

Q. 3

1. Balance of Payment Crisis has repeatedly compelled Pakistan to approach the IMF for a bailout package.

Prolonged macroeconomic illness forces Pakistan to approach IMF for a bailout package. Currently, Pakistan is engaged 3<sup>rd</sup> time with IMF for bailout. Persistent trade deficits coupled with perpetual low levels of foreign exchange reserves leaves no room for Pakistan except to seek IMF program. However, the bailout package has its pros and cons. On the brighter side, it compels Pakistan to undergo the inevitable but painful surgery being averted due to political reasons such as maintaining market-driven foreign exchange rate, restructuring of State-owned Enterprises (SOEs), broadens the tax base and reduce expenditures. Consequently, these conditionalities induce

inflation, unemployment, devaluation of rupee, increase in debt burden and poverty. These stringent conditions influences the fiscal, monetary as well as foreign policy making of Pakistan.

## 2. IMF one-fit Program under Washington consensus

IMF is known as lender of last resort. Its function is to help countries facing Balance of Payments crisis to maintain the smooth working of international financial institutions. However, its prescribed procedure of providing financial support is decided under Washington consensus in 1980's. Washington consensus has certain structural adjustment policies to implement in the country of borrowing loan from IMF. These structural adjustment programs can be categorized as under:

## 2.1 Structural Adjustments in Fiscal Policy

2.1.1 Tax Policy to increase Revenue

2.1.2 Restructuring SOEs

2.1.3 Austerity measures in Public Funds  
(subsidies minimization, cuts on developmental expenditures)

## 2.2 Structural Adjustments in Monetary Policy

2.2.1 Market-Driven Exchange Rate

2.2.2 Discount rate Parallel to

inflation

2.2.3 Role of State bank

## 3. Role of IMF in Policy Making of Pakistan;

### 3.1 ON Fiscal Policy

3.1.1 Broadens Tax base

3.1.2 Reduce subsidies

3.1.3 cuts on social expenditures

3.1.4 Hike in fuel and electricity prices

### 3.2 ON Monetary Policy

3.2.1 Market Driven Exchange Rate

3.2.2 Policy Rate of State Bank (22.1%)

3.2.3 Curbing the injection of money / printing notes

3.2.4 Limitations on government's borrowing

## 3.3 On Foreign Policy

- 3.3.1 Reinforces Pakistan's alignment with West
- 3.3.2 Increased influence of U.S on Pakistan's foreign policy due to dominant role in IMF
- 3.3.3 Window-dressing of Foreign Reserves to friendly countries
- 3.3.4 Demand to be transparent on CPEC aspects

## 4) Suggested Measures

4.1 Short Term: Decrease in imports, increase in exports and remittances, borrowings from friendly countries such as U.A.E and Saudi Arabia

4.2 Long Term: Good governance along with consistency in policies and rapid industrialisation

## 5. Conclusion

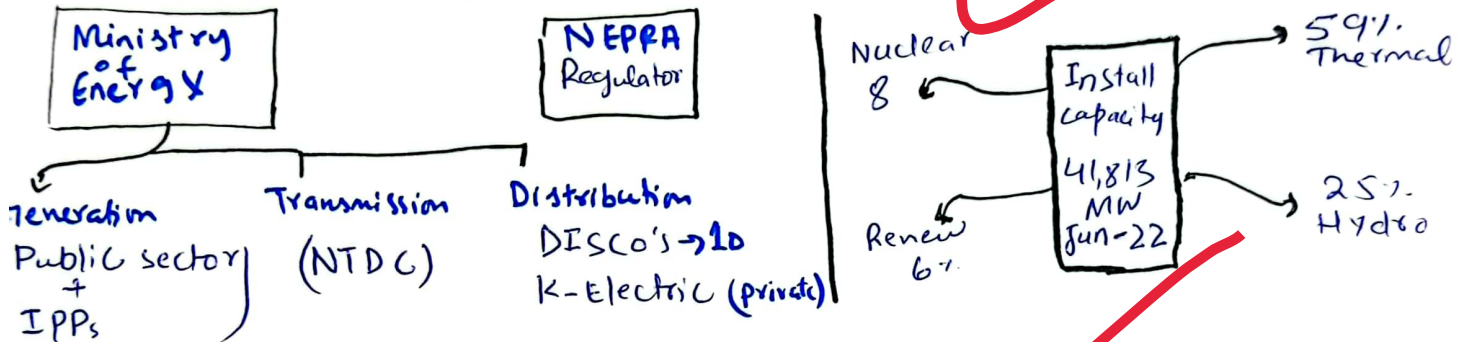
This is just an outline

## Q.5

### 1. Problems in the Power sector of Pakistan:

- Aging Infrastructure
- Rapidly growing population
- Circular debt
- Poor governance and policy lapses
- High transmission and distribution losses
- Lack of competitiveness

### 2. Profile of Power sector:



### 3. Negative Implications of Power sector:

#### 3.1 On Economy

- Stifled Investment
- Power outages
- Economic setbacks
- High cost of doing business

#### 3.2 On Social life

- Eroding consumer confidence
- Unemployment
- Deteriorating law and order

#### 3.3 On Political life

- Political instability due to protests, strikes

## 4. Recommendations to overcome Power sector crisis:

4.1 Short Term solutions: Renegotiations with IPPs and Improvement in Distribution Companies

4.2 Depoliticisation and shifting burden of subsidies on End-user

4.3 Long-Term solutions:

- Transition towards Renewable Energy
- Liberalization of Energy Market
- Leveraging bilateral relations with Energy-rich countries and regional connectivity