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Breaking the Aid–Debt Chains

ABSTRACTS

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ABSTRACT BOOK

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TECHNICAL SESSION-1: POWER, POLITICS & PEOPLE

Paper Title: Evaluating Confidence in Government and its Determining and Contributing
Factors; a Case Study of Pakistan using World Value Survey
Yasir Zada Khan & Muhammad Azmat Hayat

Presenter: Yasir Zada

Abstract: This paper delves into the assessment of public confidence in the government of Pakistan, along with an examination of the influential factors outlined in existing literature that impact this level of confidence. To accomplish this, the study draws upon datasets derived from the 7th wave of the World Value Survey, initiated in 2017 and formally concluded in December. The majority of surveys were conducted between 2018 and 2020, thus forming the temporal framework for this evaluation. The study is structured into two main segments. The initial part seeks to visually represent the distribution of average confidence levels within various dimensions: government, armed forces, judiciary, democratic and religious political systems, business ownership preferences, and overall happiness. This visualisation is facilitated through GIS Mapping. The subsequent part of the study employs ordered-logistic regression analysis to quantify coefficient values corresponding to the determinants and contributing factors of confidence levels. These coefficients are extrapolated as mean values representative of the entire nation. Furthermore, the study generates average marginal effects of the variables, which aid in interpreting the coefficients in terms of probabilities. The study's findings underscore the pivotal role of public institutions in fostering substantial government confidence. Key determinants such as public institute confidence, income levels, education, health, life and job security, political engagement, happiness, life satisfaction, and perceptions about corruption all significantly influence and contribute to the public's confidence in the government.

Paper Title: Women's Empowerment: A Barrier or a Catalyst for Income Poverty and
Time Poverty in Rural Pakistan
Shahzad Kouser, Rajendra Adhikari & Kuntala Lahiri-Dutt

Presenter: Shahzad Kouser

Abstract: Women's empowerment initiatives have important repercussion on women's income and time poverty. Rural women's unpaid domestic and care work incapacitates them to make unconstrained choices for paid farm work. Time use measures have proven somewhat effective in capturing rural women's contributions to crop production and household reproduction. Rural women involved in paid crop productive tasks could be due to a lack of agency or improved agency. However, the subtleties in women's decision and time-use agency are important. Adopting a Value Chain approach, this study assesses rural women's empowerment due to their involvement in pulses value chain (PVC) and then estimates its net impact on their income and time poverty. The study is carried out in three major pulse growing tehsils—Lawa, Talagang, and Chakwal - of district Chakwal, which is the main pulse growing rainfed region in the Punjab province of Pakistan. In these tehsils, the research team interviewed 120 women involved in PVC, based on a pre-tested and structured questionnaire comprising a 24-hour time use diary and 6 domains of women's empowerment. The study developed Women Empowerment in Agriculture Index (WEAI) using 5 dimensions of empowerment: production, resources, income, leadership, and time. The results of income-poverty model reveal that women's empowerment has substantially alleviated their income poverty, while the results of time-poverty model indicates that women's empowerment has aggravated their time poverty due to their double burden in productive and reproductive tasks. Moreover, the net impact of women's empowerment on their time poverty was about two times larger than that of their income poverty. This paper concludes that women's engagement in PVC activities improves their economic autonomy within the household but at the cost of their time poverty and suggests that policymakers need to compensate women's increased labour contributions.

Paper Title: Unveiling Food Pricing Policy Challenges in Pakistan
Abedullah & Farah Naz

Presenter: Abedullah

Abstract: The present study aims to investigate the role of food pricing policy in Pakistan. In each district, on the behalf of Deputy Commissioner Office (DCO), market committees (MC) fixes retail prices of fruits and vegetable on daily basis. We collected data on 11 fruits and vegetables from four mega cities (Islamabad/Rawalpindi, Lahore, Faisalabad, and Multan) for 10 consecutive days. It is observed that difference between farm gate prices and DCO prices varies between 6.2 percent to 20.3 percent which is insufficient to cover the different costs (transportation cost from mandi to retail shop, loses of wastage, opportunity cost of the retailers' labour and profit margins) of retailers. Our comparison of prevailing retail prices with the retail prices reported by PBS further demonstrate that PBS under-report the retail prices to curb down the inflationary effect.

