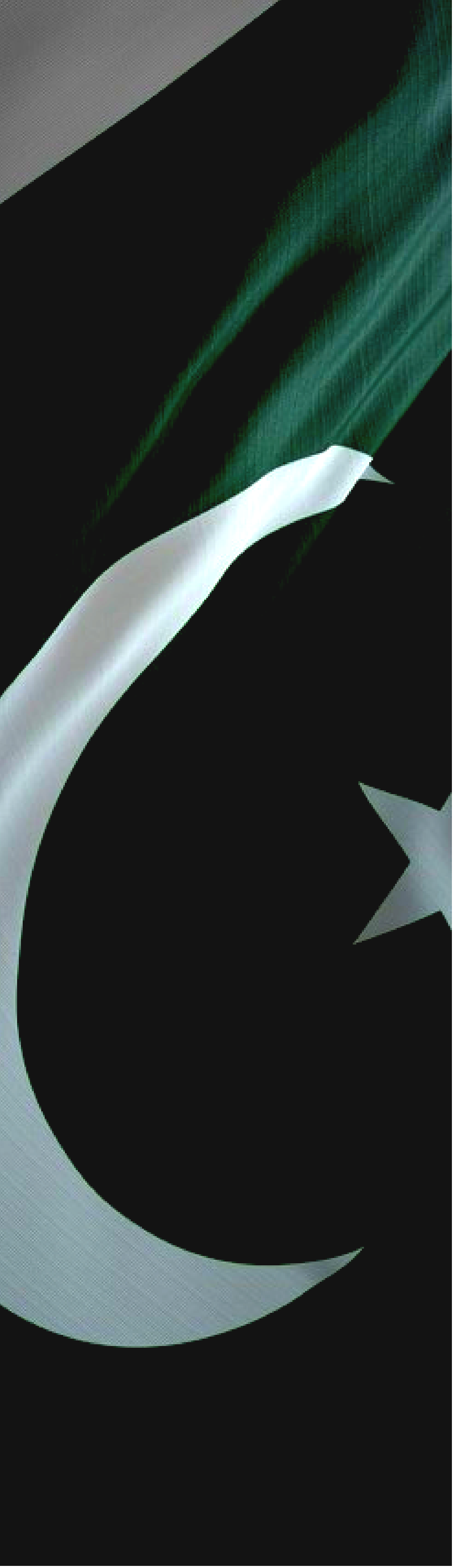

ECONOMIC CRISIS IN PAKISTAN

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27TH BATCH
BACHELOR OF BUSINESS ADMINISTRATION, BBA

Date of Submission: 27th March 2023

LETTER OF TRANSMITTAL

March 27, 2023
Dr. Hasina Sheykh,
Chairman
Department of Banking of Insurance
University of Dhaka

Dear Ma'am,
Attached herewith is the report as assigned, entitled ***Economic Crisis in Pakistan*.**

We are delighted to be able to prepare our term report based on the problems assigned to us by our honorable course teacher *MD. Golam Ramij*, course, *B-202(Principles of Macroeconomics)*. This report gave us an opportunity to practically implement macroeconomic theories and form proper ideas on day-to-day compulsory decisions regarding economy of a country.

We are thankful to you for your continuous support and patience that you have provided us throughout our course of preparing the report despite your busy schedule. We are submitting our report to you for your kind assessment. We, once again, thank you for your kind supervision, direction, communication, and cooperation.

Sincerely yours,
Team 01
Bachelor of Business Administration, BBA
Department of Banking and Insurance
University of Dhaka

DECLARATION

We do hereby solemnly declare that the work presented in this Term Report has been carried out by our group ***(Team 01)*** and has not been previously submitted to any other University/College/Organization for an academic qualification/certificate/diploma or degree.

The work we have presented does not breach any existing copyright and no portion of this report is copied from any work done earlier for a degree or otherwise.

We further undertake to indemnify the Department against any loss or damage arising from breach of the foregoing obligations.

…………………………………………….

Signature of the student ***(Team Supervisor)***

ID No:

Batch:

…………………………………

Date

ACKNOWLEDGEMENT

We would like to express our deepest appreciation to all those who provided us the support to complete this report. A special gratitude we give to our Principles of Macroeconomics (B-202) course teacher, ***Md. Golam Ramij***, whose contribution in stimulating suggestions and encouragement, helped us to coordinate our project especially in writing this report.

Furthermore, We would also like to acknowledge with much appreciation the crucial role of the staff of Department of Banking and Insurance, who gave us the permission to use all required equipment and the necessary materials to complete the task *“Economic Crisis in Pakistan”*. We would hereby heartily appreciate each team member for their effort to assemble the parts and give suggestions regarding the task *“Economic Crisis in Pakistan”*.

Finally, many thanks go to the chairperson Dr. Hasina Sheykh, Banking and Insurance Department, Faculty of Business studies, University of Dhaka. Who have invested her valuable time and effort to provide us an opportunity to enhance our report creation and presentation. We are obliged to appreciate the guidance given by other supervisors as well as the panels especially in our project presentation that has improved our presentation skills thanks to their comment and advices.

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EXECUTIVE SUMMARY

Pakistan's macroeconomic situation has been volatile in recent years, with a mix of positive and negative developments. The following is an executive summary of the current state of the country's economy:

GDP growth: Pakistan's GDP growth rate has been inconsistent over the past decade, with periods of high growth and economic downturns. In 2020, Pakistan's GDP contracted by 0.4% due to the COVID-19 pandemic, but it is expected to rebound in the coming years. In the latest year (2022), the GDP growth rate was 6%, which also showed a little decline from the previous year.

