Day: Date:

# IMF Bailouts: Roads to Stability or Recipes for Disaster?

## OUTLINE

1 Introduction

2 ~~How~~ can IMF bailouts ~~can~~ be a road to Stability or a recipe for disaster?

3 How are IMF bailouts a road to Stability

i) Avert financial crisis

- UK, France, Germany after Second world war
- Aid during global Financial crisis

ii) Implementation of Structural reforms

Stabilises crisis-ridden economies

- Ghana

iii) Countries have stabilised themselves through IMF bailouts Repetition

- Argentina
- Thailand

iv) Serves as a last resort for providing loans

- During the time when countries refuse ?

Day: Date:

4 How do IMF bailouts lead to disaster? (Thesis)

i) Create cycle of dependancy
- 23rd IMF programme for Pakistan
- Issues in Pakistan Economy, Syed Akbar Zaidi

ii) increase burden on people
- Removal of Subsidies

iii) Indirect taxes cause inflation
- Economic Survey of Pakistan, 68.2% indirect taxes in total FBR tax collection
- 29.18% inflation

iv) Depreciation of currency value due to IMF policy increase public debt
- market based exchange rate

v) Trade liberalisation policy of IMF depletes foreign exchange reserves
- Statista, reserves decreased by 12.9 billion in 2022 in comparison to last year

vi) worsen economic ~~inequality~~ equality
- poor face the burden of taxes

vii) Fear of default remains persistent
- increasing debt raise suspicions

viii) Cause reputational damage
- investors hesitate to invest

Day:

Date:

ix) Countries facing negetive consequences of IMF bailouts

- African countries : Zambia
- Pakistan

Suggest recommendations/synthesis

## 5 Conclusion

Ahmad

Day: Date:

# The Essay

Joseph Stigeitz, an American economist and former chief economist of Wored Bank, has criticised financial lenders inculding IMF for increasing the economic woes of the developing countries. According to him, the "market fundamentalism" proposed under IMF agreement undermines the sovereignity of the developing countries. (Globalisation and its Discontents). The criticism of joseph stigleitz concludes that the financial lenders such as IMF are not favorable for the developing countries. Although, IMF bailouts provide short term benefits to the countries that avail them, these bailouts remain fail to address long term economic issues. Despite providing short term benefits, IMF bailouts prove to be a disaster for the developing countries like Pakistan. The short term benefits of IMF bailouts include removal of financial crisis for shorter period, and implementation of structural reforms for crisis-ridden

Day: Date:

economies. Furthermore, IMF bailouts serve as a last hope for many countries regarding availing immediate loan. But the ~~problem of~~ concern is that these initiatives prove ineffective for providing long term benefits. Contrary to this, IMF bailouts bring disastrous consequences for the concerned countries that come under IMF programme. The bailout programme creates a cycle of dependancy on loans, increases burden on people, and depreciates the currency value. Moreover, It enhances the fear of default, worsens economic inequality, and causes reputational damage in the country. Consequently, IMF bailouts are disasterous for countries like Pakistan.

IMF bailouts have negetive and positive impacts. In comparison to positive impacts negetive impacts are more in number. The positive impacts of IMF bailouts programe can provide a country seigh of relief for a limited timespan. In the long run, the concerned country experiances horrible consequences of

Day: Date:

availing IMF bailouts.

One of the distinguished positive features of IMF bailouts is that it averts financial crisis to prevail in a country during the time of crisis. Money provided under IMF bailout programme make a country able to manage its crisis occuring swiftly. After second world war, many countries which were involved in that war faced financial crisis and recieved assistance of IMF. United Kingdom, France, ~~G~~ and Germany experienced severe financial crisis after WW2 but the assistance of IMF maked them able to pull themselves out of that precarious economic situation. In the same manner, Global Financial Crisis was mitigated through IMF aid. The effects of Global Financial crisis on countries like Greece were reduced by IMF bailouts. Therefore, IMF bailouts prove helpful in mitigating the economic crisis.

