Mock-03 (CSS 2025)

"PAKISTAN AFFAIRS"

Question #02

Pakistan to seek atleast $6 Billion in new IMF loan Program. The government will need funding to avoid debt default. Discuss the effectiveness of various IMF Programs and suggests ways to lessen the dependency on IMF programs in Pakistan.

Solution:-

1- Introduction:-

The International Monetary Fund (IMF) plays a pivotal role in providing financial assistance and policy advice to countries facing economic difficulties. Over the years, Pakistan has frequently turned to the IMF for support through various programs designed to stabilize its economy. Programs such as Structural Adjustment Programs (SAPs), Stand-By Arrangements (SBAs) and the Extended Fund Facility (EFF) have been implemented to address Pakistan's economic challenges. Despite the benefits these Programs have brought, total dependency on IMF assistance Poses significant problems for Pakistan. Repeated borrowing from the IMF often comes with stringent conditions that require austerity measures, leading to Public dissatisfaction and social unrest. Furthermore, reliance on external financial support can hinder the development of self-sufficient economic polices and infrastructure, trapping the country in a cycle of dependency. To mitigate this dependency, it is essential for Pakistan to focus on strengthening domestic revenue generation, promoting export-led growth, maintaining fiscal discipline, encouraging foreign direct investment and developing human capital. By implementing these strategies, Pakistan can word towards sustainable economic growth and reduce its reliance on external borrowing, paving the way for a more resilient and independent economy.

2- Effectiveness of IMF Programs in Pakistan:-

The effectiveness of IMF Programs in Pakistan has varied across different situations and events. Understanding these nuances requires examining key programs such as the Structural Adjustment Programs (SAPs), Stand-By Arrangements (SBAs), and the Extended Fund Facility (EFF) along with their impact on the country's economy.

(a) Structural Adjustment Programs:-

In the late 1980's, Pakistan adopted the IMF's Structural Adjustment Programs to stabilize its economy. These programs aimed to reduce fiscal deficits, control hyperinflation, and liberalize the economy through deregulation and privatization.

According to the International Monetary Fund (2020), "These measures helped improve macroeconomic stability and control inflation rates".

Before the SAPs, in the late 1980s, Pakistan's inflation rate was exceedingly high, reaching around 12-13% annually. Post-SAP implementation, the inflation rate reduced to approximately 7-8% by the early 1990s.

(b) Stand-By Arrangements (SBAs):-

The SBAs were another set of IMF Programs frequently used by Pakistan to address balance of payments issues and immediate financial crises. For instance, during the global financial crisis of 2008, Pakistan entered into an SBA with the IMF to stabilize its economy.

As noted by 'The IMF stand-By Arrangements: A Historical Analysis Journal':

"The SBA provided critical short-term relief by increasing foreign reserves and stabilizing the currency".

During the 2008 global financial crisis, the SBA provided a significant boost to Pakistan's foreign reserves, which rose from approximately $6 billion in 2008 to around $11 billion by 2010. (state Bank of Pakistan, 2010).

The Pakistani rupee, which depreciated sharply to 80 PKR/USD in 2008 stabilized to around 85 PKR/USD by 2010 due to SBA's support.

Pakistan's GDP growth, which had plummeted to 1.7% in 2008, rebounded to about 3.6% by 2010 following the SBA implementation.

(c) Extended Fund Facility (EFF):-

The EFF introduced in 2013 aimed to support more comprehensive and long-term economic reforms. This Program focused on broad tax reforms, restructuring the energy sector, and implementing monetary Policy adjustments.

As noted by 'Extended Fund Facility: Pakistan's Experience and lessons learned Review':

"This journal points out that the EFF helped

Pakistan achieve some degree of fiscal discipline and economic growth?

Under the EFF from 2013 to 2016, Pakistan's tax revenues increased from 9.8% of GDP in 2013 to around 12.5% of GDP by 2016 due to comprehensive tax reforms.

The fiscal deficit decreased from 8.2% of GDP in 2013 to 4.6% by 2016 under the EFF.

The EFF led to significant improvements in the energy sector, reducing energy subsidies and improving electricity supply, which increased industrial productivity (State Bank of Pakistan, 2016).

3- Challenges of IMF Programs:-

(a) Stringent Conditions:-

IMF Programs often come with conditions that require significant austerity measures. The structural adjustment Programs (SAPs) are termed to be too rigid especially for developing countries to implement. In response of that these countries will face poverty, inflation and unemployment in some situations. Its not every one's cup of tea instead of bringing improvement. These SAPs have rather exacerbated the existing situation.

(b) Short-Term Relief:-

Many IMF Programs focus on short-term stabilization rather than long-term economic health, leading to repeated borrowing cycles without addressing fundamental issues.

