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Topic :

"Pakistan's uneasy relationship with IMF: Impacts and way forward"

1. Introduction

The tense relationship between Pakistan and IMF; Impacts of this uneasy association; steps to be taken to mitigate the situation.

Thesis Statement: Pakistan's relationship with the international monetary fund had been in the turmoil for the longest time owing to the miscommitments from successive governments. It has largely impacted the public and economy at large. This necessitates reforms on institutional as well as national level.

2. Pakistan and IMF at a glance

3. The major impacts of IMF decisions

a) Currency devaluation hence inflation

b) Increased taxation on the salaried class

c) Increased capital costs due to inflated interest rates.

d) Resistance towards economic growth.

4. Factors fuelling apprehension between Pakistan and IMF

a) Incomplete IMF program implementation in past

b) Inconsiderate and sudden policy reversals

c) Highly unstable political environment

d) Absence of political will for institutional reforms

5. Actionable steps to be taken for mitigation

a) Creation of ease of doing business for small and medium enterprises

b) Promotion of tourism as an economic development tool

c) provision of incentives for export oriented business and industry

d) Robust tax reforms on property and agriculture sector.

6 Conclusion

Pakistan's relationship with IMF had not been an easy one; It is need of the hour to address the structural problems causing distrust between both;

Serious reforms at institutional and national level can alleviate the situation.

Pakistan's economy has been in dire straits, hit by a balance of payments crisis, crushing inflation and high levels of external debt. IMF being financial wing of United Nations and functioning as the lender of last resort for countries experiencing similar economic crisis as Pakistan, agreed to lend conditional support. It is now a moment of retrospection to revisit stagnant policies and structural gaps and how these have impacted lives of common citizens. Also the stringent conditionality attached with IMF loans affects economic growth in the form of high inflation, currency devaluation and heavy taxation on the salaried class. However, before embarking on the journey of reforms it is of utmost importance to understand and analyze the impacts of the above crisis thoroughly.

The following words of the greatest and most influential scientists of all time, Elbert Einstein summarise the importance of right approach towards a crisis as :

“ We cannot solve the problems by using the same kind of thinking we used when we created them . ”

As Pakistan heads towards its 13th IMF bailout in forty years since its inception, it is of utmost importance to understand the strained trajectory of relationship between both. The air of distrust owing to the repeated patterns of miscommitments, non implementation of corrective reforms and constant political unrest has forced IMF to take even more stringent actions. The adoption of these strict policies by IMF has only made the situation worse for the masses. This apprehensive approach of IMF towards Pakistan has its deep

roots in the political history of Pakistan. Where the continuity of elected governments, completion of their full term to effectively implement an IMF program has always been an uncertain question. Therefore, any form of aid or a bailout package can only serve a short term fix if the efforts and political will are not aligned in one common direction of economic stability.

Whenever a developing state faces a balance of payments crisis, it goes to IMF and demand loans. Similarly, Pakistan has also been going to the IMF for years to support balance of payments deficits. But instead of improving, the economy of Pakistan is continuously deteriorating owing partly to the impacts created by policies of the IMF. One such policy is tight monetary policy which negatively impacts the real budget and increases inflation. The situation is exacerbated by demand of market based exchange rates which translates into the

devaluation of currency. This increases the landed cost of all imported goods. According to the seventh and eighth reviews of Pakistan's economy, the IMF called for the market based exchange rate that resulted in depreciation of Pakistani rupee by 17 percent in July, 2022. This resulted in increased fuel and power prices hence further discouraging the private sector investments.

Similarly tight fiscal policy has negative impacts on Pakistan's economy. This policy by IMF demands the government to take the austerity measures and to increase taxation over incomes as well as on power and fuel. As a result increased taxation on salaried class, curtailment of public investments and social security programs is seen. Such austerity measures mean that a lot of developmental projects will end, local industry and business will suffer and increased taxation will further cripple the buying

power of people rendering them poor and vulnerable. As a consequence a great deal of social unrest and high crime rate is observed. Hence, it is important on behalf of IMF to consider the ground realities of developing countries.

IMF sees developing countries through the same lens as developed economies while in reality the economic development dynamics of developing states are completely different. A similar impact of this above phenomenon is observed in demand of IMF to increase the interest rate under proactive monetary policy of seventh and eighth reviews of Pakistan's economy. These increased interest rates damage Pakistan's economy in two ways. First, increase in capital costs and second, slowed economic growth. The negative implications of these is seen in the form of discouraged investments, lower tax collection and lower employment opportunities.

Also the increased interest rates and tight monetary policy traps the country in the vicious cycle of inflation. Hence, ~~the~~ such policies act to deteriorate the economy instead of fixing it.

