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Pakistan Economic Crisis 2023

Why In The News?

- The **Pakistan Economic Crisis 2023** Is An Ongoing Economic Crisis In Pakistan. The Crisis Has Caused **Severe Economic Challenges** For Months Due To Which **Food, Gas And Oil Prices Have Risen**. **Russia's War In Ukraine** Has Caused Even More Energy Problems In The Country As **Inflation Is At All-Time High**.

HT Hindustan Times

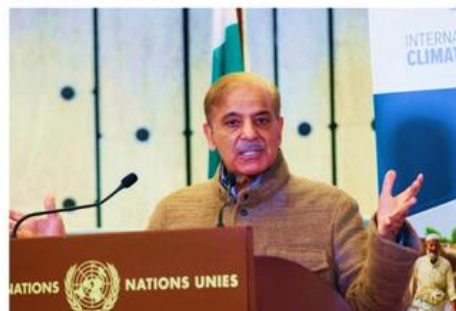
Pakistan's economic turmoil may take a toll on South Asia in 2023

Despite the severity of the challenges, Pakistan is unlikely to collapse – largely because of its geostrategic importance. A bailout by IMF or friendly countries will happen



The Indian EXPRESS

Pakistan's dire economic crisis: Why PM Shehbaz Sharif is in Geneva, reaching out to the world



Understanding The Crisis

- **Pakistan's Economy Is In Dire Straits With Very High Inflation, Dangerously Low Foreign Exchange Reserves, And Global Lenders Like The International Monetary Fund (IMF) Refusing To Disperse Further Funds.**
- While The Economy Has Been Doing Badly For Quite Some Time, The **Floods Of 2022** Caused **Unprecedented Damage** To The Country With **Critical Infrastructure Destroyed And Millions Displaced**.
- Currently, Pakistan Sits On The **Verge Of Economic Collapse** With Its Hopes Pinned On **Getting Concessions From The IMF On The Extended Fund Facility (EFF)** Established In 2019, As Well As Getting **Help From Friendly Nations** In The Form Of Long-Term Loans Or Donations.
- On January 9, The **International Conference On Climate Resilient Pakistan (ICCRP)** Began In Geneva Where Pakistan's Prime Minister, **Shehbaz Sharif, Made A Desperate Plea For Help**. On The Sidelines, Pakistani Representatives Met IMF Officials Regarding Its **Currently Stalled EFF**.



Pakistan's Devastating 2022 Floods

- While Pakistan's Economy Was Not In Great Shape Even Before 2022, The **Floods Took It To The Brink Of Disaster**. In 2019, Pakistan Had Come To An Agreement With The IMF About An **EFF Worth \$6 Billion**, Which Was Later **Increased To \$7 Billion**.
- To An Already Precarious Economic Situation, The Floods Brought Unimaginable Economic Damage. Deemed To Be A Consequence Of Climate Change, The Floods Inflicted An **Estimated Loss Of \$3 Billion** On The Country, Caused Over **1,700 Deaths, And Displaced 8 Million People**.
- The **Floods Derailed Any Semblance Of Economic Recovery**, And Pakistan Failed To Keep The Promises It Had Made To The IMF When The EFF Was Sanctioned.
- Thus, In November 2022, The **IMF Refused To Release A Pending Payment Of \$1.18 Billion** Due To The Government's Unwillingness To Meet Certain Demands Including Assurances From Pakistan On **Increasing Energy Rates, Imposing More Taxes, And Artificial Control Over The Exchange Rate**.



The Forex Crunch

- Currently, The Country Is During A **Severe Cash Crunch**, With Foreign Exchange Reserves In The **State Bank Of Pakistan's (SBP)** Depleting To **\$5.576 Billion** During The Week Ended On **Dec 30, 2022**.
- Along With Another **\$5.8 Billion Held By Commercial Banks**, The Forex Reserves Are Just About **Adequate To Pay For Three Weeks Of Imports** To The Country. As Pakistan Still Reels From The Effect Of The **2022 Floods, Servicing Foreign Debt And Paying For Crucial Commodities Such As Medicine, Food, And Energy Are Among Its Chief Concerns**.
- According To Data Released By **Pakistan's Central Bank**, The Reserves Are Less Than Half Of What They Were A Year Ago And At **An 8-Year Low**. However, Pakistan Is Scheduled To **Pay \$8.3 Billion To External Lenders Over The First Three Months Of 2023**. Without Any Relief, The Country Is Set To Default On These Payments.



Inflation At Its Peak

- With Massive Spikes In Prices Of Food Products And Other Essentials, Pakistan Recorded An Inflation Rate Of **Around 24.5 Percent In December**. This Number Was Even Higher In Rural Pakistan, Close To **29 Percent**, According To Data From The **Pakistan Bureau Of Statistics (PBS)**.
- **Prices Of Perishable Food** Items Have Soared By Nearly **56 Percent**. Onion Prices Have Risen By More Than **415 Percent** Since Last Year. **Wheat**, A Staple In The Pakistani Diet, Has Seen Prices Increase By **57 Percent**, According To PBS.
- It Is Reported That A **Single Roti Currently Costs Rs 30** - For Context, The **Minimum Daily Wage Is Pegged At Rs 500**, With An Average Family Consuming Around 10 Rotis A Day.



Turning To Friendly Countries

- Pakistan Has Turned To Friendly Countries And Other International Aid For Help. On January 4, Finance Minister Ishaq Dar Expressed Hope For **A \$3 Billion Bailout From Saudi Arabia**. This Proposal For A Second Bailout From The Arab Kingdom In Less Than A Year Awaits Final Approval.
- Help Could Potentially Come Also From **China**, Pakistan's "All-Weather Friend". PM Sharif Had A Lengthy Call With **Chinese Premier Li Keqiang**, Reported to The Chinese Embassy On January 5.

The ICCRP Meeting

- Pakistan's Information Minister **Mariyum Aurangzeb** Said On January 9 That **Donors** Had Committed To Give More Than **\$8 Billion To Help Pakistan Recover** From Last Year's Floods. The Pledges Came As The **ICCRP** Hosted By PM Sharif And UN Secretary-General Antonio Guterres Kicked Off In Geneva.
- Pakistan So Far Has Received **Funding Pledges** From Countries Like **The US, France, Saudi Arabia, China, And Japan**, With The **Asian Development Bank** And **Asian Infrastructure Investment Bank** Also Promising Help.



REVIEW QUESTIONS

1. High Inflation Levels In The Economy Leads To

- A. Increase In Money Supply
- B. Decrease In Money Supply
- C. No Change In Money Supply
- D. None Of The Above

ANSWER: A

2. _____ Concept Is The Opposite Of Inflation?

- A. Deflation
- B. Stagflation
- C. Recession
- D. None Of The Above

ANSWER: A

3. A Government Resorts To _____ To Reduce Inflation.

- A. Cuts In Government Spending
- B. Increase In Government Expenditure
- C. Reduction In Repo Rate
- D. None Of The Above

ANSWER: A

4. If Too Much Money Is Chasing Too Few Goods

- A. Stagflation
- B. Cost-Push Inflation
- C. Demand-Pull Inflation
- D. None Of The Above

ANSWER: C

5. Inflation Is Measured By _____

- A. Consumer Price Index
- B. Wholesale Price Index
- C. Marshall's Index
- D. None Of The Above

ANSWER: A

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