Question:

Is Pakistan's IMF dependency, a debt trap ~~or~~ structural economic challenge? Critically evaluate.

Answer:

Introduction:

Pakistan's economy has been struggling with rising debt, ~~low~~ budget deficits and low revenues. To manage thesis crises, Pakistan turns towards International Monetary Fund (IMF) for financial support. This has created a debate wheth IMF dependency is a **debt trap** that locks Pakistan in a cycles of borrowing and repaying the payments or a **structural** challenges due to certain issues such as weak governance, poor tax system or weak institutions. This analysis critically evaluates IMF as a root cause of economic crisis by creating debt trap or structural challenges that stem IMF dependency.

~~Flow Chart~~

Economic Crisis

⇓

IMF Dependency

Debt trap

⇒ Budget deficits
⇒ Debt servicing
⇒ Less dollar inflow

Structural Challenges

⇒ weak governance
⇒ political instability
⇒ Weak productive institutions
⇒ Energy inefficiency

Pakistan's IMF Dependency: Lifeline or Liability?

1. IMF conditionalities

Pakistan has approached IMF **24 times** for bailouts. Each bailout package comes with set of **"conditionalities"**. These conditionalities include;

⇒ Austerity measures: reducing budget deficits by cutting subsidies and curbing development spent.

⇒ : Selling off state-owned enterprises

⇒ Increase interest rates to control inflation

⇒ Increasing tax rates and tax base

These conditions aimed at development, often pushes country towards a state of debt trap.

2. IMF as debt trap:

This set of conditions causes Pakistan to move towards economic crisis by reducing the spending on developmental sector and results in low exports and more imports which receives or eats much of the federal budget and then Pakistan again borrows to fulfill this gap.

⇒ Why Pakistan needs IMF:

Pakistan's economy persistenly suffers from **budget deficits** and **current account imbalances.** When exports exceeds imports, government ~~fall~~ revenue fall short of expenditures, the state cannot finance its obligations. To bridge this gap, Pakistan seeks support from IMF to immediate stabilize the ~~dollars~~

reserves and avoid fault.

• For instance, Pakistan's fiscal deficit reached 7.7% of GDP in FY 2024- forcing to govt. to seek IMF support to maintain external payments.

→ **Short-term relief - Long-term burden**

IMF loans provide immediate liquidity but they come with **strict repayment schedules.** The borrowing money is not invested on productive sector but it is used in **debt servicing** or **import financing**. These do not promise sustainable revenue, so the relief is temporary.

- **Pakistan borrows → repayment of old loans → debt stock rises**

- **No structural change → deficit reappear → another IMF program**

⇒ How loans create Debt trap:

- **Deficit Financing:**

Every year, Pakistan faces fiscal and current account deficits. For example, in first 8 months of **FY 2025**, Pakistan's trade deficit stood at **$15.7 billion**.

- **Borrowing of loans:**

To fill this gap, Pakistan borrows from IMF and other lenders. The IMF approved a **$ 7 billion Extended Fund Facility** in 2024.

- **Using New loans for payment:**

Loans are not invested in any industrial productivity or exports. rather are used for debt payments. Pakistan must repay nearly **$ 23 billion** in **FY 2025-26**.

- **Rising debt:**

IMF conditionalities and the loans further reduces the Pakistan's economic growth and raises the chances of another bailout of debt.

Due to low revenue and payments are due, then Pakistan moves towards IMF for new bailout. This creates a cycle "**debt cycle**" or "**debt trap**":

- Increasing IMF dependency
- Shrinked economic stability or sovereignty

3: IMF - a Structural Challenges:

Pakistan's economic crisis and repeated reliance ~~is~~ ~~not~~ on IMF is not only about external payments, but also a result of **internal structural weakness.**

Due to less productivity and deficits, ~~so~~ Pakistan is forced to depend on IMF loans making IMF just a symptom of weak structural system and when Pakistan fails to fix or repay the loans, ~~ener~~ crisis happen again. In this way **IMF itself** becomes a structural challenge.

- **Weak Revenue System:**

Pakistan generates low revenue than it needs. ~~(for instance, in FY 2025 exports were $ 31.8 billion but imports)~~ The **tax-to-GDP** ratio was just **12.6%** in FY 2024, lowest in South Asia. Although IMF projects a raise to **15.9%** in FY 2025, most of this comes from **indirect taxes**

- **Political and Institutional stability:**

Frequent political instability and poor governance make ecomic policies inconsistent. Investors stay away, instdustries weak and productivity falls.

4. Counter-Arguement vs Structural Challenge

Although IMF creates

a debt cycle, but it is not root causes of economic crisis, it stems from structural challenges, being a symptom not the cause.

If Pakistan has strong economic policies, governance and becomes able to strengthen its industrial system and achieves political stability, then it would not depend on IMF.

Conclusion:

IMF dependency is both a debt trap and structurtural challenge. IMF policies often wosen economic and social conditions. However, the deeper reality is that weak domastic system and governance fails repeatedly push nation into IMF's arms. Sustainable solutions demand internal reforms. By addressing these challenges, Pakistan can move from dependency to self-reliance

ANSWER IS SATISFACTORY GIVE CRITICAL ANALYSIS AT THE END AND DEFEND YOUR OWN STANCE EITHER IT IS A DEBT TRAP OR NOT

REST IS FINE 10/20