As the unfavourable economic policies and political instability have led to mistrust and dissatisfaction among business owners Small and Medium enterprises, especially in the engineering sector, which are globally regarded as the backbone of economies, have suffered the most by surging inflation and economic slowdown. Numerous units have already closed down because of financial troubles, increased costs and thousands of workers have been fired to minimise losses. Such are the devastating impacts of inconsiderate choices made between the IMF and Pakistan. Hence, there is a need to prioritize and make decisions on humanitarian grounds especially in a natural disaster hit country as

Pakistan in the post-2022 floods scenario.

The stringent policy of IMF towards Pakistan is especially in recent years where IMF was seen reluctant to engage in a program with Pakistan has a lot to tell. Discontinuity of democratic political setup, sudden policy reversals, absence of political will to institutional reforms and decision making in the hands of vested interest groups which were likely to lose out from these reforms. These are some instrumental causes that ensured only some cosmetic changes are made to obtain IMF and then they can go ahead with business as usual. This has partly created an air of mistrust. Another important aspect of the association between Pakistan and IMF is the realization that the diagnosis of economic problems carried out by IMF staff is partial and incomplete as they do not have any grounding

in the political realities or awareness of the institutional capacity. Although their technical analysis is sound but they do not capture the full feasibility of implementation of reforms. Hence, both Pakistan and IMF need to realize that potential economic gains can only be achieved through flexible collaboration and strong political will.

As discussed in the foregoing, IMF and its troubled relationship with Pakistan, the negative impacts of IMF model & structural and political dilemmas of Pakistan.

It is important to realize the ways through which actionable steps can be taken to address this quagmire.

To boost the overall economic growth, the importance of strong ties between businesses and the government must be emphasized.

This relationship of trust can only be developed when the credibility of political leadership and certainty

of its due tenure is predictable. This is when investors invest in the market, creating employment & fostering growth. Hence, it is crucial for the economy of a country to have a stable political environment.

This is one single factor that has potential to impact and alleviate the problem of economic turmoil by taking steps in the right direction.

One practical step towards economic well being of Pakistan is to boost the 'ease of doing business' for small and medium enterprises especially in the engineering sector. These are globally regarded as the backbone of economies. Their ability to create large scale employment opportunities and to reduce poverty is universally recognized. By

supporting these SMEs in terms of generous incentives, tax reductions and a bank credit line for collateral free loans can certainly bring

positive outcomes in the near future. So they can realize their full potential in boosting economic growth in Pakistan.

The world is rapidly changing its epicentre of economic dependencies to more sustainable options than natural resources of land. The example of the Gulf Countries can be quoted here to appreciate their changing paradigm shift. From dependency on oil economy to the promotion of tourism. The similar approach can be adopted in Pakistan. Tourism promotion has many benefits including generation of revenue, creation of jobs and improvement in infrastructure. It also helps in creating a sense of cultural exchange between foreigners and citizens and hence, can effectively serve as the foreign policy tool for creating a peace loving soft image for Pakistan.

It is a well known fact that the economic growth indicator shows higher exports to be as the most desirable parameter to achieve. For this reason, exports are crucial for Pakistan's economic crisis. Exports in Pakistan are labor intensive and provide plenty of employment, also they are a good source of foreign currency to pay for needed imports. Hence to utilize this tool effectively, government needs to implement export oriented ease in business policies including simplification of regulation processes, increasing the availability of short and long term credit policies and also by diversifying its export products. This can help in increasing competitiveness in international markets. So to overcome challenges of exports industry; Pakistan needs a comprehensive strategy that can address issue of quality, infrastructure and regulation processes.

To address the deep rooted problem of improper and inadequate taxation, robust tax reforms are needed especially in those industries which are heavy defaulters of tax such as real estate business and agriculture industry in one way or the other manages to refrain itself from the payment of taxes. Mostly due to the fact that these are run by feudal lords having strong political backup. To address this preening issue the reforms on the level of policy, administration and organizational level are needed. These largely include formation and implementation of simple laws, elimination of exemptions and less dependence on withholding taxes. In this way proper taxation can pave path towards economic prosperity of Pakistan.

In a nutshell, it can be said with confidence that although Pakistan's ride with IMF had not been an easy one but it can surely serve as the opportunity to reflect on the shortcomings and structural gaps that have rendered Pakistan in the vicious cycle of asking IMF again and again. It is need of the hour to address the structural and institutional ~~gap~~ problems with an iron hand. The strong political will, collective efforts at the national and institutional levels can surely pull Pakistan out of this turmoil. As Junot Diaz, an American writer has said:

"What I am trying to cultivate is not Blind optimism but radical hope."