

What are the impacts of the IMF on Pak economy?

Introduction to the IMF

International Monetary Fund is an autonomous cooperative organization founded in 1945 after the world war second to help stabilize the countries which were economically collapsed. Its mission is to uphold global economic stability. The current members of the IMF are 190 countries and its mandates <sup>providing</sup> are financial and technical aid to its member countries <sup>having</sup> with balance of payment issues, facilitate international trade, supports countries for formulation of stable macroeconomic policies, surveillance of the countries policies to make sure the members are complying with the rules set by the IMF.

The history of Pakistan with the IMF  
Pakistan is well-known for its long history with the IMF. Taking loans for 22 times, Pakistan has been called as a prolonged user of the IMF resources. The history starts from 1950 when the country entered into the IMF program for the first time during the

era of Ayub Khan <sup>taking loan of</sup> ~~with~~ \$516 million. After that, tenure after tenure of different political ~~of~~ leaders the country has been seeking the IMF bailout packages. The loan has reached \$7.6 billion with the remaining ~~review~~ <sup>tranche</sup> of the IMF program. The most awaited fund has been put on hold by the IMF these days which the country desperately needs to avert its economic collapse.

The impacts of the IMF on Pakistan economy  
The IMF impacts on the country's economy are several. It provides financial aid at the time of balance of payment crisis which cannot be discounted. However, the <sup>negative</sup> ~~major~~ impacts are ~~various~~ <sup>numerous</sup>. The IMF is considered as the "lender of the last resort" and "crises manager". It does help ~~and~~ ~~the~~ Pakistan for short-term but the conditions put by the IMF on ~~the~~ <sup>recipient</sup> countries, like Pakistan, <sup>have</sup> become a source of hindrance in the way of the country's progress for a long-term period. This conditionality is named as structural adjustment or the staff agreement in the form of negotiation between the government and the IMF.

#### a) Neo-Imperialism

The IMF is notoriously known as a tool of neo-imperialism. The reason is that

It seeks to expand political, social, and economic influence of the US. It is considered worldwide that it is an institution that harms a <sup>developing</sup> country in the name of poverty reduction and economic stability. The conditions that the IMF has put on Pakistan for many years shows that the country's sovereignty is at stake. The IMF dictates and the country obeys - no matter how much it hates the dictation, the country is left with no other <sup>choice</sup> policies than to implement. John Adam says, "There are two ways to conquer and enslave a nation - one by sword and other by debt". From this point, it is obvious that imperialism has never died, it has just changed its shape. Undoubtedly, the IMF is a tool of neo-imperialism.

- 2) Economic autonomy is compromised. The other major impact of the IMF on Pakistan's economy is that its economic autonomy is compromised. The country cannot take any decision on its own but it has to follow the stringent rules of the IMF. ~~totally~~ From

electricity bill to imports and exports, everything is done in the country which pleases the IMF.

For instance, lately the fiscal budget introduced by the finance Minister failed to satisfy the cooperative organization. The renowned economist Ha-Joan, in his book "Bad Samaritans: the myth of free trade and history of capitalism" maintains that "the policies given by the IMF often prioritize the interests of advanced economies which have detrimental effects on the economies of those countries which come for financial aid" Thus, the compromised economy of the country is the outcome of the financial help provided by the organization.

### 3) Dependency cycle <sup>on</sup> ~~of~~ the IMF

The other <sup>adverse</sup> impact of the IMF is the dependency cycle. Pakistan has been trapped into a never-ending cycle of the debt where the country has to take a new loan to pay off the previous one. The first loan provided to Pakistan is called soft loan as the interest rate was low. However, with the passage of time the interest rate has spiked up to 19 percent. The loan has reached \$7.6 bn and its servicing needs to be paid at a given time. No matter how much the country suffers, the IMF is

only concerned with its ~~debt~~ <sup>repayment</sup>, turning a blind eye whether a country can stand on its feet or not. Due to this debt trap, Pakistan is on the brink of default. Moreover, every Pakistani is shackled with this circular debt including the infants in the country. To stay afloat, Pakistan is seeking more and more debt and the vicious cycle keeps going.

#### 4) Tight monetary policy

Pakistan's economic activities have been slowed down due to tight monetary policy imposed by the IMF. It refers to the action of the central bank to decrease money supply and increase interest rates which entices people to purchase less and invest more in banks. Unlike developing countries, this policy suits developed countries where people have much to buy and invest. The IMF's notion of about "one size fits all" has proved counterproductive. On its 7th, 8th, and 9th review, the IMF demanded Pakistan to apply tight monetary policy. Resultantly the key rate was spiked up to ~~21~~ <sup>21</sup> % in April 2023, discouraging investments

and slowing down the country's GDP growth. Hence one of the causes of Pakistan's regressive economy is tight monetary policy.

