

Q:- Critically evaluate the reasons why the Pakistani economy is unable to survive without the support of IMF. Also analyze implications and give recommendations.

Answer:

### i- Introduction:

The Pakistani economy has struggled to sustain itself without the support of International Monetary Fund (IMF) due to a myriad of structural issues and economic challenges. Despite receiving numerous bailout packages over the years, Pakistan continues to face persistent fiscal deficits, a low tax base and significant external debt. These economic vulnerabilities are compounded by political instability, inefficient public sector enterprises and inadequate infrastructure. The reliance on IMF support underscores the deep-rooted issues within the economy, highlighting the need for comprehensive reforms to achieve sustainable growth and financial stability.

### ii- Reasons for Dependence on IMF support:

1- Chronic Fiscal Deficits: The current account deficit of Pakistan is \$1.093B. <sup>(State Bank of Pakistan, 2024)</sup> Pakistan's government expenditure consistently exceeds its revenue, leading to chronic fiscal deficits. This imbalance necessitates external borrowing, often from the IMF, to cover budget shortfalls and meet debt obligations.

2. **Low Tax Base:** Pakistan tax to GDP ratio is 10.30% (SBP, 2024). The country has a low tax to GDP ratio due to widespread tax evasion, a narrow tax base and inefficient tax administration. This limits the government's ability to generate sufficient revenue internally, making it reliant on external funding.

3. **High External Debt:** Pakistan external debt is \$130B (March, 2024). Pakistan's high levels of external debt require substantial foreign exchange reserves to service. The country often turns to the IMF for assistance to meet its debt obligations and avoid default, especially during balance of payments crisis.

4. **Political Instability:**  
Frequent changes in government and political instability disrupt long-term economic planning and policy implementation. This instability deters investment and promotes reliance on IMF support.

5. **Structural Economic Issues.**  
Inefficient public sector enterprises, and lack of diversification in the economy hinder growth. Structural reforms needed to address these issues are often politically challenging and slow to implement, leading to recurring economic crisis and

## The need of IMF Intervention.

### iii- Implications of IMF Bailout Packages:

#### 1- Austerity Measures:

IMF programs typically require austerity measures, including cuts in public spending and subsidies, which can lead to social unrest and slow economic growth in short-run.

#### 2- Currency Devaluation:

To improve balance of payments IMF advised to devalue currency. While this can boost exports, it also leads to inflation and increased costs for imported goods, adversely affecting consumers.

#### 3- Structural Reforms:

Bailout packages often come with conditions for structural reforms aimed at improving economic governance and efficiency. While beneficial in the long-run, these reforms can be politically sensitive and challenging to implement.

#### 4- Debt Burden:

Repeated borrowing from IMF adds to the country's debt burden, creating a cycle of dependency that is difficult to break.

#### 5- Investor Confidence:

IMF support can help restore investor confidence by providing financial stability

and a framework for economic reforms. However, failure to implement agreed reforms can lead to loss of credibility and future difficulties in securing external financing.

#### iv- Recommendations:

##### 1- Enhance Tax Collection:

Implement comprehensive tax reforms to broaden the tax base and improve tax administration, ensuring better revenue generation and reducing dependency on external borrowing.

##### 2- Promote Economic Diversification:

Diversify the economy by investing in sectors such as manufacturing, technology, and services to reduce reliance on agriculture and textiles and increase economic resilience.

##### 3- Improve Governance:

Strengthen governance and reduce corruption to ensure efficient use of resources, improve public sector performance and attract foreign investment.

##### 4- Invest in Infrastructure:

Prioritize investment in infrastructure to improve productivity, create jobs, and stimulate economic growth, thereby reducing the need for external financial support.

5. Foster political stability and continuity in economic policies to create a favorable environment for long-term economic planning and sustainable development.

#### V - Conclusion:

Pakistan's reliance on IMF support highlights significant structural weaknesses within the economy. Chronic fiscal deficits, a low tax base, high external debt are key factors driving this dependency. While IMF bailout packages provide temporary relief, they also impose stringent conditions that can have adverse short-term effects. To achieve sustainable economic growth and financial independence, Pakistan must implement comprehensive reforms to enhance tax base, diversify the economy and improve governance.