International Journal of Business, Economics and Management Works
Kambohwell Publisher Enterprises
ISSN: 2410-3500 Vol. 2, Issue 2, PP. 6-8, Feb. 2015
www.kwpublisher.com

The Impact of Financial Crises on Pakistan's Economy

Anam Azam, Fouzia Nazir, Sobia Nazir, Sophia Nazir, Shazia Tasleem, Muhammad Rafiq

Abstract— The study has tried to identify the effect of financial crises on economy of Pakistan. The major objective of this research was to examine the casual relationship between economic growth, inflation rate and foreign debt. The study also highlights the solidity relationship between indicators of financial crises. Co-integration test has been applied in this study. The findings showed that there is stability relationship in economic growth and other factors.

Keywords— Economy, Financial crises, high inflation, Deficit

I. Introduction

Financial crises can come up as a result of institutions or assets being overvalued and can be exacerbated by an investor behavior. The serious factor of the crises is inflation and debt devaluation [1]. Pakistan's economy had been under great pressure due to macroeconomic imbalances that were building up after years expansionary polices. The major problems are implantation of economic policy decisions and find out the main problems of economic management in the country. These major problems in Pakistan are well understandable to even ordinary citizens and well-articulated by economist. The problems includes huge infalation rate, unpredictable and slow economic growth, poverty of huge population co-existing with prosperity of few, deep and rising debt burden, and large burden of deficit. Pakistan is a developing country haing challenges like inflation, unemployment, poverty etc. Pakistan is very poorly integrated with the global economy. It will be spared the consequence of the unraveling in many parts of the western financial structure. The crises has hit Pakistan in many ways. Pakistani economy is also being affected by high fiscal and current account deficit. Inflation is a one of the biggest problem in Pakistan and it is also influencing the Pakistan's GDP. The severity of the economic downturn however varies from country to country. Other reigional and neighbourig economies also sharp slowdown in economic growth coupled with widening current account deficits, depreciation of currencies and falling down foreign exchange rate.

Pakistan is an underdeveloped country and also facing economic challenges and it shows that the country is in the list of underdeveloped country. The main problem is huge population which is directly effecting the economic growth. Pakistan's average economic growth rate in the first five decades (1947-1997) had been higher than the growth rate of the world economy during the same time period. The annual growth rates were 6.8% in the 1960s, 4.8% in the 1970s, and 6.5% in the 1980s and it was fell to 4.6% in the 1990s with significantly lower growth rate in the second half of that decade [2]. The Gross Domestic Product (GDP) in Pakistan was worth 236.62 billion US dollars in 2013. The GDP value of Pakistan represents 0.38% of the world economy. GDP in Pakistan average 56.23 USD Billion from 1960 until 2013, reaching an all-time high of 236.62 USD Billion in 2013 and low record of 3.71 USD Billion in 1960. GDP in Pakistan is reported by the World Bank Group [3].

TABLE I. Annual Growth Rate (GDP) in Pakistan

Pakistan	Latest	Previous	Highest	Lowest
GDP (Billion USD)	236.62	224.88	236.62	3.71
GDP Annual Growth Rate	3.6%	4.1%	10.22%	-1.8%
GDP Growth Rate	5%	4.1%	10.22%	-1.8%
GDP per capita (USD)	806.38	772.9	806.38	219.37
GDP per capita PPP (USD)	4549.27	4360.35	4549.27	2961.4
Governs Dept. to GDP	63.3%	64.3%	87.9%	54.9%

II. Literature Review

In this paper relevant review of literature, the impact of financial crises on Pakistan's economy were discussed. The research paper also highlighted the relationship between financial crises and economic growth.

Rashid Amjad (2010) et.al has carried out a study on Economic and Social Impact of Global Financial Crisis [4]. The main objectives of the present study was to examine the impact of the global financial crisis as it folded during 2008

Anam Azam is currently doing Master in Economics from Beijing University of Language and Culture University, Beijing, China (corresponding author to provide phone:0086-13641117142; ; e-mail: anamrafiq95@gmail.com).

Fouzia Nazir is doing her Master in Psychology from University of Gujrat, Pakistan.

Muhammad Rafiq is studying at North China Electric Power University, Beijing, China (e-mail: jutt96@gmail.com).

and 2009 on four major South Asian economies i.e., Pakistan, India, Bangladesh and Sri Lanka; to identify policy actions taken to mitigate the worse impacts of the crisis; and spell out a broader framework. The study indicated that Bangladesh has taken better steps to deal effectively with with the crisis. India is facing major challenges in the aftermath of the global financial crisis and recession in the global economy for macroeconomic and development policies to ensure sustainable and inclusive growth.

Rauf-I-azam (2011) et.al has studies financial crises and economic growth in Pakistan. The aim of this research was to understand the causal relationship between economic growth and major indicators of financial crises in Pakistan. The results indicated that is long run stable equilibrium relationship between economic growth and three components inflation rate, interest rate and foreign debt of financial crises [5].

Matthew Mccartney (2011) has also conducted a detailed research on Pakistan's growth, dependency and crises. The main purpose of this research was to analyze the GDP growth in Pakistan. Pakistan is typically argued to be contingent on external factors: trade, financial flows, and the interdependence of asset markets. The results showed that growth in Pakistan is influenced by external factors, but that growth is driven primarily by the dynamics of the domestic economy [6].

Muhammad Umer Draz (2011) has conducted a research to see the effects of financial crisis on Pakistani and Chinese economies. The main purpose of this paper is to analyze which economy faces more external financial bluster over its history of more than sixty years. The results show that china was smack by the external financial crises more than Pakistan [7].