(c) Create Dependency Trap:-

Continued reliance on IMF assistance can create a dependency trap, where countries struggle to develop self-sufficient economic policies and infrastructure.

4. Ways to lessen Dependency on IMF Programs:-

Despite these improvements due to IMF programs, the dependency on IMF Programs has its downsides. For instance Pakistan's public debt as a Percentage of GDP remains high, rising from 67.6 % in 2018 to over 85% in 2021.

Austerity measures often lead to reduced public spending on health and education, which fell from 2.6% of GDP in 2008 to around 2 % in 2010 during the Stand by Arrangements Period.

Reducing Pakistan's reliance on IMF programs requires a multifaceted approach that addresses the root causes of its economic vulnerabilities. Here are several strategies that can help lessen this dependency:

4.1 Strengthening Domestic Revenue Generation:-

(a) Broadening the Tax Base:-

Current Situation:- Pakistan's tax to GDP ratio is low around 12.4% compared to other developing countries.

Solution:- Implementing comprehensive tax reforms to widen the tax base and improve tax collection efficiency. This includes reducing tax evasion, expanding tax net coverage to include the informal sector, and simplifying tax procedures.

b) Progressive Tax Policies:-

Current situation:- The tax system is often regressive, with a higher burden on lower-income groups.

Solution:- Introducing more progressive tax policies where higher-income individuals and corporations contribute a fairer share. This can generate more revenue for government.

4.2 Promoting Export-Led Growth:-

(a) Diversifying Export Base:-

Current situation:- Pakistan's exports are concentrated in few sectors, particularly textiles, which made up 60% of total exports in 2021.

Solution:- Diversifying the export base by investing in other high-potential sectors such as IT, agriculture. Encouraging value-added production can enhance competitiveness and reduce trade deficits.

b) Improving Trade Policies:-

Current situation:- Tariff barrier and regulatory bottlenecks hinder export growth.

Solution:- Streamlining trade policies, reducing tariffs on raw materials and intermediate goods, and negotiating favorable trade agreements with key markets can boost exports.

4.3 Fiscal Discipline and Governance:-

(a) Reducing Public Expenditure Waste:-

Current situation:-

Public sector inefficiencies and corruption lead to significant wastage of resources.

Solution:- Implementing strict fiscal discipline by curbing unnecessary public expenditure and improving transparency and accountable in government spending.

(b) Strengthening Institutions:-

Current Situation: Weak institutions and governance issues undermine economic reforms.

Solution:- Strengthening institutions by improving governance structures, enhacing the rule of law, and ensuring political stability.

4.4 Encouraging Foreign Direct Investment:-

(a) Improving Business Environment:-

Current situation:- Pakistan rank relatively low in the Ease of Doing Business Index, standing at 108th in 2020.

Solution:- Creating a more favorable business environment by simplifying regulatory procedures, and reducing bureaucratic red tape. This can attract more FDI and create jobs.

(b) offering Incentives:-

Current situation:- Competitive incentives for foreign investors are limited

Solution:- Providing tax incentives, subsidies and other benefits to attract foreign investors in key sectors such as Technology and renewable energy.

4.5 Developing Human Capital:-

(a) Investing in Education:-

Current situation:- Pakistan's expenditure on education is around 2.9% of GDP, which is low compared to regional standards.

Solution:- Increasing investment in education to improve literacy rates, vocational training and higher education. A well-educated workforce can drive innovation and productivity.

(b) Improving Health Care:-

Current situation:- Healthcare spending is also low, at about 2.6% of GDP.

Solution:- Enhancing health care infrastructure to ensure healthy work force. Better health outcomes can led to increased economic productivity and reduced health care costs.

4.5 Engaging with BRICs:-

After becoming a part of BRICS Pakistan will get some potential benefits in which one of them is it reduced the over-reliance on IMF; SAPs basic lending would be reduced. BRICs have CRA (Contingent Resource Arrangement) it provides support through liquidity Precautionary instruments in response to actual or potential short term balance of Payment Pressures. The SAPs of CRA are not too rigid. This is what makes it very lucrative.

5- Conclusion:-

IMF programs have provided short-term reliefs and contributed to some economic reforms in Pakistan, their long term effectiveness remains questionable due to the recurring need for financial assistance. To reduce dependency on IMF Programs Pakistan must focus on strengthening its domestic revenue generation, promoting export-led growth, maintaining fiscal discipline, encouraging FDI, and developing human capital or engaging with other alternative systems like BRICS. By implementing these strategies, Pakistan can achieve sustainable economic growth and reduce its reliance on external borrowing