Inflation: Inflation has been a major issue in Pakistan, with the consumer price index (CPI) increasing at a rapid pace. Comparing July 2021 to the same month in the previous year, the CPI climbed by 9.3%. In December 2022, Pakistan's annual inflation rate increased to 24.5% from 23.8% in November. This suggests that Pakistani households' overall cost of living has climbed dramatically.

Fiscal deficit: Pakistan has struggled with a large fiscal deficit in recent years. The government has implemented measures to reduce the deficit, including tax reforms and increased foreign investment, but the deficit remains high.

External debt: Pakistan's external debt has increased significantly in recent years, and the country is heavily reliant on foreign aid and loans. This has led to concerns about the country's ability to repay its debts.

Foreign exchange reserves: Pakistan's foreign exchange reserves have been fluctuating over the past decade, but they have increased in recent years due to increased foreign investment and remittances from overseas Pakistanis.

Trade: Pakistan has a large trade deficit, with imports far exceeding exports. The government has taken steps to increase exports, including providing incentives for exporters and developing export-oriented industries.

Overall, Pakistan's macroeconomic situation is improving, but there are still significant challenges that need to be addressed. The government must continue to implement reforms to address issues such as inflation, fiscal deficits, and external debt, and work to attract more foreign investment and increase exports.

BRIEF ON PAKISTAN’S CURRENT MACROECONOMIC SITUATION

Pakistan’s economy has been experiencing a crisis since 2022–2023. It has created significant economic difficulties for months, which has led to an increase in the cost of food, gas, and gasoline. Fuel costs have increased globally as a result of the Ukrainian War. Over the years, the nation's excessive external borrowings increased the risk of default, which devalued the currency and made imports relatively more expensive. By June 2022, food costs were growing, and inflation had reached an all-time high. Due to poor governance, low productivity per capita in comparison with other low- to middle-income developing countries has resulted in a balance of payment crisis, whereby the country is unable to earn enough foreign exchange to fund the imports that it consumes.

About $30 billion in economic losses will be brought on by the summer floods in 2022 in Pakistan. The State Bank of Pakistan's reserves were at $11.425 billion at the end of March 2022, but they steadily declined to a nearly four-year low of $6.715 billion on December 2nd. The foreign exchange reserves of Pakistan are hardly enough to cover imports for five weeks. The economic problem is allegedly getting worse due to the rupee's ongoing depreciation. The rupee had a value of 183.48 to one dollar at the end of March. It ended on December 9th, 2022, at 224.40.
In January 2023, for the first time, the CEO of Pakistan's largest bank, Habib Bank, commented publicly on the prevailing economic situation. He said it could be a *"big blow to the economy"* if the stakeholders didn’t make the right decisions swiftly. When Pakistan removed the fictitious exchange rate ceiling in late January, the rupee fell 20% versus the dollar in a matter of days. The government increased the price of gasoline by 16%. In addition, the Pakistani central bank increased its interest rate by 100 basis points to combat the nation's anticipated 26% inflation rate in January, which would be the highest level in decades. The economy of Pakistan is in danger of failing.

A Moody's economist estimated that Pakistan's inflation could average 33% in the first half of 2023, or in February 2023. Pakistan receives a 700 million dollar loan from China to boost its foreign exchange reserves. The Consumer Price Index (CPI) for Pakistan increased even more, reaching 31.5%, the highest annual rate in 50 years.

Source : State bank of Pakistan; United Nations Development programme

INTRODUCTION

Economics is a branch of social science that examines how goods and services are produced, distributed, and consumed as well as how people, businesses, governments, and entire countries use their resources. The two primary fields of economics are microeconomics and macroeconomics. Although macroeconomics covers national or regional concerns rather than personal ones, microeconomics focuses on the decisions made by people and businesses. The macroeconomic element will receive more attention in this section. A branch of economics known as macroeconomics focuses on problems that affect a whole region or country as opposed to just one person or family. Inflation, price levels, economic growth rates, national income, GDP, and variations in unemployment are just a few of the economic indicators that macroeconomics investigates. The several economic indicators in brief Overall monetary worth of all finished goods and services that a nation generated over a particular time period is known as the gross domestic product, or GDP. The monetary worth of all completed products and services produced in a country during a certain time period is known as the gross domestic product. GDP calculates the production of the economy. Greater GDPs produce more products and services and have greater living standards. To obtain further information, the GDP may be computed using expenditures, output, or income and then adjusted for inflation and population. Price increases, or inflation, signify a gradual loss of buying power. A growth in the quantity of money in circulation is what causes inflation, although this can occur in the economy in a variety of ways. It is believed that inflation, whether it is excessive or little, is undesirable for an economy. The optimal inflation rate, according to many financial gurus, is around 2% each year. The national income is the total earnings of a nation's economy over the duration of a year. It consists of all monetary payouts for labour, capital, and capital gains. Unemployment occurs when a job seeker fails to find work. Unemployment is an important economic indicator. Having more individuals without jobs reduces economic output. These are the few indicators that play a major role in economics. The world economy experienced a series of shocks in 2022, including the COVID-19 pandemic, the war in Ukraine, high inflation, etc. Besides that, many nations experienced economic and socio-economic crises as a result of heat waves, fires, floods, and hurricanes. The world economy is suffering a lot in 2023 due to high inflation, rapid interest rate hikes, global spillover effects, capital outflows, currency depreciations, and debt sustainability risks. These shocks have weakened consumer confidence and investor sentiment, further clouding near-term growth prospects. Pakistan's economy has been in terrible condition for some time. The current situation in Pakistan is caused by several major reasons, including floods, inconsistent and procyclical economic policies, and local problems. The International Monetary Fund has not given the country any more money because of its very high inflation and very low foreign exchange reserves (IMF). The country's inflation rate is growing every day. There are plenty of people losing their jobs; flour mills are closing down; inflation is at 40% per week; and the interest rate is at a record high of 20%. Pakistanis no longer trust Finance Minister Ishaq Dar, who is in charge of stopping the country's economy from falling apart. To make up for the shortfall in revenue, he has done things like raise fuel prices, cut imports, and raise taxes. However, many people think he doesn't know how to handle the crisis, and the IMF doesn't trust him as much as it did Miftah Ismail. This is a preview of the topic, which we're going to examine in greater detail afterwards.

