

# **STUDY GUIDE FOR PNA**



TOPIC:

**HOW TO DEAL WITH CURRENT  
ECONOMIC CRISES OF PAKISTAN**

## **Letter from the Committee Directors**

Assalamualaikum Esteemed Delegates, We are tremendously honored to be serving as your committee directors. Since this might be the first MUN experience for most of you, you are encouraged to give this article a thorough read since this will inform you about the topic of the committee and some information that will prove helpful for you in establishing your stances and articulating your debate.

MUN's are a great opportunity for you to polish your debating and argumentative skills and explore your love and passion for public speaking. They not only provide you with a platform to put your research and debating skills to the test but are also an amazing platform to gain more understanding and awareness of global issues and the way the UN works as well as a great chance to make some amazing memories and new friends. You are encouraged to get to know your fellow participants well and you will be given plenty of opportunities to do so.

Expect fierce debate from your sessions, listening is just as important as speaking. We expect you to be well researched and aware of the topic at hand. If this is your first time, don't worry about stepping up to the mantle.

Utmost participation in the committee session is highly appreciated and will allow you to make the most of this experience. Look forward to fun sessions as well and interact with your peers and your chairs. You will be informed about the flow of a conference during your sessions so make sure you attend every single one.

Lastly, remember that everyone cannot walk away with an award but the experience matters just as much as the award. Looking forward to having you all there and to an incredible, informative and fiery debate.

Regards,

Wajeeh Ul Hassan

SyedMughees Haider

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## **INTRODUCTION TO COMMITTEE:**

Pakistan National Assembly, found in 1973, is a democratically elected body consisting of total of 336 members. Each National Assembly is formed for a five-year term, commencing from the date of the first sitting, after which it is automatically dissolved. PNA is responsible to look over important decisions on the behalf of the country. In Model United Nation's Pakistan National Assembly conference, delegates are given the opportunity to represent a member of PNA and debate on important decisions for the well-being of the country.

## **INTRODUCTION TO TOPIC:**

On the lists of unfortunate economies that markets think might soon follow Sri Lanka into debt default and economic crisis, Pakistan sits near the top. It relies heavily on imported food and energy. As commodity prices have soared, its current-account balance has widened, and hard currency has drained away. In the past year, Pakistan's foreign-exchange reserves have shrunk by more than half.

Pakistan's economic crisis was at the centre of a political standoff between Prime Minister [Shahbaz Sharif](#) and his predecessor [Imran Khan](#) in 2022, which led to [Khan's ouster](#) in April 2022. Sharif accused Khan of economic mismanagement and mishandling of the country's foreign policy, forcing him to step down in a no-confidence vote. Now Shahbaz's PDM is in immense pressure as they haven't been able to resolve the inflation issue.

## **Background Of Topic:**

There is almost a consensus that the major economic challenges facing Pakistan are **rising poverty and unemployment, heavy external and domestic indebtedness, high fiscal deficit and low investment (decrease in foreign reserves)**. The debate has so therefore focussed on the means to face these challenges and particularly on the ways to bring about economic recovery. Pakistan also suffered from [catastrophic floods](#) last year which resulted in the death of more than 1,700 people, affected 33 million people, and caused a loss of more than \$30bn to the country.

## **Foreign Reserves:**

Pakistan's foreign exchange reserves have fallen to \$4.3bn, its lowest levels since February 2014, the country's central bank announced after paying off some of Pakistan's external debt payments. That is half the value of the foreign exchange reserves it held at the start of 2022.

Pakistan faces a severe economic crisis and clearly requires external support. Foreign exchange reserves are at dangerously low levels—enough to pay for only a few weeks' worth of imports.

