Q: Despite numerous bailout packages, Pakistan's economic dependency on the IMF continues ---------------- to achieve economic sovereignty?

1) Introduction

Pakistan's economic journey has been closely linked with the IMF since its early years of independence. Despite receiving many bailout packages and financial support programs, the country continues to depend upon IMF assistance to stabilize its economy. This recurring cycle reflect Pakistan's deep-rooted structural weaknesses, poor fiscal management, and lack of consistent economic reforms. Instead of achieving self-reliance, Pakistan repeatedly faces balance of payment crisis, declining foreign reserves, and rising external debt. To break this cycle and move towards economic sovereignty, it is important to understand the key reasons behind this dependency and explore sustainable, long-term solutions that can ensure financial stability and independent policy-making.

2) Historical background :-

Pakistan's reliance on the IMF began in 1958, when the country signed its first Stand-By Agreement to to access financial assistance for managing its balance of payment crisis. Since then, Pakistan has entered over 20 IMF programs, making it one of the most frequent borrowers in the fund's history. Each decade brought repeated engagements with the IMF due to similar macroeconomic problems — low exports, high imports, rising fiscal deficits, and unstable foreign reserves. During 1960s, IMF programs was used to stabilize the economy after currency devaluation and trade deficits. The 1970s witnessed political instability and nationalization policies, which again weakened investor confidence and led Pakistan to seek IMF help. In the 1980s and 1990s, structural adjustment programs were introduced to reform the economy, but poor implementation and corruption limited their success. After 2000, Pakistan again approached the IMF during economic shocks — such as the global financial crisis (2008), declining foreign inflows.

3) Reason behind Pakistan's Recurring dependency on the IMF :-

1. Chronic Fiscal Deficit
2. Weak Tax revenue and norrow tax Base
3. Balonce of Payment crisis
4. Energy Crisis and Circuler debt.
5. High external debt and debt servicing
6. Political instability and policy inconsistency
7. low export Competitiveness

a) Chronic Fiscal Deficit :-

Pakistan recurring dependency on the IMF is largerly driven by its chronic fiscal deficit. The government consistently spends more than it collects in revenue, and a significant portion of the budget goes toward debt servicing, subsidies, and recurrent expenditures. For example, the total fiscal deficit stands at Rs 7.283 trillion, representing 5.9% of GDP in FY 2023-2024 highlighting the persistent gap between revenue and spending. This structural imbalance forces the country to rely on external borrowing, including IMF programs, to finance its deficit and maintain economic stability.

b) Weak tax revenue and narrow tax base :-

Another major reason for Pakistan's repeated reliance on IMF is its weak tax revenue and narrow tax base. The country has lowest tax-to-GDP ratios in South Asia, around 10% - 11% in 2024, compared to India's 17%. Only about 2% of population pays income tax, while a large portion of wealth remain untaxed, particularly in agriculture and informal sector. This limited revenue generation reduce to the government capacity to fund development project and repay debts, forcing Pakistan to seek external finance from the IMF.

c) Balance of Payment Crisis :-

Pakistan's recurring dependency on the IMF is also driven by persistent balance of payment crisis. The country imports for more goods, energy, and machinery than it exports, creating chronic trade deficit. For example, in 2023-2024 Pakistan's import were approximately $54.8 billion and exports were approximately $30.7 billion, with the gap is $24.1 billion. This gap puts immense pressure on foreign exchange reserves, which often fall to critically low levels, forcing pakistan to approach the IMF for emergency funding.

d) Political instability and policy inconsistency :-

Political instability and inconsistent economic policies have been a major reason behind Pakistan's repeated reliance on the IMF. Frequent changes in government, including both civilian and military interventions have disrupted long term economic planning and policy continuity. since 1990, Pakistan has experienced more than ten government transitions, each introducing different economic agendas and short term populist measures, such as subsidies or tax exemptions, without addressing structural issues.