Government procure 70-80 percent of the market surplus to maintain prices close to minimum support price (MSP) and government is spending about Rs.130 billion each year to achieve this single objective. However, retail prices increases more than double than MSP and the benefit of increase in prices goes to flour mills and traders. Our analysis for the year 2021-22 reveals that government footprints in wheat marketing is equal to Rs. 131 billion. If this cost would have been passed on to the consumers in the form of increased in prices (under the assumption that procuring, handling will take place under private sector) then it would have increased the retail prices by

28 percent. Hence, retail prices would be Rs. 70.3/kg in contrast to the government's desired price of Rs. 55/kg (MSP). If we add up anothr additional profit of Rs.10/kg to incentivise the private sector then prices will increases to Rs. 80.3/kg but the prices of wheat had increased to Rs.110/kg, implying that extra profit of Rs. 30/kg is earned by the flour mills and other value chain actors. This could be diverted to consumers by adopting free market mechanism. In case of wheat shortage, the retail price of imported wheat under private sector would be Rs.94.3/kg (after adding transportation cost, loading and unloading charges and Rs.10/kg profit of the private sector) which is still lower than retail price of Rs.110/kg during 2021-22.

Paper Title: Political Risk, Capital Inflows and Inclusive Growth in Pakistan
Amna Tanwir & Hamad Manzoor

Presenter: Hamad Manzoor

Abstract: This study aims at empirical investigation of the impact of political risk and capital inflows on inclusive growth and to inspect the moderating impact of political risk on the capital inflows to achieve inclusive growth in case for Pakistan. A composite inclusive growth index was constructed that includes four dimensions including (i) economic, (ii) social, (iii) accessibility and (iv) financial. For empirical analysis, ARDL bound test and ARDL model have been conducted to obtain long run and short run estimates. Empirical results indicate that political risk is decreasing the inclusive growth of Pakistan and dampening the positive effect of capital inflows. Foreign direct investment and aid have the greater positive effect on inclusive growth also, political risk is dampening more the positive effect of foreign direct investment and aid, hence decreasing inclusive growth. The policy recommended is to manage political risk, increase inflow of remittances and utilisation of capital inflows in efficient way.

TECHNICAL SESSION-2: PUBLIC POLICY AND MARKET EFFICIENCY

Paper Title: An Examination of Industrial Policy: Strategies, Impact, and Global Perspectives
Usman Qadir & Saddam Hussein

Presenter: Usman Qadir

Abstract: Pakistan's economy is characterised by cyclical growth patterns, and industrialisation is now seen as the remedy to achieve stability. This paper explores global industrial policy strategies and their impact. It emphasises that there's no one-size-fits-all solution; effective policies vary by country. Industrial policy is a long-term effort requiring dedication. Examining international experiences, two cases stand out: South Korea and South Africa. They teach us that government intervention can boost early-stage economic growth. Export-oriented industrialisation works, but focusing on high-demand global goods is key. Finally, investing in education and skills is vital for lasting economic growth.

Paper Title: Evolving Market Efficiency Test: Evidence from an Emerging Stock Market
Author and Presenter: Abid Hameed

Abstract: In this paper an attempt has been made to revisit the weak-form efficiency of Pakistan's stock market using the evolving market efficiency methodology. This paper employs a model comprising of time varying autoregressive (AR) stock returns with errors modeled as a GARCH process to measure the evolving efficiency or predictability (autocorrelations) of stock returns over time using the Kalman filter framework. The results show evidence of time-varying predictability over the sample period. However, evidence in regards to convergence towards weak-form efficiency cannot be confirmed as the KSE experienced alternating periods of efficiency and inefficiency over most of the sample range and during the latter path of the sample the stock market moves to an inefficient state with predictability on a rising trend. The results from this study will be useful for the regulator to assess the efficacy of meeting one of their core objectives of ensuring efficient markets. For the investor the results imply that short-term gains can be made following an active investment strategy after taking into account transaction costs.