1.1 OBJECTIVES OF THE STUDY

Our objective is to learn more about the economic crisis in Pakistan that has placed the country in a vulnerable position and determine the causes that led to this situation. Several causes have led to Pakistan's current condition, including floods, incoherent and procyclical economic policies, and domestic issues.

1.2 RATIONALES OF THE STUDY

The research aims to shed light on Pakistan's economic crisis and analyze the scenario of this event. This report outlines some of the issues the nation is currently facing as a result of the crisis. Due to rising inflation and limited foreign exchange reserves, the International Monetary Fund (IMF) has not handed the government any additional fund. The IMF has also refused to lend the government any additional fund due to its very high inflation rate and relatively low foreign exchange reserves, which further complicates the issue.

1.3 LIMITATIONS OF THE STUDY

We are discussing a highly controversial and sensitive topic involving the economy and people of an entire nation. Such a broad topic contains numerous factors and details, and as we are not experts in the field of research, it may not contain the exact narration of the event. However, we tried our hardest to gather accurate information using the most reliable online resources. Due to the limitations of the report, it is possible that our speculations are not entirely applicable to real-world scenarios.

1.4 SIGNIFICANCE OF THE STUDY

This report will give us a glimpse into the state of the Pakistan's economy at the present time, which will serve to keep us up to date with recent breakthroughs in the economic world. By studying this actual event, our understanding of economics will be enriched. Those individuals who are optimistic about looking over the report ,will undoubtedly benefit from the information.

GDP, SAVINGS AND INVESTMENT AFTER INFLATION CRISIS

Gross domestic product (GDP) is the standard method to measure the value added created through the production of goods and services in a country for a certain period. It also measures the income earned from production or the total amount of expenditure for final goods and services. GDP is usually calculated by the National Statistical Agency of a country using this formula:

$$GDP = \text{Private Consumption} + \text{Gross Private Investment} + \text{Government Investment} + \text{Government Spending} + (\text{Exports} - \text{Imports})$$

GDP AFTER INFLATION CRISIS

Pakistan, a South Asian country with almost 230 million people, will face an economic crisis in 2023. Its economy is at the point of collapse. In February 2023, a temperamental economist predicted that affectation would increase to an average of 33% in the first half of 2023.

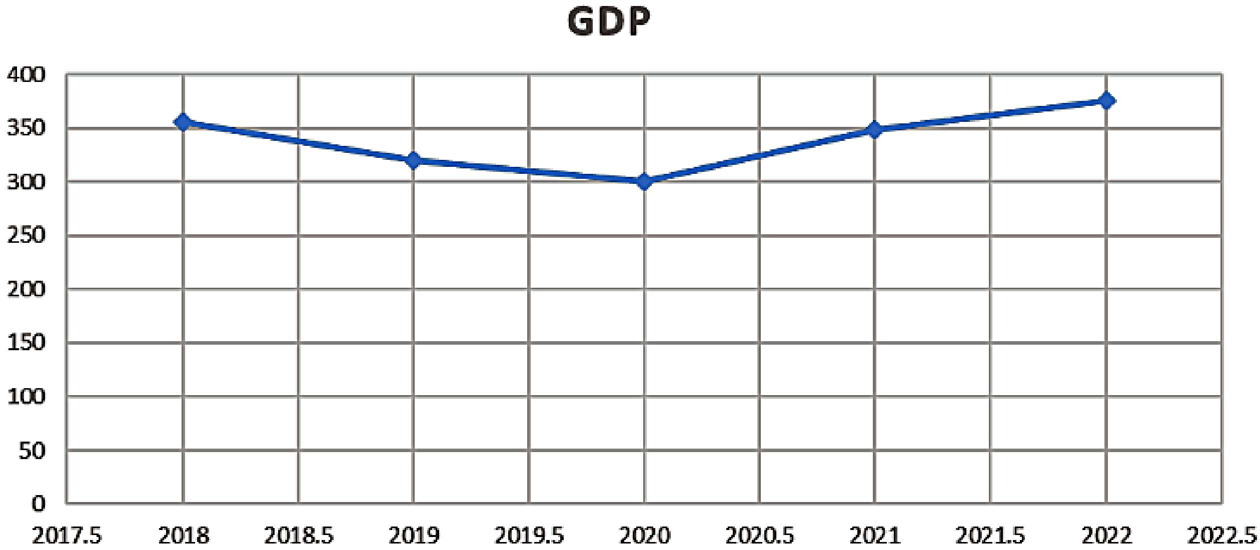
Table 01: 5 years GDP, GDP Growth Rate and GDP Per Capita of Pakistan

Year	GDP (In Billion)	GDP Growth Rate	GDP Per Capita
2018	$356.13	6.15%	$1621
2019	$320.91	2.50%	$1437
2020	$300.43	-1.27%	$1322
2021	$348.26	6.49%	$1505
2022	$376.04	6.00%	$1656

Source: macrotrends.net

China lends Pakistan a further 700 million dollars to shore up FX reserves. This situation also affects the GDP and the living standards of the country's people.