Apart from providing loan bailouts, the implemention of IMF

Day: Date:

proposed structural reforms stabilises crisis-ridden economies of the countries. IMF scrutiny team points out structural flaws and recommend reforms to eradicate these identified flaws in financial structure of the countries. Many countries have enjoyed the blessinges of structural reforms. Ghana is a recent and prominent example of IMF structural reforms. In 2022, Ghana was experiencing severe economic crisisis, according to IMF, due to structural flaws. Later, it sought IMF bailout programme and implemented structural under the supervision of IMF that helped her to mitigate its economic crisis. According World Economics, the GDP of Ghana was $68 billion' in 2022 but in 2023 it had crossed 186 billion US dollars. Consequently, the implemention of structural reforms proposed by IMF withdraw the economic crisis of country.

Various countries have not only experienced the positive impacts of IMF bailouts but also have stabilised

Day: Date:

their economies. The provided loan during financial crisis helps countries to overcome their issues and stabilises their economies. Argentina has stabilised itself by availing IMF bailouts programme. In 2000, Argentina was facing economic crisis. Its annual GDP was standing at 284.2 billion. After availing IMF programe, its sinking economy began to grow and reached to heights. In 2023, according to World Economics, Argentinian annual GDP was recorded at 1.013 trillion US dollars. Similarly, Thailand has also overcome its economic crisis through IMF bailouts. It was severely hit by the Asian Financial crisis. Now, the annual GDP of Thailand is crossing 584.5 billion US dollars. In this way, by availing IMF bailouts, countries stablise their economies.

In addition to above mentioned benefits of IMF bailouts one of the most important is that it serves as a last resort for many countries for availing

Day: Date:

loan. Whenever a country get entangled in the shackles of crisis, many of its friend countries refused to grant her loan due to its suspicious condition. In this hard situation, IMF bailouts prove to be a last chance for the countries to avail. Pakistan has experienced this tough situation when the fried countries refused to pay loan to Pakistan. Then Pakistan sought support from IMF. Therefore, IMF bailouts serve as a last hope for countries regarding availing loans.

The benefits of IMF bailouts remain effective for a shorter period providing limited solution to problems. However, IMF bailouts bring horrible consequences for the countries in the long term period, leading them to disaster.

The ineffectiveness of IMF bailouts can be traced from the fact that it creates a cycle of dependency ~~on~~ based on IMF loan. The countries that receive IMF bailouts remain consistently

Day: Date:

dependent on IMF bailouts. The cycle of dependency on IMF loan can be traced in Pakistan. It has availed 23 IMF loan based programmes since its inception to till date. Currently, new government under Shehbaz Sharif is also conversating with IMF for another programme. Moreover, Syed Akbar Zaidi, a renowned economist, has also endorsed the view that IMF bailouts create dependency rather than providing benefits and solution to problems. (Issues in Pakistani Economy) In this way, IMF bailouts are known for creating a cycle of ~~in~~dependence.

Another concerning thing about IMF bailouts is that it increases burden on poor people. IMF makes it conditional that the subsidies provided by government should be removed. This removal of subsidies makes things worse for people. For instance, the removal of energy subsidy will make electricity costly. Industries would have no other choice than getting and consuming costly electricity. Small-Scale

Day: Date:

industries can not ~~the~~ bear the ~~do~~ burden of rising electricity prices. As a result of this, these industries are closed due to high electricity prices. The closure of industries impacts people because they are employed ~~at~~ in industries. Therefore, IMF bailouts increase burden on people.

The most threatening aspect of IMF bailouts occurs in the form of inflation caused by indirect taxes. The indirect taxes are collected indirectly by the government. These taxes are added in the prices of basic commodities. IMF demands indirect taxes in the concerned country under its agreement programme. The addition of indirect taxes enhances the prices of basic commodities that result in inflation. According to Economic Survey of Pakistan, the contribution of indirect taxes in total collection of FBR was 68.2% per-cent in 2023 and inflation was standing at 29.18%. To sum up, it is a fact that IMF recommended indirect

Day: Date:

taxes cause inflation in the country which receive IMF bailouts.

