

Question: Balance of Payment crisis has reportedly compelled Pakistan to approach the IMF for a bailout package. How do you see the role of the IMF in the fiscal, monetary and foreign policy making of Pakistan?

Answer:

- 1- Introduction: Pakistan is grappling with numerous problems in the economy. However, the crisis of balance of payments has become imminent. Dr. Ishrat Hussain in his Governing the ungovernable argues aptly that the Balance of payments crisis is an outcome of low exports and high imports. The balance of payment crisis has compelled Pakistan to approach the IMF for a bailout package for financial assistance at multiple occasions. It often requires country to implement certain policies.

Overall, IMF plays a key role in shaping Pakistan's economic, and foreign policies during the time of financial distress.

## 2- What is the Balance of Payment?

The balance of payment is the method countries use to monitor all international monetary transaction made by the residents of a country in a specific period.

## 3- Balance of Payment Crisis and IMF Bailout:

Pakistan's balance of <sup>Payment</sup> crisis is driven by burgeoning trade deficit. According to the Pakistan Bureau of Statistics, Pakistan's trade deficit stood at \$2.3 billion as of January 2023. The abysmal condition of the Balance of Payment brought

Severe consequences to the national exchequer. The current account which reflects the country's net trade in goods and services and is an important component of BOP has consistently recorded large deficit over the years because of which the country has had 23 arrangements with the IMF over the past few decades

Economic Survey of Pak ~ Current Account Deficit (Bn \$)

2022-23	17.90
2021-22	17.80
2020-21	0.77

Before the IMF board's decision to approve the bailout Pakistan's Foreign reserves were just over \$4 bn, enough to cover a month of imports. In July 2023, Pakistan's central bank received \$1.2 billion from the IMF as the first tranche of a \$3 billion bailout to stabilize

the economy.

#### 4. Role of IMF in Fiscal Policy Making

As a prerequisite for financial aid, the IMF often mandates reforms in Pakistan fiscal policies. This includes measures to enhance revenue collection, reduce budget and ensure fiscal discipline.

##### a. Reduction in Budget Deficits

IMF program necessitates measures to reduce budget deficits. The government is required to implement austerity measures, cut unnecessary cost/expenditures and enhance revenue collection to achieve fiscal discipline. For instance, Pakistan's parliament had to revise budget to meet IMF conditions. The government had to introduce new

taxes and expenditure cuts in order to secure the release of bailout fund.

## b. Tax Reforms

The IMF influences tax policies in Pakistan. This includes recommendations to broaden the tax base, rationalize tax structure and improve tax administration to increase govt ~~resources~~ revenue. For example Federal Revenue Board **FBR** is trying to reach the target of Rs. 9.14 trillion by IMF.

## c. Expenditure Management

Conditions related to public expenditure management are common in IMF programs. Pakistan government is recommended to streamline government spending, prioritize essential sectors and enhance

Efficiency to meet the IMF requirements

## c- Role of IMF in Monetary Policy making

### a- Interest Rate Adjustment

IMF program often requires adjustments to interest rates.

Pakistan's government is recommended to raise or lower interest rates accordingly to achieve monetary stability. For Example, Pakistan's

Central Bank kept its key interest rate unchanged, i.e., 22%

before IMF program review. In a statement Bank mentioned that

a "Successful and timely completion of the upcoming IMF-SBA review would unlock other multi-lateral and bilateral financing.

### b- Foreign Exchange Reserves Management

The conditions related to foreign exchange reserves are common in IMF programs. Pakistan's government is required to maintain and build an adequate level of reserves to ensure currency stability. IMF sets targets and deadlines for economic recovery. The foreign exchange reserves target of \$4.2 billion with deadline of September was agreed by IMF-SBA this year which Pakistan's central bank successfully met.

### c- Banking sector Reforms

IMF intervention is often extended to reforms within the banking sector. Conditions may include measures to enhance the regulatory framework, improve governance and strengthen the overall resilience of the financial system.

## 6. Role of IMF in Foreign Policy making

### a. Policy Conditionality:

IMF often attaches conditions to its financial assistance. In return for aid, Pakistan government is recommended to adopt specific foreign policy positions and align with its international economic strategies.

### b. Global Economic Alignments

The IMF's macro economic policies recommends Pakistan to align itself with broader global economic strategies. For instance, IMF has advised Pakistan against the creating a group of preferred investors in the country under the Special Investment Facilitation Council (SIFC).



### c- Exchange Rate Policies:

IMF often provides guidance on exchange rate policies. Under the stand by agreement with the IMF Pakistan signed in 2023, the terms that government must adhere to a market based exchange rates in the interbank and open markets

### d. Trade agreements and Partnerships

IMF encourage Pakistan to enter into trade agreements and partnerships that align with its economic recommendations including negotiation and selection of trading partners.

### e- Debt Management

IMF also influences how Pakistan's government manages debt restructuring and management. The IMF conditions often involve negotiation

or restructuring of debt affecting country's relations with international creditors.

## 7- Analysis

The recurring need for Pakistan to seek IMF bailout packages due to balance of payment crises underlines a complex relationship between the nation and the international financial institution. While the IMF's financial assistance provides crucial support, the attached conditions often exert a substantial influence on Pakistan's economic and foreign policies. The influence on fiscal, monetary and foreign policies may be seen as external interference, often raising questions about the nation's autonomy of decision making.

## 8- Conclusion

In conclusion, the Balance of Payment crises has established the IMF

as a key player in shaping the  
country's fiscal, monetary and  
foreign policies.

conclusion is short.

improve the paper presentation and the references part a bit.

overall a good answer!!