Figure 01: 5 Years GDP (In Billions)



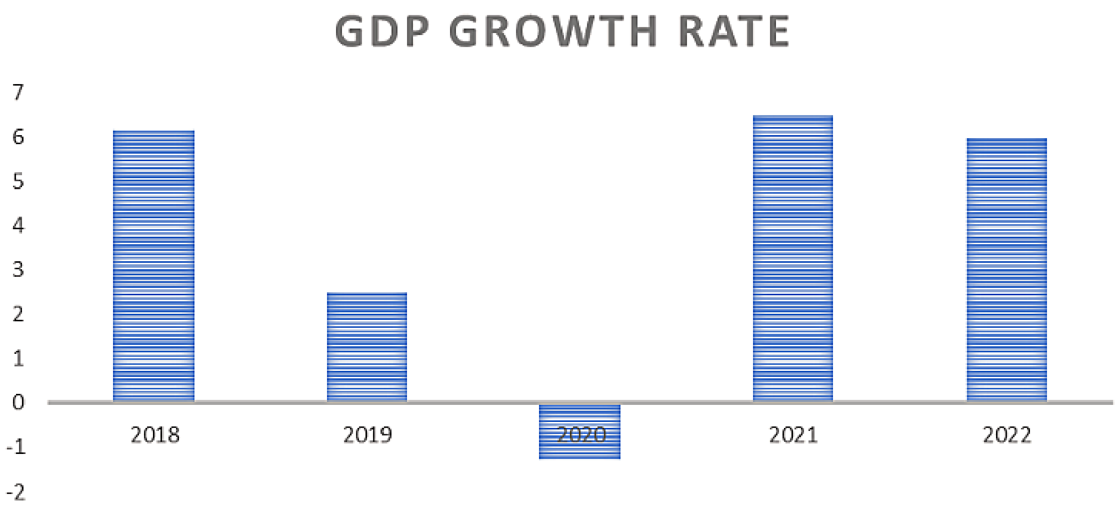
Source: World Bank

Here is the growth of GDP in Pakistan's economy. In 2018, it was almost 356 billion dollars. In 2019, it started decreasing. In 2020, it will reach 300 billion dollars, which is the lowest amount in this five-year time frame. In 2021, it started growing again. In 2022, it reached 376 billion dollars, which means the economy is growing again and the resources available to the people in the country are also increasing.

In Figure 02, the GDP growth rate from 2018- 2022 is shown. Pakistan's GDP growth rate for 2021 was 6.49%, a 7.76% increase from 2020. The GDP growth rate for 2020 was -1.27%, a 3.77% decline from 2019. The GDP growth rate for 2019 was 2.50%, a 3.65% decline from 2018. The GDP growth rate for 2018 was 6.15%, a 1.72% increase from 2017. In the latest year (2022), the GDP growth rate was 6%, which also showed a little decline from the previous year.

GDP per capita is gross domestic product divided by the midyear population. GDP is the sum of the gross values added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for the depreciation of fabricated assets or for the depletion and degradation of natural resources. Pakistan's GDP per capita for 2021 was $1,505, a 13.82% increase from 2020. The GDP per capita for 2020 was $1,322, a 7.99% decline from 2019. The GDP per capita for 2019 was $1,437,

Figure 02: GDP Growth Rate for 5 Years



Source: World Bank

an 11.33% decline from 2018. The GDP per capita for 2018 was $1,621, a 3.39% increase from 2017.

SAVINGS AFTER INFLATION CRISIS

Savings constitute an important driver for financial inclusion. Access to savings instruments enables households to smooth consumption and investment in human and business capital. In the context of national economies, savings have a direct impact on economic growth and investment. As per the World Bank and OECD National Accounts Data, Pakistan's Gross Domestic Savings as a percentage of GDP merely stood at 5.8% in 2018, drastically low when compared to 21.2% in Sri Lanka, 22.8% in Bangladesh, 29.4% in India, and 30.6 % in Malaysia.

Table 02: Gross Domestic Savings of Pakistan for 5 years

Year	Gross Domestic Savings (% of GDP)
2018	6.6%
2019	5.4%
2020	6.7%
2021	5.7%
2022	3.8%

Source: World Bank

Pakistan's gross national savings (percent of GDP) were at a level of 3.8 percent in 2022, down from 5.7 percent from the previous year.

Causes of Low Savings in Pakistan:

(i) Income level: Savings are positively associated with income. There is a general consensus in the economic literature that people with a low level of income have a lower propensity to save and vice versa. One reason for the collapse of savings rates in Pakistan in recent years is persistently low real GDP growth.

(*ii) Inflation:* A continuous five years of double-digit inflation has also contributed to declining saving rates during this period.

(iii) Rate of return: The rate of return on saving is the most important factor affecting the saving rate. The national savings rates have followed the trend of real interest rates in general. Particularly, private sector savings have a strong association with the real interest rate, having a correlation coefficient of 0.62. However, public savings are not interest-sensitive (with a correlation coefficient of 0.12).