Paper Title: Foreign Aid vs Trade
Author and Presenter: Mohammad Zeshan

Abstract: The study examines the impact of foreign aid and trade reforms on Pakistan's economy by developing a CGE model. In scenario 1, it eliminates the import tariffs on the 10 major import items of Pakistan such as cooking oil from Indonesia; textiles, chemicals, basic metals, machinery and electrical equipment from China; mining, coke and petroleum from the United Arab Emirates; and mining and chemicals from the Kingdom of Saudi Arabia. The simulation results show that eliminating the import tariff reduces domestic production in many sectors. Among them, however, the mining, textile, and chemical industries still grow moderately. On the other hand, domestic production of all other sectors increases moderately indicating that access to more economic intermediate inputs allows these industries to contribute to economic growth. In scenario 2, it introduces a foreign aid of USD 10 billion from USA to Pakistan. The simulation results show that the foreign aid reduces the domestic production in all the sectors, the inflation rises and exports reduce.

TECHNICAL SESSION-3: MACROECONOMIC POLICIES AND INSTITUTIONS

Paper Title: The limit of monetary policy: A trivariate analysis of inflation, policy rate, and economic growth in Pakistan
Author and Presenter: Ashfaque Hassan Khan

Abstract: Inflation has emerged as a serious challenge for policy makers in both developed and developing countries in recent years. In developing countries, inflation is primarily a supply-side phenomenon driven by increases in food

and energy prices. Therefore, maintaining a high-interest rate is not an effective measure to curb inflation in such contexts. The purpose of this paper has been to explore causal nexus between the policy rate and inflation in a tri-variate context for a developing country like Pakistan. We examined the causal relations with monthly data between inflation, policy rate and economic growth using Granger causality for the sample period from July 1992 to April 2023 as well as for shorter sample period from July 2008 to April 2023. The findings of the paper suggest that inflation is pre-dominantly caused be supply side factor (food and energy prices), tightening monetary policy or keeping interest rate at higher level is not the solution. Interest rate is the cost of capital and capital is one factor of production. A higher interest rate raises the cost of capital, leading to increased production costs. The message of the paper is simple. The Central Banks in developing countries in general and Pakistan in particular, should not follow "Aspirin Approach to Monetary Policy." They should first determine the root causes of inflation and then devise policy accordingly. If inflation is caused by excessive demand (as in the case of developed economies), tightening of monetary policy, or raising policy rate is the right instrument. Interest rate is regarded as a demand management instrument. If the inflation is caused by supply side factors (as in the case of developing countries in general and Pakistan in particular), tight monetary policy or raising policy rate is not the right instrument. Improving food supply by raising domestic production or by importing food plus extreme caution in raising energy prices may be exercised. Raising interest rate has failed to control inflation in Pakistan.

Paper Title: Tax Morale, Trust in Institutions and the Role of Governance
Muhammad Nadeem Sarwar & Asma Hyder

Presenter: Nadeem Sarwar

Abstract: This paper examines the relationship between trust in institutions and tax morale, focusing on governance quality. It hypothesizes that the interaction effect between trust in institutions and governance quality significantly influences tax morale. The study also explores whether this effect is stronger in input-side or output-side institutions. Strong governance fosters trust in the government, viewing tax payment as a civic duty, while weak governance leads to a perception of tax payment as an unfair burden. Empirical analysis using the World Values Survey and World Governance Indicators supports the hypothesis, revealing that trust in institutions predicts tax morale in countries with higher governance quality. However, in countries with lower governance quality, trust does not necessarily translate into increased tax morale. Moreover, trust in both input and output side institutions influences tax morale in well-governed countries. By focusing on tax morale, this study contributes to the literature on tax compliance, institutional trust, and reciprocity in pro-social behaviours and provides important implications for policymakers.

Paper Title: From Boom to Bust: The Perils of Pro-Cyclicality in Fiscal Policy
Muhammad Nadeem Sarwar, Shahzad Ahmad & Shagufta Shabbar

Presenter: Shagufta Shabbar

Abstract: Fiscal policy, with its role in economic stabilisation, remains a critical instrument for governments and policymakers worldwide. This paper delves into the intricate dynamics of fiscal policy, particularly in the context of developing economies, exemplified by Pakistan. While fiscal stimuli are commonly deployed to counter economic crises and foster growth, their implementation often results in increased public debt, inflation, and a host of macroeconomic challenges. Emphasising the pro-cyclical nature of fiscal policy in developing nations, we investigate its impacts on economic indicators. Our study examines Pakistan as a case study, analyses if the fiscal policy is procyclical, a cyclical or counter cycle and how shocks in GDP and fiscal policy are received by key macroeconomic indicators including public debt, CPI, exchange rate, and money market rate etc. By analysing these trends over two decades, we highlight the challenges posed by pro-cyclical fiscal policies and their consequences. Our findings underscore the urgency of addressing structural issues and adopting evidence-based policies to navigate the intricate landscape of fiscal policy and attain sustained and robust economic growth.

