

Q3- Balance of Payment Crisis and Pakistan: Its Approach to the IMF for the Bailout Package and the role of IMF in the Fiscal, Monetary and Foreign Policy making of Pakistan

Answer 1- Introduction

Pakistan's economic journey has been roller coaster ride due to persistent fiscal deficit and balance of payment crisis. Reduced exports, over-reliance on aid and bailout packages by donors instead of institutional reforms, prevailing energy crisis and geostrategic repercussions are few of the main factors leading to balance of payment crisis. To avert it, Pakistan frequently approaches friendly countries and donor agencies especially International Monetary Fund (IMF) for bailout packages. Consequently, bailout package by IMF is accompanied by enduring impacts on the fiscal, monetary and foreign policy making of Pakistan and it is elaborated in details in following paragraphs:

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## 2- Balance of Payment Crisis: An overview and Causes

Balance of payment crisis in Pakistan is not due to recent internal or external policy changes but rather it owes its existence to multiple factors which are discussed as follows:

### i- Increased Imports and Reduced Exports

Pakistan has been importing more than its exports due to no sound industrial base, persistent energy crisis and ~~shortage~~-availability of market for its indigenous products abroad. Therefore, Pakistan's imports always exceed exports giving birth to balance of payment crisis.

### ii- Lack of Institutional Reforms

Due to reduced capacity of state's institutions and lack of required reforms is another factor that neither help in broadening exports nor assist in broadening tax base at home and diversify production. Similarly, institutions involved in businesses across the border like Customs, Foreign Office, Border Security Organizations lack modern capacity.

to facilitate the business exchange. Resultantly, exporters either avoid to invest abroad or discouraged to while importing. Similarly, no institutional arrangements are made to bridge the gaps in economic policy causing balance of payment crisis and thus, instead aids and bail-out packages are preferred.

### iii- Persistent Energy Crisis

Energy crisis results in reduced productivity on one hand while discourages foreign investors on other hand. Thus, neither indigenous needs are fulfilled nor any significant exports can be ensured. Resultantly, imports are on rise leading to balance of payment crisis.

### iv- Geostategic Implications and Law and order situation

Due to geostategic location, law and order remains precarious in Pakistan. It not only impacts local productivity but foreign direct investment is also discouraged. Therefore, balance of payment crisis worsens.

### 3- What is opted to tackle balance of payment crisis by Pakistan?

Instead of setting house in order to overcome balance of payment crisis, Pakistan generally prefers either seeking assistance from friendly countries like China, Saudi Arabia, the United States of America and other countries of Middle East or request helping hands from the international donors especially International Monetary Fund (IMF). As a result, balance of payment crisis is averted for time being but it brings long lasting implications for fiscal, monetary and foreign policy making of Pakistan.

### 4- IMF's Role in Fiscal, Monetary and Foreign Policy Making of Pakistan

#### A- IMF's Role in Fiscal and Monetary Policy Making of Pakistan

Though IMF's bailout package always proves effective short-term remedy for tackling balance of payment

crisis of Pakistan. However, it renders enduring impacts on fiscal and monetary policy of Pakistan. As bail out package

**i-** Foreign fiscal assistance is always accompanied by imported remedies.

As bailout package is not a bad option to tackle balance of payment crisis; but it is generally accompanied by conditionalities like imposed ~~for~~ fiscal and monetary reform policies. Since, these reform policies generally have not taken ground realities in account. Therefore, these policies further complicate local fiscal and monetary impacts.

**ii-** Increase in Inflation, Unemployment and Reduced opportunities

It has always been hard to reduce the expenditure of the state due to fear of increase in inflation, unemployment and loss of opportunities. In contrary, IMF generally grant bailout package, which is accompanied by rigid fiscal disciplinary measures like increased levies and taxation. Resultantly, population of Pakistan has to confront various fiscal repercussions.

at large. For instance, increased levy on Petroleum products results in huge socio-economic burden on common Pakistani.

## **B-IMF's Role in Foreign Policy Making of Pakistan**

Besides impacts on fiscal and monetary policy making of Pakistan, IMF also play significant role in foreign policy making of Pakistan.

Like, it reduces options of foreign assistance because many countries only grant assistance after getting green signal from the IMF. Similarly, generally covert restrictions are also made to either reduce or curb relations with any particular country.

## **5- Conclusion**

In a nutshell, Pakistan's approach to the IMF for bailout package brings many implications for Pakistan's fiscal, monetary and foreign policy. Therefore, there is dire need of reforms to overcome balance of payment crisis.