INVESTMENT AFTER INFLATION CRISIS

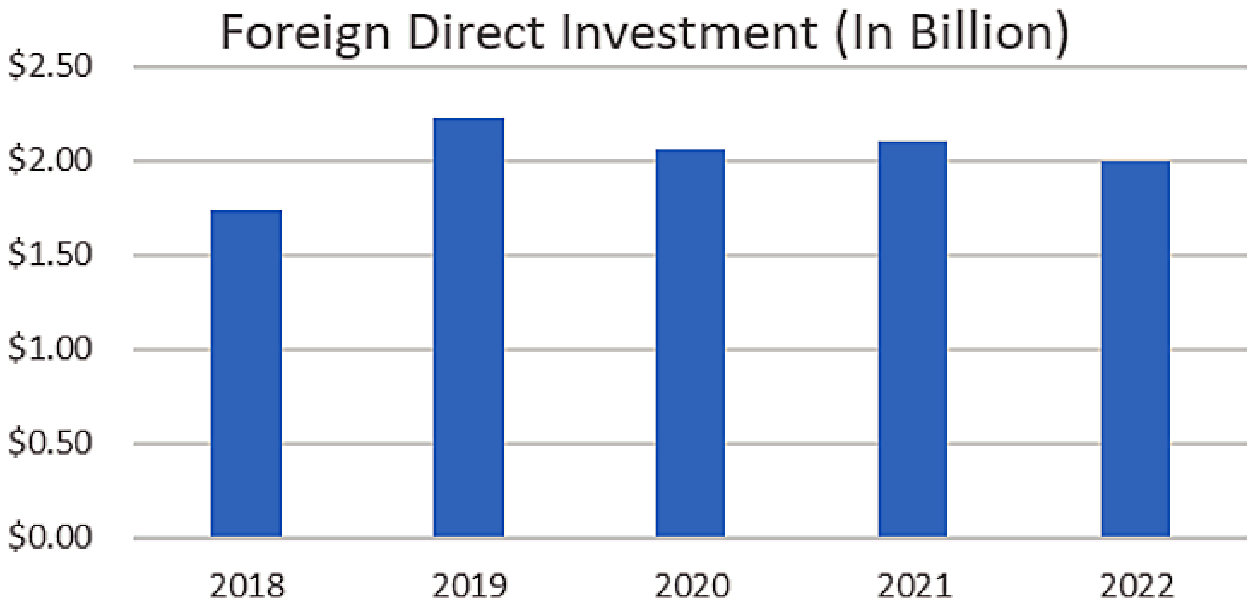
Foreign direct investment refers to direct investment equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident of one economy having control over or a significant degree of influence on the management of an enterprise that is resident in another economy.

Table 03: Foreign Direct Investment in Pakistan for 5 years

Year	Foreign Direct Investment (In Billion)
2018	$1.74
2019	$2.23
2020	$2.06
2021	$2.10
2022	$2.00

Source: CEIC

Figure 03: Foreign Direct Investment in Pakistan



Source: CEIC

Here it has been shown that Pakistan's foreign direct investment for 2021 was $2.10 billion, a 2.19% increase from 2020. In 2020, it was $2.06 billion, a 7.92% decline from 2019. In 2019, it was $2.23 billion, a 28.61% increase from 2018. In 2018, it was $1.74 billion, a 30.41% decline from 2017 in the trend of foreign direct investment in Pakistan.

Pakistan has experienced macroeconomic instability since the early seventies. Because of the country's persistent macroeconomic uncertainty, savings and private investment have been discouraged, resulting in low aggregate investment and volatile output levels. It has one of the lowest investment-to-GDP ratios at 15 percent, about half of the South Asian average of 30 percent.

Evaluating the risks of investment losses due to the persisting political and economic uncertainty in Pakistan, foreign investors hesitate to invest as the flow of investment into different sectors of the economy remains sluggish.

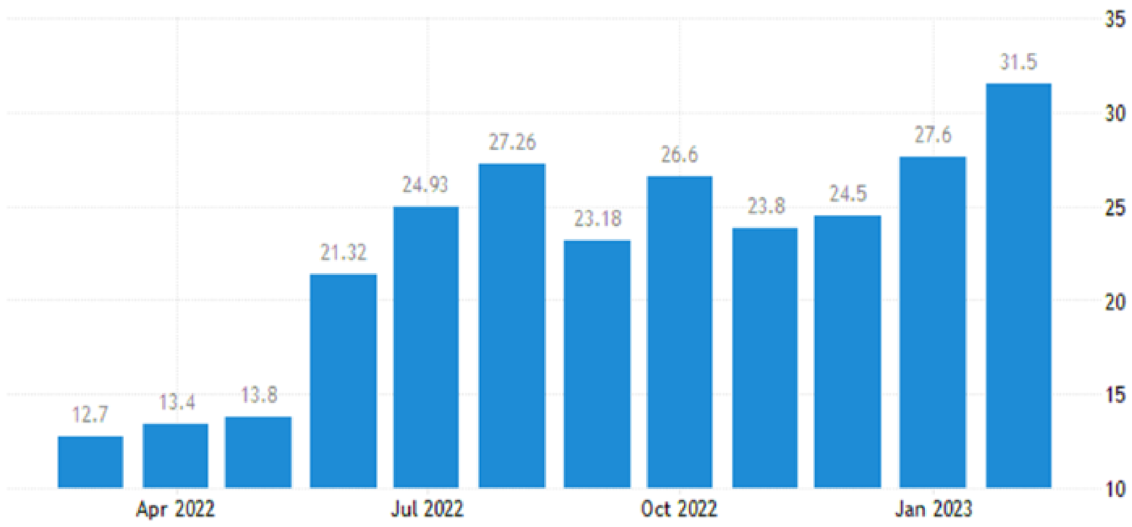
PRICES, WAGES AND EMPLOYMENT AFTER INFLATION CRISIS