Furthermore, Pakistan may also face a serious balance of payment (BoP) crisis as the State Bank of Pakistan's reserves have fallen to a perilous level, which is not enough to even cover one-and-a-half months of imports. The country's reserves dropped by a [whopping \\$5 billion](#) in one month (of March 2022). Imports are on the rise as highlighted by the fact that 52.2 percent [of the recent increase](#) in tax collection came from imports. The country's trade deficit stands at a concerning \$35 billion. With reserves alarmingly low, Pakistan is expected to service [liabilities of \\$2.5 billion](#) in the ongoing quarter alone (April to June). The composition of our reserves is also tenuous with most of it [being debt financed](#). The IMF and China have given Pakistan \$6.7 billion and \$6 billion, respectively, with the rest of it coming from Saudi Arabia (\$2 billion), UAE (\$2 billion) and other assets.

Due to insufficient foreign reserves LC'S are not being opened which has drastically affected the industries.

## **Inflation:**

The increase in trade deficit during the last month due to the higher price of oil and commodities in the international market. This would result in more inflation in the coming months not only because of high commodity and oil prices but also because of the impact of the depreciation of the rupee against the dollar as well as an increase in electricity and gas prices, he added.

Former Finance Minister stated that according to his estimate, inflation would increase to 25-30 percent in the next two to three months and the poor would be facing the brunt of inflation, as well as, in terms of fewer employment opportunities due to a projected slowdown in economic activity. He added that 15 percent increase in the discount rate and cost of

electricity/ gas would have a negative impact on the output. Food prices have registered an uptick of [14.5 to 15.5 percent](#) in March on a year-on-year basis and experts have already warned about an impending threat to food security. Food prices are directly correlated with an increase in social unrest. There has been an increase of 56 percent in prices during the last four years whereas the earnings of the low-income group are estimated to increase barely by 20 to 22 percent.

## **Un-Employment**

Unemployment is considered to be a reflection of a country's economic health. From the beginning, Pakistan was confronted with the problem of unemployment as a result of the country's dismal economic state. One of the primary reasons for unemployment in Pakistan is inflation, which is compounded by a lack of industrialization.

Raw – materials taxation, import taxation, property taxation, income taxation, and revenue taxation are all contributing to the decline of our industry, which is the result of which the sector is not growing.

Manufacturing industries of all types will not and cannot create additional jobs or contribute to the economy of their respective companies unless and until the government stands by its support and provides subsidies and facilities. The dolor rates are increasing with each new day, and this trend will continue. The cost of the basic materials we acquire is getting ever-prohibitively expensive. Because of the rise in the rate of misery, our own currency is becoming increasingly corrosive. When we sell anything for \$1 in the foreign market, it costs us Rs 229.20 in the domestic market. The value is decreasing. The export is causing significant damage, and the companies are not manufacturing for the export market. Such reasons have resulted in un-stability in industrial market leading to their closure.

**Dawlance's CEO, Umar Ahsan Khan, stated before the Senate Standing Committee on Finance on Wednesday that the company is losing \$500 million every month as a result of non-opening letters of credit (LCs).**

One of Pakistan's biggest manufacturers of home appliances informed the committee led by Senator Saleem Mandviwala that 1,000 employees have already been let go as a result of the non-opening of LCs.

The Dawlance CEO further told the committee that if LCs aren't opened, the company will be forced to fire another 2,000 employees. Khan mentioned that in September of the current year, only 38 percent of the company's LCs opened. Also, the situation was no different in October.

Khan mentioned a Turkish company's \$590 million investment in Dawlance. He continued by saying that foreign investors will move their capital to other nations if the scenario does not change. Moreover, Bangladesh offers investors every opportunity to open these factories.

### **Political Instability:**

Political rallies, protests and, recently, the phenomenon of long marches have become a constant feature of politics across the globe. Similarly, the past decade has seen a rise in high-profile social protests that captured the attention of the entire globe, such as the Arab Spring and Black Lives Matter. Global experts, social activists and political enthusiasts need to be made aware of the cause and effects of these political and social gatherings on a country's political and social construct. Recently, a team of economic experts from the IMF undertook the task of formally measuring the impact of social unrest on economies. As they begin to analyse the **"risks and economic costs of social unrest,"** the researchers have developed a Social Unrest Index using media reports.