### 5) Rupee devaluation

The basic goal of currency is to encourage economic growth of the country but IMF decision to devalue rupee against dollar has contributed to Pakistan's flagging economy. Rupee depreciation is the result of the market based exchange - one of the conditions imposed by the IMF. Pakistani rupee has depreciated to 287.58 to a dollar. According to the IMF, this will ~~encourage~~ <sup>support</sup> competitiveness, but sadly, it has done more harm than good. The SBP states "As rupee is nosediving, buying expensive commodities have become a herculean task". Consequently, rupee devaluation <sup>has</sup> made the price of fuels and energy off the chart, increasing the cost of production and leading to discouragement of the private sector investment in the international market. Furthermore, <sup>rupee</sup> devaluation leads to increase in public debt without borrowing a single dollar. For instance, one rupee depreciation increases \$ 95 billion to public debt. Undoubtedly, the IMF policies have proved detrimental to the country's economy.

6). Hyperinflation effect on Pakistan's economy  
Among other impacts, <sup>hyper</sup>inflation has adversely affected the citizens of Pakistan. Ironically, one of the objectives of the IMF is to bring policies that reduce inflation. The country is a lower middle ~~class~~ <sup>income</sup> country and according to the World Bank "its citizens earning per capita is between \$10-\$40 a day." Generally in Pakistan, one or more people struggle to ~~meet~~ <sup>make</sup> the ends meet for their families. According to Statics Bureau, "Pakistan's annual inflation rate has risen to 30 percent in May 2023. As a result, the purchasing power has reduced, adversely hitting the country's economy and <sup>the</sup> quarter of population goes to sleep hungry every night. In 2022 global hunger index, the level of hunger in Pakistan is 26.1, which is a serious problem. Hence, inflation has affected the country's economy."

## 7) Austerity Measures.

Austerity measures policy by the IMF has undermined the country's economy. The state is put through a difficult situation where it has to cut its subsidies on health, education, infrastructure, and increase taxation on its people. Education is crucial for a country's progress, and Pakistan is already the second largest country in the world having "out of school children" - an estimate of 22 million illiterate children. "Its literacy rate is 62.3% which means an estimated ~~20~~ 60 million population is illiterate" says the federal ministry of education. Additionally, "Healthcare in Pakistan is slightly below average in a world wide comparison" reported by world data.info. Such policies like austerity measures provides ~~the~~ least chance for economic progress of the country.

## 8) Trade liberalization has not proved fruitful.

Another major impact contributing to worsening the country's economy is trade liberalization. This policy benefits developed nations where the trade is liberated from tariffs and non-tariffs on imports. However, it has proved an uphill struggle for developing nations like Pakistan due to its incompetence with international markets. Moreover, the multinational investors exploit the developing countries with access to cheap labors and inexpensive products leading to unequal income and halting industrial growth.



Further, trade liberalization has facilitated high ratio of imports which has resulted in trade deficit in the country and it ends up taking more and more debt. Thus, the policy has proved hazardous to the crippling economy of Pakistan.

Recommendations for the country's economic crisis.

Pakistan is in the grip of poly-crises. The root-cause needs to be understood which has led the country to face severe challenges. The IMF does provide financial aid, but it harms more than it gives benefits. Structural reforms are needed to improve the country's progress. Instead of farsighted policies, the steps should be taken that can strengthen the country economy for long-term, such as quality education, end of corruption, productivity, vocational training, and many more. India also went to the IMF, but it understood that this path can never lead to progress. After that, the <sup>Indian</sup> leaders promised - never to seek the IMF's help, it made structural reforms and now it has become a powerful nation. Pakistan, too, needs to rely more on itself. As Allah says in the Holy Quran "Allah never changes the condition of people unless they

strive to change themselves" (13:11)

## Conclusion

Pakistan's history with the IMF is long and the autonomous cooperative institution has done less good and more harm to <sup>Pakistan</sup> ~~those~~ which comes for aid. The impacts of the IMF are many on the country's economy such as its ~~sovereignty~~ <sup>sovereignty</sup> is compromised, debt trap, tight monetary policy, rupee devaluation, hyperinflation, trade liberalization, and austerity measures. For a short-term relief Pakistan has to face many <sup>long-term</sup> challenges. The country needs to understand the root-cause - what led it to the IMF? ~~Once~~ It needs ~~to change its~~ <sup>effective and long-term</sup> policies, structural reforms, quality education, productivity, and ~~an increase~~ <sup>in</sup> exports.