Muhammed yaqoob (2011) has conducted a study on economic crises faced by Pakistani economy. The main point of this research is to find out the main reasons of economic crisis in Pakistan and what remedy measures can be taken to avoid it. The result showedthat economic policy play a major and very active role to improve the economic management of a country.[8].

Mian Sajid Nazir (2012) has carried out a research on the effects of global financial crises on banking in Pakistan. This study tried to analyse the major dtereminats of the banks performance and relative importance of these determinants in Pakistan. The result showed that the quality of assets is the very and most important influential determinant of return over assets followed by bank size and solvency. Investments , size , advances, liquidity have positive impact whereas poor assets quality and deposts showed nagtive impact on return over assets [9].

Beenish shah (2013) et.al studied the impact of energy crisis ag. Gas and eletcicity on the textile sector in Pakistan which has a great part in the country's economy. The aim of this study is divided into two sub time periods: pre-crises period (2005-6) and post-crises period (2007-10). The results of the study showed that textile sector and economy of the country have been badly affected by energy crisis in post-enegy crisis era than that of pre-energy crises period [10].

III. RESEARCH MODEL

The following model has been applied in this research paper to study and analyze the relationship between financial crises and other major factors like inflation rate, foreign debt and economic growth.

$$GDPt = \beta 0 + \beta 1IRt + \beta 2FDt + \mu t \qquad (1)$$

Where GDP is Real Gross Domestic Product for economic growth in time t, IR is Inflation Rate measure on the basis of consumer price index in time t and FD is Foreign Debt to measure the debt deficit in time t.

IV. METHODOLOGY

The secondary data was used in this research paper. The data has been obtained from the different years. This paper studies and analyzed correlation between macro economic variables and Gross Domestic Product GDP. The study has examined the casual relationship between Infalation rate, GDP and foreign debt. Descriptive statistics, Mean, Median, and standard deviation method used in this paper. In this paper co integration test has been used to analyze the data.

V. FINDINGS AND DISCUSSIONS

In this research paper descriptive statistics has been used to find out the results. The annual growth rate of Pakistan is shown in Table 1. Table 2 provides descriptive statistics analysis done through statistical method. IR has the mean of 10.875 and standard deviation 105.06. FD has the mean of 48.714 and standard deviation is 105.06 and GDP has the mean of 3.1375 and standard deviation is 52.6638.

TABLE II. DESCRIPT IVE DATA

	GDP	IR	FD
Mean	3.1375	10.875	48.714
Median	3.6	10.10	53.1
Std. Dev.	52.6638	1.04028	105.06
Total	3.2567	10.85	50.330

VI. CONCLUSION

Pakistan is a blssed country with HR and material resources but poor governance system of the country is affecting its economy to a great extent. Economic dependency can be manifested through the flows of goods and services finance effects through assets markets. Pakistan's economy is under great threat of imbalances of export and import. Previous problems are adding up with emerging new ones. There will be a great danger for the economy if the Government did not act and respond timely in a reolute manner, to the emerging financial and economic challenges , problems and adverseries heading toward Pakistani economy. Pakistan need badly to improve its governance system and give deep thoughts to improve its dometic economic policy otherwise the macroecnomic situation will worsen badly.

VII. Recommendations

- The financial institutes in the country need to have specialized decision making regarding economic decision making and financial activities otherwise the finanacial crisis will wosen the economic situation in the country.
- A proper check and balace system need to be introduced by the government about financial and economic policies of the organizations otherwise ineffective self regulatory system will worsen the financial crisis and creat more economic problems.
- Government should maintain the rate of inflation and GDP because it will help to improve and developed the country because inflation in the country is affecting the GDP; it is also resulting in higher consumption and lower savings among the individuals.
- Different companies, organizations and frims need to invest in productive business instead of investing in property and real estate. Female labors force participation should be encurged because more human resource will gurantee the economic growth and progress in the society.
- The Government and organizations shouls prepare an effective and result oriented economic policy to avoid the financial crisis. Government should keep a good eye on the economic condition, and it should ensure a good law and order situation, stock market and exchange rate in country.

References

[1] Caprio, G. and D. Klingebiel, (2003) Episodes of 14. Systemic and Borderline Financial Crises. World Bank database Washington, D.C.: The World Bank.

[2] www.http://.organ (2005,2006). *Economic and social indicators of Pakistan*; review of Pakistan.

[3] Caprio, G. and D. Klingebiel, (2003) Episodes of 14. Systemic and Borderline Financial Crises. World Bank database Washington, D.C.: The World Bank.

[4] Amjad, R and Din M (2010) Global financial crises Pakistan Insititute of Development of economics.

[5] Azam, R. (2011) "*Financial Crises and Economic Growth in Pakistan*" *Journal of Scientific Research* Vol, No.9 (3), PP. 425-430.

[6] Mccartney, M. (2011) *Pakistan, Growth, Dependency, and Crisis Journal of Economics* pp. 71-

[7] Umer Draz. M (2011) *" Financial crises on Pakistan and china*" *Jornal of global Business and economics* vol no.3.1

[8] Yaqoob M (2011). "Economic crises in Pakistan". *SBP Research Bulletin Vol no.1 (7*).

[9] Nazir S (2012), "Global financial crises on bank financial performance in Pakistan", *American journal of scientific research*. pp.101-110

Beenish, S. (2013)."*Energy crises in Pakistan*". *Journal of Social and economic research*, Vol. No. 1(7).

Anam Azam was born in Gujrat, Pakistan on 12 April 1991. She is currently doing her Master in Economics from Beijing Language and Culture University, Beijing. She has completed her BA in Economics (2010-2012) and MA in Sociology (2012-2014) from University of Gujrat, Pakistan. Her research interests includes International Economy, Agricultural Economy, Educational Economy.

ISSN: 2410-3500