TECHNICAL SESSION-4: HUMAN CAPITAL INVESTMENT AND WORKERS' EFFICIENCY

Paper Title: Information Technology, Firm Efficiency, and Foreign Outsourcing Collaboration in Production Processes: A Developing Economy Firm's Perspective
Irfan Ali & Zafar Mahmood

Presenter: Irfan Ali

Abstract: Foreign outsourcing collaboration (FOC) among developed and developing countries enables firms to reap the benefits from the worldwide fragmentation of production phases. A majority of research on foreign outsourcing is based from the perspective of developed economies. However, a meagre amount of literature is available on foreign outsourcing from the perspective of developing economy firms. This paper intends to bridge this gap by analysing the FOC in processes from the perspective of a developing economy. Specifically, this paper aims to analyse the impact of investment in information technology (IT) on firm performance in terms of cost efficiency and quality of products. FOC strategic integration reflects an amalgamation of FOC in firms' policies concerned with strategic goals, and competitive strategy. Such policies help firms succeed and have a significant impact on firm performance. Additionally, the association between the use of modern

machinery, strategic integration, investment in IT, and FOC in processes have been analysed to assess the characteristics of firms. The data come from 217 textile and apparel firms from the city of Faisalabad, Pakistan for fiscal year 2022. SmartPLS 4 has been employed to estimate the partial least square structural equation model (PLS SEM). The results indicate that investment in IT enhances firms' efficiency and improves the quality of products, inducing a higher level of firm performance. FOC in processes enhances product quality whereas investment in IT fosters FOC in processes.

Paper Title: Human Capital Investment, Family Structure and Demographic Dividend: Preliminary Evidence from Pakistan

Author and Presenter: Sajjad Akhtar

Abstract: This paper empirically documents and analyses the inter-relationship between human capital investment, family structure and demographic dividend during demographic transition period of 1992 to 2018 in Pakistan. It is based on three rounds of primary Household Income and Expenditure data collected in 1992-93, 2005-06 and 2018-19. The sub-elements of transition phenomena namely, child and elderly dependency, share of youth dependency, youth earners, adult women earner and family structure are included in model specification, to assess their impact on demographic dividend. It also includes few conventional arguments as the determinants of augmented household savings. The estimates using Two stage Least Squares technique are separately presented for urban and rural areas.

Paper Title: Analysing the Productive Mechanism of Human Capital for TFP in Pakistan: New Insights from Women's Empowerment
Bushra Mushtaq & Muhammad Afzal

Presenter: Bushra Mushtaq

Abstract: This study examines the role of women empowerment (WE) on the promotion of human capital development (HCD) and total factor productivity (TFP) in Pakistan over the period of 1990 to 2022 by employing co-integration analysis based on Autoregressive Distributed Lag (ARDL) model. None of the previous studies have analysed the impact of women's empowerment on TFP as a productive resource to develop human capital. This research examines two hypotheses: the moderating effect of WE on TFP and the mediating impact of HCD on TFP. The results of the empirical analysis show that WE and HCD positively and significantly impact TFP in the short run and the long run. Furthermore, the results demonstrate that WE has a significant moderating impact on TFP. While HCD has a significant mediating impact on TFP in both the short and long run. The Granger Causality Test demonstrates a unidirectional causality flawing from WE to TFP and from HCD to TFP, underlining the crucial role of WE and HCD in fostering economic productivity. This study suggests that Pakistan can aspire to develop its human capital by tapping into the potential of its female

population. Empowering women is a productive channel of human capital. Women's empowerment (WE) moderates the impact of Human capital on growth and development to promote sustainability.

TECHNICAL SESSION-5: WORK ENVIRONMENT, PRODUCTIVITY AND INCENTIVES

Paper Title: Supply Responses of Major Crops of Punjab, Pakistan: Translog Profit Function Approach
Mushtaq A. Khan, Osama Khan & Hamza Sohail

Presenter: Humza Sohail

Abstract: This paper estimates elasticities for wheat, cotton, rice and sugarcane using farm level data from Punjab using a translog profit function approach. The latter is a more flexible alternative to traditional Cobb-Douglas or CES production functions, thereby providing more robust estimates. A key novelty of this paper is that it explicitly takes into account variation in weather patterns, as measured by mean temperature and precipitation during the crops' different phenological stages on output and profitability. Our estimates suggest a complementarity between in- puts in particular seed and fertiliser for all crops studied and a net substitution effect between variable inputs and fixed inputs(land). Our estimates further indicate that for wheat, rice and cotton increase in temperature and precipitation during harvesting leads to a decrease in farmers profit while the contrary is true for sugarcane.