e) Energy crisis and circular debt:-

Pakistan's energy sector inefficiency is another critical factor driving its dependency on the IMF. Chronic mismanagement, high transmission and distribution losses, and under pricing of electricity have created a persistent circular debt problem. By 2024, Pakistan's circular debt had reached over PKR 5 trillion, putting enormous pressure on the federal budget and limiting funds available for development spending. Frequent energy shortages also reduces industrial productivity and export competitiveness, which in turn worsen the balance of payment situation

f) High external debt and debt servicing:-

Pakistan's high external debt burden in one of the leading cause of its continuous dependence on the IMF. Over the decade, the country has relied heavily on foreign borrowing to finance fiscal and current account deficits instead of generating domestic revenue. By 2025, Pakistan's total external debt and liabilities have crossed $ 135 billion according to SBP. This heavy debt servicing limits fiscal space for development, education, and healthcare spending, leaving the government with little choice but to seek new IMF Loans to repay old ones.

g) Low export competitiveness:-

Pakistan's low export competitiveness is another major factor behind its repeated dependence on the IMF. The country's ~~remain~~ export base remains narrow and heavily concentrated in low-value sectors such as textiles, in which account for nearly 60% of total exports. This lack of diversification makes Pakistan highly vulnerable to global market fluctuations and demand shock. As a result export earnings fail to keep pace with rising import needs, creating persistent trade and current account deficits. This imbalance forces Pakistan to seek repeated IMF programs to maintain foreign reserves and stabilize its external payments position.

4) Sustainable and long-term Solutions to achieve economic sovereignty:-

Breaking Pakistan's recurring cycle of IMF dependency requires deep-rooted structural reforms, consistent policies, and a strong political commitment toward self-reliance. Sustainable economic sovereignty cannot be achieved through short-term fixes; it demands a comprehensive and long-term reform agenda.

a) Broadening the tax base and improving Revenue collection:-

Pakistan must strengthen its tax system by broadening the tax base and improving compliance. This includes bringing the agricultural, real estate, and retail sectors into the tax net and reducing exemptions for elite groups. The use of digital systems for tax filing and strict enforcement against evasion can increase revenue. A higher and stable tax-to-GDP ratio will reduce fiscal deficits and reliance on foreign loans.

b) **Export diversification and industrial upgradation :-**

To earn sustainable foreign exchange, Pakistan must move beyond low-value textile exports and develop high-value sectors such as information technology, engineering goods, pharmaceutical and food processing. Supporting SMEs, improving trade facilitation, and signing regional trade agreements can enhance export competitiveness and reduce the trade gap.

c) **Energy sector reforms :-**

Resolving the energy crisis is vital for economic sovereignty. The government should invest in renewable energy sources to reduce fuel import bills, privatize inefficient distribution companies and control line losses. Reducing the PKR 5 trillion circular debt through transparent pricing and efficient billing systems will strengthen fiscal stablity and attract investment.

d) **Promoting political stability and policy Continuity :-**

long-term economic reform requires political consensus across parties and

and institutions. Governments must avoid populist measures and ensures the economic policies — such as taxation, privatization, and trade — continue beyond electoral cycles. Establishing an independent economic council reform body can ensure continuity and credibility of policies.

e) Strengthening domestic production and import substitution:

Pakistan should focus on producing locally what it currently imports, especially in sectors like agriculture, fertilizers, and energy. Encouraging domestic manufacturing through incentives, technology transfer, and industrial zones can reduce import dependence and improve the balance of payments.

f) Controlling fiscal deficit and debt management:-

The government must adopt a strict fiscal discipline policy by cutting non developmental expenditures and prioritizing productive investments. Debt restructuring and longer repayment plans should be negotiated to reduce short-term repayment pressure. Transparent debt financing and limits on foreign borrowing can help avoid future debt traps.

g) Investment in human capital and Innovation :-

No economy can achieve true sovereignty without investing in its people. Improving education, vocational training, and research can increase productivity and support knowledge-based industries. Skilled labor and innovation will drive long-term export growth and reduce dependency on external loan.

h) Building foreign exchange reserves and attracting FDI :-

Pakistan must build strong foreign exchange reserves through export growth, remittances, and foreign direct Investment (FDI). Creating a stable investment environment offering one-window facilities, and ensuring legal protection for investors can attract sustained FDI inflows, reducing the need of IMF assistance.

Conclusion :-

In conclusion, Pakistan's long history of IMF dependency reflect not only temporary financial crisis but also deep structural weaknesses with in its economy. Chronic fiscal deficits, low tax revenue, political instability and heavy external debt have trapped the country in a recurring cycle of borrowing and repayment. While IMF program provide short-term relief, and cannot replace genuine domestic reforms.