

ESSAY

Date: _____

IMF Bailouts: Roads to stability or recipes for disasters.

1: Introduction:

Thesis statement: International Monetary Fund was established to stabilize dwindling economies of member states by* united nations but now it is more like a debt trap resulting in macroeconomic disasters.

2: What are IMF Bailouts?

3: Main Objective of IMF is to
wayout roads towards economic
stability:

3.1: Supporting crashed economies to prevent economic defaults.

case-study: Sri-Lanka.

3.2: Guiding states to introduce fiscal and institutional reforms.

case-study: Brazil.

3.3: Giving short term and Long term Loans as a financial assistance to improve the living conditions of citizens.

Case-study: Mexico

3.4: Improving living conditions by focusing on education & health.

4: IMF Bailouts are Recipe for

Disasters:

4.1: Creating irrevocable debt trap and making dependent economies.

case-study: Argentina.

4.2: Washington Consensus and neo-imperialism resulting in economic disparities; rich getting richer and poor getting poorer.

4.3: Imposing ~~of~~ Strict terms and conditions on already declining economy.

case-study: Pakistan.

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5: Critical Analysis:

6: Conclusion.

International Monetary Fund is believed to upgrade the economic conditions of state since 1945. It is a finance agency of united nations claiming carving-out roads towards economic stability by supporting crashed economies, guiding institutional and fiscal reforms and providing loans to improve financial conditions of a country. This finance agency has now transformed into a debt trap making dependent economies, Washington consensus, neoimperialism and imposition of strict terms and conditions, resulting in disasters.

Diving into the debt trap of IMF firstly there is a need to know the term bailout. International

Monetary Fund provides loans to help seeking countries on the basis of terms and conditions. When the country agrees on all conditions IMF passes the loan package as a financial assistance to the country this instalment is called bail-out package. For example **Pakistan** has gone to IMF in **2024** for the 24th time to get bailout package of **\$7 Billion**.

Coming towards the so-called objectives of the finance agency, the first goal of IMF is to support crashed economies which are near to economic default. It paves out the road for defaulter country which leads the state towards economic stability. Its main

objective is to become the financial back-bone of the country for shorter or longer period of time to support the economic skeleton of the state. Sri-Lanka is the robust example of this statement, in 2023 the sri-lankan economy was on the verge of default when she approached IMF and got bailout package of \$3 Billion and reversed the economic gear.

Secondly, IMF objects to introduce the fiscal and institutional reforms and guides the countries in their financial issues to gain economic prosperity. For example when Pakistan goes to IMF for bailout package it implies rules and terms and conditions and give some suggestion

to improve their economy and also pay back the loan installments. IMF suggested Pakistan during its 24th bail-out package to generate revenue by incorporating agriculture, retail and real-estate sector into tax network and privatization of state-owned enterprises. Here we discuss the **Case-study of Brazil** - it faced financial crisis in 2008 and got financial aid from IMF, used that capital to boost economic growth and payed-back all its loan two year ahead the scheduled time. Hence it can assist in financial reforms to boost economy.

Another claimed goal of IMF is to provide short term and long term loans to its member states who

to seek help for financial assistance. This loan can be for infrastructural reforms, capacity building of institutions or to enhance the living conditions of the citizens.

International Monetary Fund provides short term and long term loans to help seekers. Long-term loans are planned according to **Structure Adjustment Program (SAP)** while short-term loans are provided on the basis of **Stand-By Arrangements (SBA)**. There is different terms and conditions associated with SBA and SAP model. Here we include the **case-study of Mexico**. Mexico's economy got declined in 1980's and it sought help from IMF in the form of bailout package. It boosted her economy by financial help and reforms introduced in

the economic system so well that now Mexico is the 12th largest economy of the world. These all case-studies and facts illustrate that IMF is a road towards stability.

But, here are many counter arguments which prove that IMF bail-out packages are receipt of disasters rather than economic prosperity. The most important counter argument is the debt-trap created by the IMF from which no one can revoc and the ultimate destination of that trap is failure of economy. Debt-based economy is made dependent on financial agency to return its previous loan and for that a state has to take another bail-out package hence, a continuous

cycle of loan and debt servicing is established and weak vulnerable economies are unable to get rid of it.

Argentina is a case study here. Argentina is the second most financial help seeker of IMF. It availed loan services 21 times in its economy of failure.

In the start of twentieth century Argentina was a prosperous and wealthiest country of the world. Then there was a long list of military interventions which made it a defaulter.

It defaulted **nine times** in its history and went to IMF for help in its crucial times. How a future super power of the world got victim of economic disaster due to IMF. Now, Argentina is the biggest debtor of IMF with loan of **\$ 32 billions**.

Initially IMF was made to help financial weak economies and to improve the living standards of Human beings but then came the concept of **Washington Consensus**. This concept prevails in developing countries that all the loans are approved from Washington and U.S is playing evil. IMF consists of 190 countries which finance this agency the share of United States in IMF financing is the largest so it has the right to approve the loans and terms and conditions associated with it. But third world developing countries say that IMF is mere a puppet in the hands of creditors and they play with debtors through the usage of **neo-imperialism** philosophy. The

suggest policies to IMF which it conveys to debtor and trap them in ir-revocable debt trap to incentivise the creditors.

The top five debtors of IMF in 2024 are Argentina, Pakistan, Egypt, Ukrain and Ecuador with \$32bn, \$7bn, \$11bn, \$9bn and \$6bn loan respectively.

Imposition of strict terms and conditions on already crushed economies further escalate them towards disasters. A defaulting and bankrupt economy is further pushed hard to pay-reback on strict schedule which brings more harm than any good. These terms and conditions may prove disastrous for the fragile economy. Here is the case-study of Pakistan.

Pakistan is the biggest debtor of IMF - which got Twenty four bail-out packages - the last one got in second-half of Fiscal year was about \$7bn. But the terms and conditions imposed by IMF which are recipe towards economic disasters are discussed here.

IMF imposed the condition of imports liberalisation. Pakistan can not hinder imports and cannot put taxes and tariffs on imports then how can the revenue could be generated. Trump the President-elect imposed Sixty percent tariff on China to get revenue. The second important condition of IMF which pushed Pakistan towards economic instability is removal of subsidies. Pakistan provides subsidies on some commodities to relief the citizens

in the time of inflation — **26%**
 inflation in FY-2024 in Pakistan
 says world Bank. If the subsidies
 are removed the commodities
 will hike in price resulting in
 expensive exports which will be
 unable to compete in global
 market. **Decrease in export**
 will further worsen the economy.

Increase in Indirect taxes would
 burdenize the citizens leading
 to further inflation. IMF
 imposed the condition to
 increase **GST** by **1 percent**.

Another disastrous condition
 imposed by IMF is to **reduce**
energy subsidies. The increase in
 energy resources — oil, gas
 and electricity will result in
 ultimate price hike further
 inflation increase and economy
 decline.

Critically analysed view is that IMF is a finance agency primarily but now a days it has created recipes for economic disasters to make states financially dependent on IMF leveraging the creditors by making them richer and debtors poorer - as that of marxist approach. The case-study of pakistan and conditions imposed on pakistan implies that it is more a disaster road than a prosperity way, Neo-imperialism and Washington Consensus further empowers this idea.

On a nutshell we can say that the main objectives of IMF are to stabilize the crashed economies and support the financial system and giving fiscal suggestions

but there are some concepts such as Washington Consensus and neo-imperialism and some terms and conditions imposed by IMF that make it deviant from its objectives. Considering the case-study of Pakistan it is inferred that IMF bailout packages are mere recipes of disasters rather than being a road towards economic stability.