Paper Title: Values, Women's Autonomy and Workforce Participation in Pakistan: Evidence from the World Values Survey

Author and Presenter: Mannan Hassan Khan

Abstract: To target participatory and sustainable development, it is pertinent to have an inclusive environment. For this to happen, an empowered society is the key, and literature highlights employment as one of the strongest indicators of empowerment. With almost half of Pakistan's population comprising of women, only 22 percent of them are counted in the labor force, which puts them at a perennial disadvantage and impedes economic development. This research allows us to argue that that society and culture play an important role in determining the economic engagement of women. Thus, using microdata from the 6th and 7th waves of the World Value Survey (WVS), this paper explores the relationship between 'values' and women's labour force participation and income-generating activities. Values are defined as 'pre-set' decisions that are made by a culture between common choices. The regression results indicate that values supporting women's work significantly improves their economic participation. Moreover, self-reported social class, age, children, and improvement in social cohesion are also found to be important determinants of Pakistani women's employment. It was found that regressive values, which are a part of the informal norms of society, can

predominantly explain low levels of female labour force participation in Pakistan. This highlights the need for policies that promote inclusivity and gender balance. At the same time, a long-run policy framework is also imperative that focuses on developing a value system that normalises female labour force participation, the idea of which resonates with the notion of human development.

Paper Title: Budgeting for the Future: Estimating the Lifetime Cost and Services Length of Public Sector Employees in Pakistan
Nadeem Ul Haque, Muhammad Ajmal Khan, Nadeem Ahmed Khan & Muhammad Jehangir Khan

Presenter: Ajmal Kakar

Abstract: This study is designed to anticipate the (future/discounted) lifetime cost and length of public sector employees in Pakistan, using both the primary and secondary data sources. In fact, we have estimated the lifetime cost for three different cases as a sum of lifetime salaries, commuted pensions, pension (monthly) to be paid to employee, pensions to be paid to spouse, pension to be paid to unmarried daughter. In fact, the findings revels that on average the lifetime cost of class-4 employees is around 36.9 million rupees if the employee get retire in their 60s. moreover, most of the personal cost is in the form of salaries. However, in the first case the largest beneficiary would be the spouse of employee followed by the unmarried daughter. And, on average, discounted lifetime cost of supporting staff is in case one is around 34.3 million rupees. In fact, the cost increases in case two (if serves for 25 years) to 46.9 million rupees. And, finally, in case three the average discounted personal cost of supporting staff is about 59.1 million rupees. similarly, the findings revels that in first case the largest beneficiary is spouse followed by the employee, both in case two and three the largest beneficiary is employee him or herself. Moreover, the study anticipates that on average the anticipated (discounted lifetime cost of BPS-17 & above is around 82.3 million rupees which is three times higher than class-4 and two times than supporting staff. Finally, the study shows that on average the length of public sector employees services in government agencies are less than, the length of liabilities for the government.

TECHNICAL SESSION-6: PUBLIC FINANCIAL MANAGEMENT

Paper Title: Adequacy of PSDP Public Sector Development Programme of Pakistan: Facts, Problems and Solutions
Author and Presenter: Shukat Ali Randhawa

Abstract: In market economies government role is at minimal level confined to the areas of defence, law and order, diplomacy while development activities are mainly carried out by the private sector. However in developing economies like Pakistan where enabling environment, governance milieu is usually not up to mark to the satisfaction of private sector keeping it shy from productive participation in economic development with full potential. Therefore governments have to take care of development works in infrastructure, social and other necessary sectors of national development. The paper has been structured as follows.

Historic Perspective and Situational Analysis

Appraisal of the constitutional, legal and economic rationale for PSDP.
Historic pattern of size of yearly PSDP.

Critical Assessment of Fiscal Discipline in PSDP Management

Appraisal of allocation and release of PSDP funds.
To what extent basic rules and laws have been conformed to while allocating PSDP funds.

