

Burden of gradually increasing external debt and debt servicing in Pakistan is exerting significant negative pressure on the economic growth of the country especially, in the absence of a specific socio-economic uplift framework and taxation reforms.

This was the crux of the 28th Annual General Meeting and Conference of the Pakistan Institute of Development Economists (PIDE). The conference is being organised by Pakistan Society of Development Economics (PIDE) in collaboration with the Higher Education Commission (HEC), FES, IGC and WWF-CCaP-EU. Dr Yannos Papantoniou, former Economy and Finance Minister of Greece, Professor M. Ali Khan of the Johns Hopkins University, USA S. M. Naseem from Quaid-e-Azam University, and Dr Ghulam Rasool, Chief Meteorologist, Pakistan Meteorological Department, Hamza Ali Malik and Director Monetary Policy Department, State Bank of Pakistan were among the participants of the conference.

Dr Yannos Papantoniou said the sovereign debt crisis, originating in the Eurozone immediately after the eruption of the global financial crash, highlights the dangers surrounding the globalisation process. The integration of product and financial markets, and services to a lesser extent, coupled with enormous technological progress in communications and transport has diffused growth to regions and continents, which were left behind previously.

"At the global level the huge current account imbalances that have been built up over the last decades have produced an unusual pattern of savings flows," Dr Yannos said. He said that resolving the crisis inevitably includes action on the causes of the persistent imbalances with structural reforms focusing on liberalising markets. Saving the euro will provide evidence of the extent to which modern nations can impose self-discipline and transfer policy tools to supranational authorities so as to ensure stability and maintain the necessary equilibrium for steady growth, he added.

Domination of state owned/controlled institutions has adversely affected the financial sector development in Pakistan. Economic reforms program such as fiscal adjustment, privatisation of energy, telecommunication and production, reforms in the banking and trade sectors launched in 2000 have played a vital role in the economic recovery of Pakistan.

The external debt exerts significant negative impact on economic growth. This confirmed the existence of debt overhang in Pakistan in both long and short run. Labour force affect GNP negatively in long run and short run as well, but in short run impact is insignificant. Pakistan faces serious debt problem, which threaten the economic future of the country. Burden of external debt and debt servicing have continued to grow over time.

As the revenue deficit is the result of expenditure and revenue. The revenue side includes both tax and non tax and surcharges of the government. Increase in revenue by increasing non-tax revenue requires that public services be appropriately priced which may be difficult in the presence of high inflation and increasing cost of fuel and electricity.

Economic reforms are inevitable for the growth of an economy like Pakistan. In fact, their role is most significant to examine the economy of Pakistan. During the last decade, Pakistan has passed through phenomenal economic changes and reforms.

Central to the economic reforms process is a clear progression towards deregulation of the economy. Prices of petroleum products, gas, energy, agricultural commodities and other key inputs are mostly determined by market. Imports and domestic marketing of petroleum products have been deregulated and opened up to the private sector. More importantly, taxation reforms have been prominently on the government's agenda, with no real reforms undertaken. The participants emphasised that Pakistan economy has faced many crises since independence in 1947. These crises have hampered the sustainable economic growth. Despite the efforts made by different governments, the persistent fiscal imbalances have adversely affected investment and growth of the economy.

Growing external debt casts negative impact on growth | Forex, Pakistan

Written by Shumaila Ahmed

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The problem of growing external and internal debt and underdeveloped financial markets and banking system, low level of saving and investment rates have added to the problem of slower growth and deterioration of physical infrastructure.

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