Pakistan's recent Azadi March also made waves in the national and international media and took social networks by storm. However, as the masses and media focus on the political aspect, there seems to be no or little understanding of the economic implication of this instability. The IMF researchers identify socio-economic factors such as inequality as a fraction of the causes of social and political unrest. However, in a country like Pakistan, where the total assets are divided amongst a few of the top elite. The inequality that stemmed from the unjust post-partition distribution has had a lasting impact on the country's social fabric, where over 38 percent of the population is regarded as **"multidimensionally poor."** At the same time, the percentage is expected to rise in the future. The same study reveals that unrest resulting from socioeconomic factors is linked with a sharper decline in the GDP.

## **Investment**

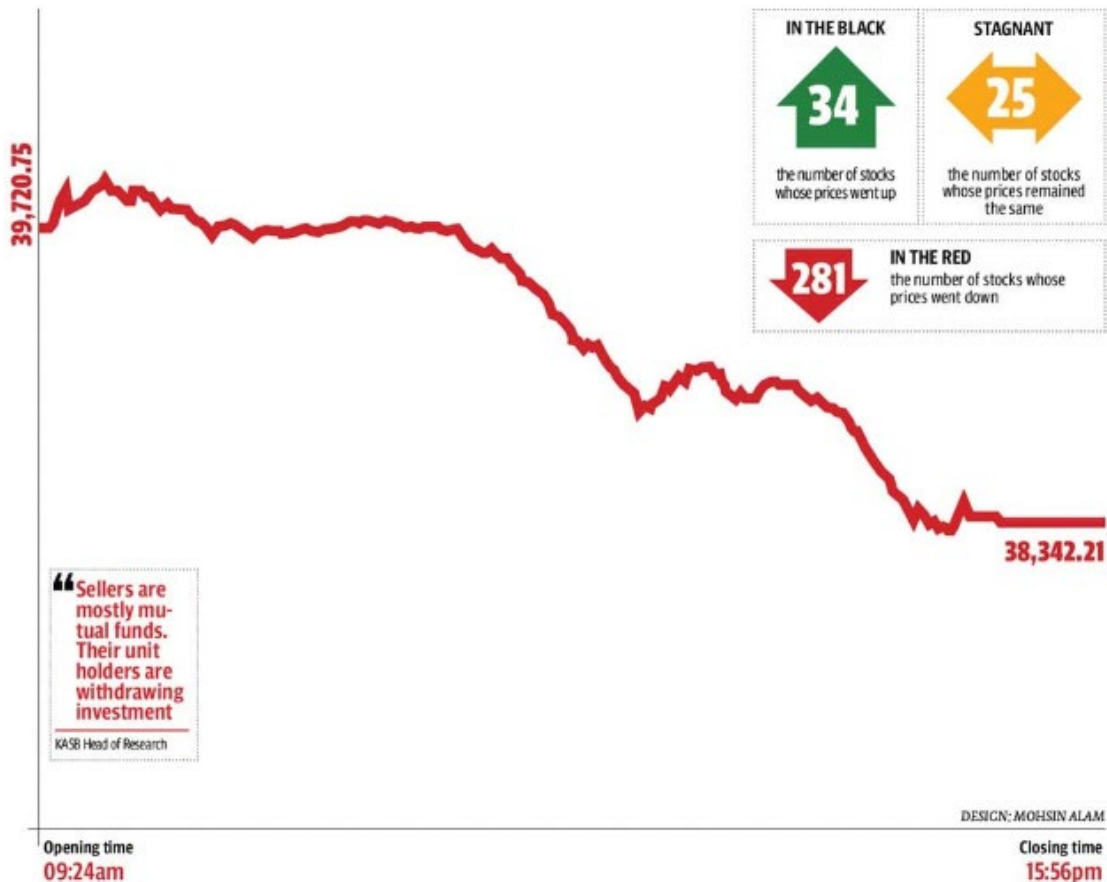
The investment rate in Pakistan has stayed below 20% of GDP since 1991 and has fluctuated around 15% over the last ten years. In recent years, public investment has been around 4% and private investment around 11% of GDP. Both rates are too low to sustain the growth trajectory that Pakistan needs to solve its employment and poverty challenges.