Adequacy in execution of PSDP

Appraisal of the entire cycle of use of public development funds including planning, approval, financing, implementation, monitoring and evaluation of development projects and programme.
Qualitative and quantitative assessment of time and cost overruns.
Adherence to and/or disregard to 18th amendment and NFC award while disseminating funds to the provinces.
Critical assessment of due diligence applied in the entire process.

Governance Issues and Political interference in PSDP

There have been a number of concerns that in presence of lack of good governance, political influence creeps in implementation of PSDP. This issue has been analysed.

Case Studies

Three projects were selected as case studies for which factual positional has been analysed taking in view all above factors.
The projects for case studies have been taken from different economic sectors so as to make the analysis comprehensive and inclusive.
The analysis of case studies has been kept confined to actual on-ground figures and facts based on intellectual and realistic approach without any bias whatsoever.

Incorporating Private Sector in Development

A part of the paper specifically analyses the status and prospects of role of private sector in development, mainly through Public-Private Partnership (PPP).

Conclusion and Policy Guidance

As an epilogue to the paper, a few pragmatic suggestions are given to strengthen and smoothening the process of development budgeting for achieving maximum outcome by using limited national financial resources.

Paper Title: Public Financial Management in Pakistan: An Emerging Architecture Perspective
Nooreen Mujahid, Nargis Noman & Muhammad Noman

Presenter: Nargis Noman

Abstract: Public Financial Management (PFM) involves managing an economy's financial resources to optimise national priorities. Hence, adopting an efficient PFM system enhances and sustains socio-economic growth through adopting and developing policy innovations. PFM can be evaluated through public revenues, expenditures and debt management; however, all of these major elements need to be revised in Pakistan. This motivates the study that efficient PFM setup is necessary for many fiscal policies to succeed in their implementation, thus endangering macroeconomic stability in the economy. The term "Emerging Architecture" has been induced from the study of Cangiano (2013) to focus on the selected components of the PFM that have emerged over time and yet are also considered the building blocks of modern PFM systems. The "Emerging" stresses the time dimensions in this study. In this regard, the study employs the Structural Equation Modeling approach as it is a robust Multivariate Analysis used to assess the causal modelling or path analysis. This technique hypothesises a causal relationship among variables associated with the Linear Equation System. The data span for the study is the period of 1979-2022. Correspondingly, the "Architecture" perspective intends to take stock of policy innovations developed or adopted over the years to assess the PFM emergence in Pakistan. The study's findings have assessed to develop of an interlink of the PFM components, keeping in view an exponential increase in expenditures and public debt. Moreover, the aliments of the PFM components can be utilised to propose some doable policy solutions based on a long-term approach. Precisely, there is a dire need to focus on prescribed Structural Reforms in consonance with PFM initiatives for the economy of Pakistan. This would break the debt financing loop and re-evaluate the policy regulations regarding fund allocations, the commercial sector and shared understanding between provincial and federal establishments.

Paper Title: Migrant Remittances and Economic Complexity: Evidence from Panel Data Approach.
Author and Presenter: Naseem Nasar

Abstract: In development economics, the main emphasis has been on transforming economies from traditional sectors of production to more sophisticated(productive) sectors to transform them. In this study, we explore the role of migrant remittances on economic complexity. In order to study empirically, we use the economic complexity index (ECI) and migrant remittances inflows over the period of 2005 to 2020. To perform econometric analysis, we use the system GMM. Our results show a negative link between economic complexity and migrant remittances. However, our analysis reveals an interesting finding that the interaction of migrant remittances and education is positively associated with economic complexity. Specifically, we find that the positive effect of migrant remittances on economic complexity is amplified in the presence of higher education levels. These findings suggest that while migrant remittances may not necessarily lead to economic complexity on their own, they can contribute to it when combined with higher levels of education. Our study sheds light on the potential role of education in maximising the positive impact of remittances on economic development. The results of this study carry significant implications for policymakers and highlight the need for a more comprehensive approach to fully understand the impact of remittances on economic development through economic sophistication.

