class citizens. By using this revenue to help provide low income workers with merit goods and access to public services, they can greatly improve their quality of life. Also, as the government uses the revenue to provide lower class citizens with an education, they will create a more educated workforce. As a result, these citizens will be able to work as skilled labor and increase their spending, causing an increase in aggregate demand.
Work Cited


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