Along with the occurrence of inflation due to IMF recommended indirect taxes, the depreciation of currency value of a country as a result of IMF policies increases its public debt. IMF emphasized that a country should pursue market based exchange rate for determing the value of its currency. The devaluation increases the already existing public debt without borrowing a single penny additionally. In the case of Pakistan, one rupee devaluation results in adding 95$ billion$ to public debt without borrowing a single dollar. Thus, the devaluation of currency due to IMF policies results in increasing the burden of public debt in a country.

The depreciation of currency value is not only a concerning aspect of IMF loan-based policies. Its policy of trade liberalisation depletes foreign exchange reserves of a country. Under trade liberalisation, when a country lost

Day: Date:

Control on imports and tariff duty. this results in devaluation of foreign exchange reserves. The foreign exchange reserves of Pakistan has fall to a significant extent under IMF based policies. According to Satista, foreign exchange reserves of pakistan decreased by 12.9 billion in 2022 in Comparison to last year. In this way, IMF policies based on loan programme decrease foreign exchange reserves of a Country.

By following the tradition of negetive impacts, IMF loan based policies worsen already existing economic inequality in a Country. IMF policies put burden on poor people who are already in an unbeartable position. Indirect taxes recommended by IMF for expanding tax network affect poor people directly. These taxes increases the prices of basic Commodities that become impossible for poor people to avail of. On ther other hand, feudal lords and elites are exempted for direct taxes. For instance, there is no tax on agriculture.

Day: Date:

This divide of taxes deteriorates the already existing economic inequality. Moreover, the social spending that provides incentives to lower sections of the community are ~~read~~ is eradicated under IMF programme. In this way, IMF policies regarding loan programme enhances economic inequality.

In the chain of horrible consequences of availing IMF bailouts, the fear of default is most alarming, with its dangerous implications. The rising debt enhances the fear of default in a country. Sri Lanka faced default due to loan During ~~t~~ The fear of default also remains persistant in Pakistan. During the government of Pakistan Democratic Movement (PDM), this fear reached to height. Spreading fear among public. Therefore, the fear of default due to loans remain persistently in a country.

With the fear of default, IMF bailouts programme cause reputational damage of a country. The reputation of

Day: Date:

a country become questioning when it excessively relies on IMF loan programmes. As a result of this, foreign investors get bad impression and do not prefer to invest in the country which is dependent on IMF bailouts. The investors fear that their investment might be gone into waste due to terrible messing situation of economy of the concerned country. Thus, the reputational damage emerge out of IMF bailout programme.

Las but not least to indicate the negative impacts of IMF bailouts, there is a case study of countries facing negetive consequences of these bailouts. The ~~a~~ case study of African countries comes the first because of experiencing horrible consequences of IMF African country Zambia has been reached to a verge of collapse due to IMF bailouts. Similarly, Pakistan, remain unable to enjoy the blessings of bailouts rather it is experiencing negetive effects.

Day: Date:

Although, it has availed 23 IMF loan programmes, but yet IMF bailouts remain ineffective in enhancing its economic growth and progress. Thus, the case studies of these countries endorse the view that IMF bailout programme ledd to disaster.

In conclusion, it can be deduced from the above discussion that IMF bailouts lead countries to disaster. Although, these bailouts prove themselves as a double-edged sword, these remain fail to address economic woes of the country. IMF bailout programme offers short term benefits like mitigation of crisis for a limited time. The long term availability of IMF bailouts bring horrible consequences for the concerned countries. Specifically, these bailouts welcome disaster. in developing countries such as Pakistan. Therefore, there is an urgent need of transitioning dependency from IMF bailouts. Instead of relying on IMF bailouts, countries like Pakistan should take into consideration its resources for accelerating growth.