TECHNICAL SESSION-7: DEBT MANAGEMENT AND SUSTAINABILITY

Paper Title: The Economics of Household Debt
Author and Presenter: Nasir Iqbal

Abstract: We explore the economics of household debt in Pakistan using the Household Integrated Economic Survey (HIES) 2018-19. Our findings show that approximately 22.1 percent of households acquired loans for diverse purposes, amounting to an average per capita household debt of PKR 33,461. Initial estimates project the total stock of household debt to reach PKR 1,283 billion in 2023. Analysing demographic and economic factors, our empirical analysis indicates the determinants influencing the likelihood of households taking loans and the amounts borrowed. We find a robust positive association between climate change, as indicated by rainfall patterns, and both the likelihood and magnitude of loans. Our empirical analysis uncovers a significant and positive impact of household loans on poverty levels. Indicating a noteworthy increase in poverty due to indebtedness, these findings underline the socio-economic ramifications of household debt. This study yields valuable insights for policymakers, emphasising the imperative need for a comprehensive framework to address the escalating challenges posed by household debt, thus paving the way for enduring solutions.

Paper Title: Debt a Threat to Economic Growth: An Evidence from Extreme Bound Analysis
Ayesha Tariq & Iftikhar Hussain Adil

Presenter: Aisha Tariq

Abstract: This research examines the relationship between public debt and economic growth, aiming to identify the threshold level of public debt to GDP at which Economic Growth becomes negative. The study utilises extreme bound analysis and finds that the threshold level of public debt to GDP, posing a risk to economic growth, is 69 percent, higher than previous studies. The use of dummy creation method helps to identify the optimal debt level. Thus,

governments should exercise caution in letting public debt exceed 69 percent of GDP to sustain economic growth. These findings have significant implications for policymakers, offering insights into the public debt and economic growth relationship and guiding the development of effective debt management strategies.

Paper Title: Factors Affecting External Debt & Liabilities in Pakistan
Talat Anwar & Zahir Faridi

Presenter: Talat Anwar

Abstract: Pakistan's external debt and liabilities as % of GDP deteriorated from 21 percent in 2015 to 35 percent in 2023. Consequently, its external debt and liabilities have become unsustainable and country is in a debt trap and facing a default situation where it has to borrow heavily from IMF and other lenders in order to pay its previous debt. In this perspective, this paper aims to explore the key factors that have led to the unprecedented rise in Pakistan's external debt.

Applying the ARDL model and the latest time series data spanning from 1994 to 2022, this study's findings reveal several key insights. Firstly, the current account deficit has a substantial and positive impact on the increase in external debt and liabilities, both in the short and long term. Similarly, fiscal deficits and foreign aid also contribute to the escalation of external debt and liabilities in Pakistan. Furthermore, the results highlight that a depreciation in the exchange rate leads to an increase in Pakistan's external debt and liabilities, with the exchange rate effect exerting a more pronounced influence compared to other variables. The main policy implications for Pakistan is that it should focus on exchange rate stability by reducing excess demand. The country need to depend on internal resources by increasing exports and tax revenue. Pakistan needs both internal and external adjustments. Thus, IMF should reconsider its condition for removing ban on import of non-essential goods which is counter-productive to economic stability and will further increase the indebtedness of the country. Pakistan need to promote IT, agricultural and mineral related exports and expedite the development of special economic zones under CPEC to attract FDI. This would help the country to enhance its foreign exchange earning capabilities to service and reduce its external debt.

Paper Title: Subnational Debt in Pakistan: Role of Fiscal Imbalances, Economic Growth and Rule-Based Debt Policy
Author and Presenter: Asim Bashir Khan

Abstract: The rising government debt is an overarching theme in Pakistan's economic and debt management, yet a little very attention is paid to subnational public debt and fiscal solvency. The debt is one of the chronic problems of Pakistan, which is attributable to persistent deficits, large non-development expenditures, weak debt repayment capacity, low tax-to-GDP, rising cost of domestic and external borrowing. The most significant structural roots of subnational debts are in low tax effort of successive subnational governments. The disproportionately higher magnitude of expenditure decentralization compared to revenue decentralisation and tax autonomy results in transfers dependency, large Vertical Fiscal Imbalances (VFIs) and bailout expectations. Based on an exclusive balanced panel data of subnational public finances from 1971-2021, at disaggregated subnational (provincial) level, this essay is pioneering study in examining the effect of VFIs on subnational debt. The findings suggest that VFIs are relevant and significant in explaining the public debt. VFI, expenditure decentralisation and population density are positively related to public debt. The effect of policies reforms like fiscal responsibility law, rule-based debt policy and debt ceiling regulations are found to have corrective role in debt reduction, but statistically insignificant. This emphasises the need for exhaustive subnational fiscal reforms to target untapped revenue sources like land revenue, agriculture income tax and urban immovable property tax, in addition to efficiency improvement for non-tax revenue collection against charges of public utilities, irrigation and other services, and it needs not to mention that output-based budgeting and robust expenditure management will complement the reforms interventions related to subnational revenues.