Pakistan has had a big problem with inflation in recent years, which has had a big effect on prices, wages, and jobs. The rising cost of goods and services due to inflation has diminished customers' buying power. This has subsequently affected salaries and employment. Increasing pricing for products and services has diminished customers' buying power, making it more difficult for them to purchase necessities. This has resulted in a decline in demand for products and services, which has led to a decline in output levels among firms. As a consequence, several firms have had to lay off employees or lower compensation in order to minimise expenses and remain solvent. In addition, inflation has contributed to a rise in the cost of living, which includes essentials such as food, housing, and healthcare. This has increased the financial strain on families, resulting in a decline in consumer expenditure and demand for products and services. To tackle the inflation situation, the Pakistani government has adopted a number of measures, including an increase in interest rates and a decrease in government expenditure. Higher interest rates may lead to less investment and slower economic development, which may have a negative effect on wages and employment.In conclusion, the inflation problem in Pakistan has had substantial repercussions on prices, earnings, and employment. Although the government has made attempts to limit inflation, these actions may have unintended negative effects on the economy and on the people.

PRICES AFTER INFLATION CRISIS

Pakistan's inflation crisis has had a significant impact on prices in the country. Inflation has caused the prices of goods and services to rise, making it more difficult for consumers to afford basic necessities. The Consumer Price Index (CPI), which measures the average change in prices of a basket of goods and services consumed by households, has increased significantly in Pakistan in recent years. For instance, in July 2021, the CPI increased by 9.3% compared to the same month in the previous year. Annual inflation rate in Pakistan rose to 24.5% in December of 2022 from 23.8% in November. This indicates that the overall cost of living has increased significantly for Pakistani households. The inflation crisis has particularly affected the prices of essential goods, such as food and energy. The prices of wheat, sugar, and other food items have increased significantly, leading to food insecurity for many low-income households. Energy prices, including petrol and electricity, have also increased, leading to higher transportation costs and increased expenses for households. In response to the inflation crisis, the Pakistani government has taken various measures, such as importing essential commodities, reducing import duties, and increasing subsidies for certain products. These measures may help to control prices in the short term, but they may also have negative consequences in the long term, such as increasing the country's debt burden. In summary, Pakistan's inflation crisis has led to significant increases in prices, particularly for essential goods and services. The government has implemented measures to control prices, but the long-term impact of these measures remains to be seen.

Figure 04: Pakistan's inflation rate from April 2022 to January 2023



Source: Pakistan Bureau of statistics

According to the Pakistan Bureau of Statistics, the inflation rate has increased to 11.53 percent in July 2022 from 13.4 percent in April 2022. In January 2023, it increased to 27.6%. And the inflation rate is increasing rapidly day by day. also decreased by approximately 0.29 percent. Consequently, the average inflation rate from July to January of 2020 and 2021 was 8.19%, and food inflation was 13.79% during this period.

WAGES AFTER INFLATION CRISIS

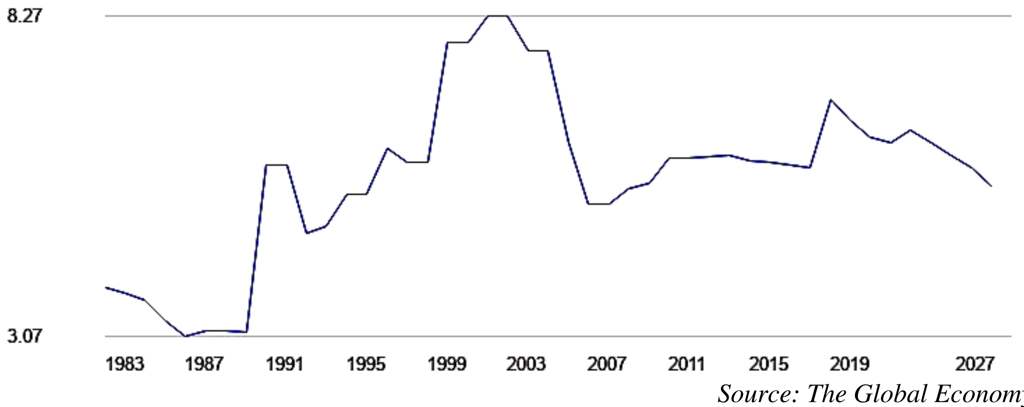
Pakistan's inflation crisis has led to a decline in real wages, particularly for low-wage workers. The average wage rate in the country increased by 9.85% in the fiscal year 2020-2021, which was lower than the average inflation rate of 10.7% during the same period, indicating that workers are not able to purchase the same amount of goods and services with their wages as they could before. Low-wage workers have been hit the hardest by inflation, as they are more likely to face job losses, reduced working hours, and decreased wages. The Pakistani government has taken measures to support workers, such as increasing the minimum wage and providing subsidies for certain products, but more action is needed to ensure that workers are able to maintain their standard of living in the face of inflation. The impact of inflation and COVID-19 on wages and purchasing power shows that global monthly wages fell in real terms to minus 0.9% in the first half of 2022.