## **Stock Market:**

Pakistan's stock market crashed by 3.47% or 1,379 points, hitting a 30-month low to close at 38,342 points in January. The rising political temperature coupled with an economic meltdown threw investors into a frenzy with most rushing to sell shares in a panic to quit the market. This was the single largest drop in a day witnessed in the past seven-month. The bloodbath wiped out almost Rs200 billion from the market in the day, as market capitalisation (value of all listed companies) dropped to Rs6.134 trillion compared to Rs6.333 trillion a day ago.

The market has maintained a steep fall for the third consecutive working day, plunging by a cumulative 6%, or 2,462 points, to date from Thursday's close of 40,804 points. **“The sellers are mostly mutual fund companies in the market. Their unit holders are withdrawing investment,” he highlighted, adding that, “Investors are relocating their investments from the stock market to other assets like gold.”**





## Tax Evation:

Pakistan’s lack of a proper tax and revenue regime has resulted in high rates of tax evasion, burdening the country with unsustainable debt and undermining its development priorities. The main culprit is tax evasion. Pakistan’s tax evasion problem is caused by three things: poor legal frameworks and bureaucratic capabilities with regard to revenue extraction; corruption in the form of a predatory class that privileges certain sectors and vested interests with unjustified tax “exemptions”; and elites who cut deals with the state to avoid taxation, made possible by an anemic agriculture income tax (agriculture makes up 22 percent of Pakistan’s GDP, but only 1 percent of its tax revenue). Research suggests that with a more extensive, transparent, progressive, and equitable tax structure, government revenue could easily double, thus closing the huge gap between defense and development expenditures. The fact that Pakistan—the world’s 26th richest country in purchasing power parity—trends suggest that some of Pakistan’s liabilities may be receding. One must

keep in mind, of course, that predicting Pakistan's economic and political future is a game whose rules are extremely uncertain.

## **Macroeconomic problems of Pakistan**

Implementation of difficult policy choices, and not their diagnosis, is the real problem of economic management in Pakistan. The main macroeconomic problems of Pakistan are well known to even ordinary citizens and well articulated by professionals. These are: slow and erratic economic growth, persistently high inflation, extreme poverty of the bulk of the population coexisting with a prosperity of a few, deep and rising debt burden, and huge budget deficit. On the face of it, these seem to be problems emanating from diverse sources but in reality these are mainly the product of one factor, and that is poor governance

## **What Has Been Done by the Current Government To Overcome Economic Crises?**

Saudi Arabia is the first country that has agreed to give commitment to the IMF, a top government source confirmed.

Pakistan is exploring various options to seek Chinese financial assistance that include cash deposits, commercial loans and increasing the bilateral currency swap limit. Any of these options can be upsized, said the acting governor. The United Arab Emirates is pledging a \$1bn loan to cash-strapped Pakistan and also agreed to roll over an existing loan of \$2bn in a boost to the South Asian nation grappling with an economic crisis, according to Pakistan prime minister's office. The announcement came after Pakistani Prime Minister Shehbaz Sharif held talks with UAE President Sheikh Mohamed bin Zayed Al Nahyan in the capital Abu Dhabi on Thursday on his third visit to the Gulf country after taking office last April. Moreover, the ban on imports has been imposed to save foreign reserves.

## **Conclusion:**

The committee session will begin with a discussion on the Economic instability. Delegates, while representing the given personality, will express their opinions on the government's economic strategies. Gradually, new crises and issues will be introduced in the committee and delegates would be expected to speak accordingly.