TECHNICAL SESSION-8: INSTITUTIONS AND GOVERNANCE REFORMS

Paper Title: Preferred Habitat and Monetary Policy Spillovers: Evidence from Inter-Market Dynamics in Pakistan
Abdul Wahid, Oskar Kowalewski & Edmund H Mantell

Presenter: Abdul Wahid

Abstract: This study contributes to an understanding of the applicability of a preferred habitat model to describe inter-market transmissions of mean returns and price volatility transmission effects. The term "preferred habitat" in this paper means the regional market for equities in Pakistan which was the venue for the initial public offering. In particular, we examine the question of whether returns in one market are systematically transmitted to the returns in other markets. Among the factors we consider are the influence, if any, of changing interest rate policies, US dollar exchange rates and local inflation. We apply the generalised autoregressive conditional heteroskedasticity process, usually referred to by its acronym GARCH, developed in 1982 by Robert F. Engle. GARCH describes an approach to estimate volatility in financial markets. We apply the GARCH-Dynamic Conditional Correlations (DCC) and a Markov Switching Model to test hypotheses pertaining to inter-market transmissions of mean returns and variances of returns. Our findings show that there are statistically significant interlinkages between monetary policy and measures of stock market performance. The findings in this paper may be of interest to regulatory authorities tasked with assessing and perhaps influencing the

systematic relationship between monetary policy and inter-market transmissions of performance.

Paper Title: Trust in Financial Institutions: Examining Regional, Gender, and Urban-Rural Disparities in Pakistan
Aribah Aslam & Ghulam Ghouse

Presenter: Aribah Aslam

Abstract: Post Covid-19 and 2007-08 financial crisis, financial institutions, primarily banks in many countries have been globally facing what seems to be a serious "trust-crisis". This sharp decline in trust in banks and financial institutions, are the likely outcome of the near-collapse of banking systems during both of these crisis and it is hardly captured by any empirical literature, particularly in the context of Pakistan. This literature bridge gap of the serious shortcomings in existent literature, while delving into the determinants of trust in Financial institutions in Pakistan at four aspects (i) country level, (ii) regional level, (iii) gender variations and (iv) rural –urban variations. In particular, the paper identifies three related dimensions of trust on financial institutions in Pakistan. Firstly, it established a substantial connection between individuals' perceptions of the justice system and their trust in financial institutions, suggesting that perceptions of a just legal system were linked to higher levels of trust in banks. This finding emphasises the necessity for comprehensive reforms in the justice system to enhance public confidence in both the legal and financial sectors in Pakistan. Secondly, income disparities were found to be a significant factor influencing trust in financial institutions (banks), with lower-income individuals displaying higher levels of trust in financial institutions in rural areas. This underscores the importance of implementing policies geared towards improving financial inclusion, particularly for low-income individuals, as a means to bridge this trust gap and increase confidence in the banking sector. Third and Lastly, the study shed light on notable gender-specific and region-specific effects on trust in banks through variables such as income, education, employment status, family size, and health. These findings underscore the imperative for developing gender-sensitive financial policies and initiatives aimed at promoting gender equality in terms of access to financial resources and enhancing financial literacy among women in Pakistan.

Paper Title: Critical Examination of NTDC Electricity Demand Forecasting Techniques
Author and Presenter: Shafqat Abbass

Abstract: The National Transmission and Dispatch Company (NTDC) has established the Indicative Generation Capacity Expansion Plan (IGCEP) as a framework for planning future electricity generation capacity. IGCEP planning relies on annual demand projections, which overlook daily and seasonal demand trends, leading to imbalanced energy supply and resource allocation inefficiencies. The NTDC's annual demand projections also tend to be over predicted, further exacerbating the issue. This paper offers an alternative approach to forecasting electricity demand that fills the gaps in the NTDC's existing model. It presents techniques for accurate projections of daily electricity sales and peak demand, ensuring the infrastructure is optimized to meet consumer demand.

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