

State of the economy of pakistan economics essay



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Pakistan's economy has been ragged by two back-to-back crises. The global fuel and food price hikes twisted severe macroeconomic complexity as public finances worsened, inflation climbed, and economic growth slowed down. In Pakistan, the global financial crisis approached at a moment when the financial system was still recovering from the global pricing shocks, thus making the position more terrible as macroeconomic conditions depreciated further and economic growth slowed down slightly. In these circumstances, a major challenge is to position Pakistan's economy back on track.

During the peak period of crisis 2007-2009, the percentage change in GDP of Pakistan was decreased sharply from 5.6% in 2007 to 3.6% in 2009. The impact of global financial crisis is said to have affected the economies worldwide but countries who were at a very fast pace growth in terms of GDP took a downward flow. As usual, trade balance figures were in negative infact it declines more at US\$ 20.74 billion during the period as exports were slightly increase and sustained its position at US\$ 19.2 billion and imports were also increased sharply at US\$ 39.96 billion. Foreign investment and foreign direct investment are declining drastically at US\$ 2.14 billion and US\$ 2.21 billion which are adversely affecting the economy as the reason is not only the crisis but also the credibility of the present government. People are suffering as the Inflation which was around 8% before crisis is now around 17.50%. Before the crisis, Forex reserves were at US\$ 15.18 billion which was dropped to US\$ 10.83 billion during the crisis.

Following the beginning of the global economic and financial crisis in the third quarter of 2008, some witness assumed a gloomy scenario of enormous returns of migrant workforce to their countries of origin. They also expressed

acceptable fears about worsening circumstances of work and living for migrant workforce and their families, and increasing xenophobia against them.

During Crisis, the ambiguity about the success of a migration further amplified. Infact for some earlier migrants, real economic situations and unpredictable demand for foreign employment are tough to grasp. Consequently when ambiguity enlarged, migration patterns also changes. During 2005-2010, the percentage change of Population of Pakistan increased about 11. 4% and estimated total number of international migrants is about 87%. This clearly shows that migration was at its peaks in which male and female both are there with 55% and 45% ratio.

It has been observed that from Pakistan around 51% international migrants headed towards Europe while 34% towards Middle East, from which 46% are skilled workers and 43% are unskilled workers. 52% of the total international migrant population is from Punjab and 25% from Baluchistan.

A very important analysis is of the factors within Pakistan that would lead to the increasing trend of migrations to countries abroad. Factors which Push people from Pakistan are:

Lack of education, lack of opportunities, not enough jobs, aspiration to live a better life, lack of money/income, crime and discrimination, health and poor chances of marrying

Factors which Pull people from Pakistan are: Job opportunities, better living conditions, security and health & education, better medical care and political & religious freedom.

Globally, remittances have increased extensively in the last decade. In 2006, remittances were put at US\$268 billion which flow through formal channels – banks & other financial institutions; informal mechanisms, such as Hundi & Hawala and other informal mechanisms throughout the world – account for possibly half as much again. Remittances are on the whole significant for the world's poorest countries, which are also frequently the most prone to disasters and crisis. In 2006, \$199bn in remittances is observed to have flowed through formal channels to developing countries.

Generally, through various channels remittances can put a positive impact on the economy. The common perceptive among different economic intellectuals is that remittances can impact on the economy through investment, savings, consumption, growth, foreign exchange and income distribution & poverty. The impact on remittances is probably to be a significant mean of communication of the effects of the GFC on developing countries. This research has provided a series of approximations for the likely impact of the global financial crisis on remittances.

It has been truly observed that during crisis the flow of remittances always increased. Flow of remittances around the globe increased at US\$ 385 billion in 2007 from US\$ 317 billion in 2006. But now it has reached at US\$ 437 billion estimated for year 2010. It was slightly decreased by 6. 5% in 2009. The reasons were the cost cutting in salaries and overtime across the globe

due to recession and global financial crisis, increased flow of remittances through informal mechanisms and channels like Hundi and also due to political situations in some areas.

During 2007-2009, the growth rate was not at the benchmark around the world except South Asia because it contains the countries like Pakistan, India and Bangladesh which are the main countries of destination & origin. If we compare remittance growth rate country wise then it has been observed that most of the remittances come from Saudi Arabia, UAE, Switzerland, Australia and North America. Remittance flow of Pakistan during the crisis grew by 17%, 23% and 7% in 2008, 2009 and 2010 respectively.

It has been observed that remittance flow to Pakistan has increased during and after crisis as the with the collaboration of Federal Government & SBP began the Pakistan Remittance Initiative (PRI) in 2009 that will surely bring the primary transformation in Pakistan's remittance system to enhance and assist the flow of remittances sent back home by Pakistani diasporas.

According to Officials of SBP and PRI, still 55% of total remittances flow through informal channel - through Hundi and other means.

5. 2 Recommendations

In the light of the research conducted and the interaction with the people in the field and literature review; the following recommendations are presented in the thesis which would help SBP, PRI, Commercial Banks and other Financial Institutions to increase the flow of remittance through formal channels:

Federal Government or State bank of Pakistan needs to promote the remittance sector as it has around 5% share in GDP. They should provide the incentives and motivation to the companies and Diasporas (Non-Resident Pakistani Abroad) that are transporting remittances into the country

Not enough existence in overseas jurisdictions of Pakistani banks and lack of marketing efforts are major obstacles to the remittance flow. PRI should provide financial incentive schemes for overseas organizations against mobilization of additional remittances.

PRI & SBP should monitor the market for remittances so that they should be crystal clear and have adequate consumer safety and security.

They should create ways to advanced the payment arrangement infrastructure that likely to enhance the competency of remittance services should be encouraged.

Improve assistance made by migrant associations to expansion schemes in countries of origin. As well as help to build up associations between government officials & migrant associations in countries of origin in order to facilitate improved associations among these parties and multiply the incomes available for development plans.

Cash over the counter payment system should be applied to all the banks in Pakistan except the five big giant banks.

To motivate the beneficiaries, SBP should introduce a customer handling system.

Publicize information on investment and saving options to Diasporas via common migrant resource centers for remittances.

Help build capacity for increasing consular services for non-resident Pakistanis, including database, so that allowing irregular Diasporas to use accessible formal remittance channels where possible.

PRI and SBP should monitor the role of remittance service provider so that they should contribute aggressively in the implementation of common principles.

As the percentage of remittance flowing through informal ways is quite huge so Commercial Banks with the help of PRI should create ways to downsize the frequency and flow of remittances through informal channels - i. e. Hundi.