EMPLOYMENT AFTER INFLATION CRISIS

Inflation has also had an impact on employment in Pakistan, as it has led to a decline in the purchasing power of wages. This has made it more difficult for workers to make ends meet, and may have contributed to a decline in labour productivity.

According to the Pakistan Bureau of Statistics, the unemployment rate in Pakistan was 4.45% in 2018, which increased to 4.79% in 2019. However, due to the impact of the COVID-19 pandemic, the unemployment rate increased sharply to 6.0% in 2020. More than 800,000 Pakistanis left the country in search of better economic prospects abroad. With rocketing inflation and the rupee devaluing by 30% during 2022, millions of urban middle-class people have been pushed to the brink of poverty. The pandemic led to a significant decline in economic activity as many businesses were forced to shut down or reduce their operations. This resulted in a large number of job losses, particularly in the informal sector, where many workers do not have job security or access to social protection.To address the impact of the pandemic on employment, the Pakistani government announced various measures,

Figure 05: Pakistan unemployment rate from 1983 to 2027 (Forecasted)



Source: The Global Economy

such as providing financial support to small and medium-sized enterprises and introducing a job creation program for young people. These measures have helped to mitigate the impact of the pandemic on employment to some extent. However, the employment situation in Pakistan remains challenging, particularly for young people and women. Many young people are unable to find work that matches their skills and qualifications, and women face significant barriers to entering the labour market due to cultural norms and limited opportunities. Inflation has also had an impact on employment in Pakistan, as it has led to a decline in the purchasing power of wages. This has made it more difficult for workers to make ends meet and may have contributed to a decline in labor productivity. Overall, the employment situation in Pakistan has been affected by a range of factors, including the COVID-19 pandemic, inflation, and structural challenges in the labor market. While the government has taken steps to address these challenges, more action is needed to create more and better jobs, particularly for young people and women, and to ensure that workers are able to maintain their standard of living in the face of inflation.

FISCAL POLICY AND FISCAL MANAGEMENT

Fiscal policy is the term used to describe how the government uses taxation and expenditure to affect the state of the economy. Fiscal policy typically enters the picture when conditions are deteriorating swiftly enough to call for government involvement, such as during a recession or an inflationary era. Theoretically, a sound fiscal policy implementation should be able to stabilize an unstable economy and promote ongoing growth.

PURPOSES OF FISCAL POLICY

Fiscal policy aims to encourage healthy and stable economic growth while putting in place artificial safeguards against an economic collapse. There are two types of fiscal policies: expansionary and contractionary. When a country faces inflation, it takes contractionary policy by different means, when it faces deflation it goes for expansionary policy.

EXPANSIONARY POLICY

The government's response to a recession by decreasing taxes and expanding government expenditure is known as *"expansionary policy,"* which is the more typical of the two. The underlying idea is that when taxes are reduced, people have more money in their pockets to invest in or spend, which boosts the demand for goods and securities. More government expenditure and rising consumer demand encourage businesses to recruit more workers, which reduces unemployment. Companies also become more competitive in the labour market, which raises salaries. This provides customers with even more money to spend, which should eventually help the economy emerge from the slump. One example of a perpetual cycle is this.

CONTRACTIONARY POLICY

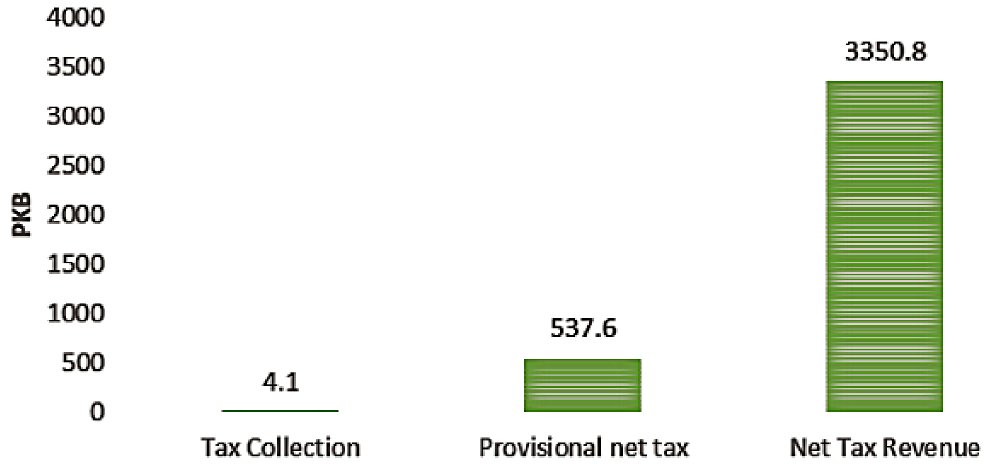
In contractionary policy, our purpose is to study the fiscal policy before and during the financial crisis. Since, over the years, the nation's excessive external borrowings increased the risk of default, which devalued the currency and made imports relatively more expensive. By June 2022, food prices had increased and inflation had reached an all-time high they had to change their fiscal policy to counter this inflationary trend. To specify the policy, I will discuss the four major pillars of Fiscal Policy in 2023 which are-

- Tax Policy
- The Profits of state
- Other Revenues
- Government Expenditure

TAX POLICY

In January 2023, the Federation Board of Revenue of Pakistan's tax collection came in at PKR 4.1 billion over budget. From PKR 430.9 billion in January 2022 to PKR 537.6 billion in January 2023, the provisional net tax collection climbed by 24.8 percent. In comparison to the same period in FY2022, net tax revenue increased by 18.4% to PKR

Figure 06: Pakistan's tax revenue in 2023



Source: https://www.finance.gov.pk/economic/economic_update_February_2023.pdf

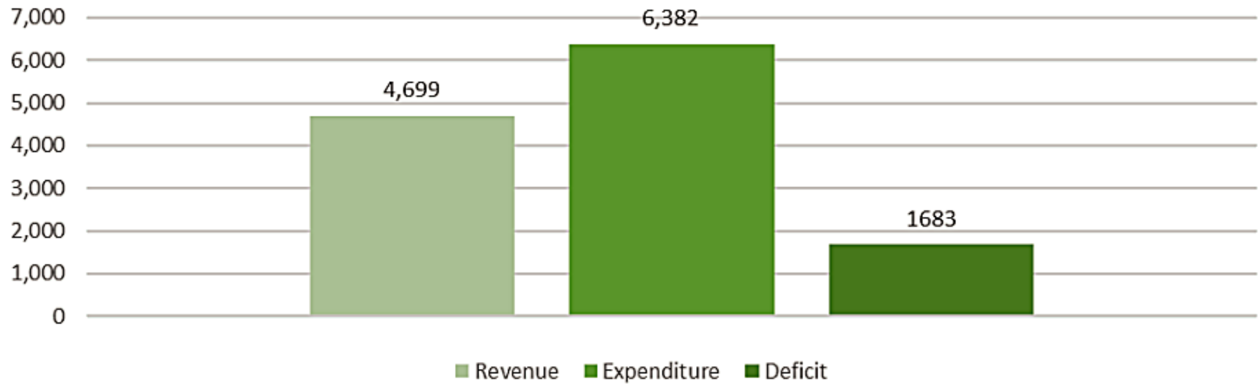
Net tax revenue increased by 18.8% to PKR 4,699 billion from PKR 3,956 billion during the same period in 2021. The non-tax collection increased by 26.4 percent, which made up the majority of this rise. Tax collection also performed admirably during the first half of the current fiscal year, increasing by 17 percent.

GOVERNMENT EXPENDITURE

From the first half of FY 22–23, total spending increased by 19.8% to PKR 6,382 billion from PKR 5,328 billion. In comparison to the same period last year, current spending grew by 30% to PKR 6,061 billion in July through December of FY2023. The majority of this increase is attributable to a dramatic increase in markup payments, which increased by 77 percent as a result of greater servicing on domestic and foreign debt as a result of higher interest rates. During the first six months of the current fiscal year, PSDP (federal and provincial) spending increased by 4.5 percent.

As a result, the fiscal deficit for FY2023 has been held to the same level of 2.0 percent of GDP as it was during the same time last year. In contrast to the surplus of PKR 81 billion (0.1 percent of GDP) in 2016, the primary balance posted a surplus of PKR 890 billion (1.1 percent of GDP)

Figure 07: Pakistan's government expenditure in the year 2023



Source: https://www.finance.gov.pk/economic/economic_update_February_2023.pdf

MONETARY SECTOR

On January 23, 2023, the Monetary Policy Committee (MPC) raised the policy rate by 100 basis points to 17 percent. The money supply (M2) only increased by 0.4% (PKR 121.5 billion) from July 1 to January 27 of FY2023, which is less than the 0.7% (PKR 175.1 billion) rise recorded during the same time in FY2022. M2's Net Foreign Assets (NFA) component saw a decline of PKR 2,014.4 billion as opposed to PKR 545.5 billion the year before. On the other hand, compared to a growth of PKR 720.6 billion the previous year, the banking sector's Net Domestic Assets (NDA) climbed by PKR 2,135.9 billion.

CONCLUSION

We have prepared a report on a highly sensitive issue that has come up in recent years. Pakistan's economic crisis has come as a shock to the country and the rest of the world. Despite the fact that the country has been through economic difficulties before, the current one is unmatched. The main problem with the Pakistani economy right now is that it is stuck in a cycle of low growth, high inflation and unemployment, declining investment, high fiscal deficits, and falling external balance. Pakistan's inflation has had a big effect on prices, wages, and jobs. To deal with the situation, the government has taken steps like raising interest rates and cutting government spending, but these may harm the economy and the people in ways they didn't expect to. The inflation rate has increased to 11.53 percent in July 2022 from 13.4 percent in April 2022 and is rapidly increasing day by day. Pakistan's inflation crisis has lowered real earnings, especially for low-wage workers. In 2020–2021, the average wage rate increased by 9.85%, which was lower than the inflation rate of 10.7%, indicating that workers cannot buy enough with their earnings. The crisis also affects GDP and living standards. Pakistan's GDP grew 6.49% in 2021, up 7.76% from 2020, down 3.77% from 2019, 2.50% from 2019, and 6.15% from 2018. -1.27% in 2021 and 6% in 2022 In 2021, Pakistan's foreign direct investment was $2.10 billion, up 2.19% from 2020, down 7.92% from 2019, up 28.61% from 2018, and down 30.41% from 2017. Macroeconomic volatility has discouraged savings and private investment, resulting in low aggregate investment and unstable output. Pakistan's foreign direct investment for 2021 was $2.10 billion, an increase of 2.19% from 2020, a decrease of 7.92% from 2019, an increase of 28.61% from 2018, and a decrease of 30.41% from 2017. The goal of fiscal policy is to help the economy grow in a healthy and stable way while putting up barriers to stop it from falling apart. For the first six months of fiscal year 2022–23, the country's budget deficit was recorded at 2% of GDP. An overview of the complete report was presented above.