

CA - Test 3

QUESTION 2:

INTRODUCTION:

11/20

Pakistan is under a financial crisis for the past couple of decades. It has seen continuous budget deficit every year. The twin economic problem of Pakistan has been a consistent issue. To deal with Budget Deficit and Payment, IMF has played a huge role. But the conditions imposed by IMF though for positive financial support tend to create negative implications for the country.

TWIN ECONOMIC CRISIS:

The twin economic crisis of Pakistan i.e. A budget deficit and ~~paym~~ crisis of payment

is an extremely critical issues
one that cannot be solved on
\$ own, so country takes support
from IMF in terms of monetary
assistance, reform making and
financial policy analysis. IMF agreed to
support with 7 billion USD on
September 2024 but implemented
conditions that Pakistan needs
to adopt.

IMPACTS OF IMF CONDITIONS:

IMF has implemented financial
conditioning to remove Pakistan
from the economic crisis and
financial deficit. Though aimed at
supporting the country by providing
debt services it has far-reaching
negative impacts on the country
which are discussed as follows.

NEGATIVE IMPACTS OF IMF

CONDITIONALITIES:

The strict IMF conditions have economic, public, social and policy impacts on country which leads to negative repercussions as follows..

1) INCREASE IN TAXES:

There would be a very high increase in taxes due to strict IMF conditions that will hurt the already poverty-stricken nation. The increase in taxes especially on the salaried class would further break the backbone of the lower middle and middle class.

2) INCREASED INFLATION:

To account for the increase in taxes, the country will face extreme inflation. The cost of

living would increase and attenuate the financial situation of the poor-working class

3) Decrease in Subsidy:

The government is made to decrease the subsidy especially in the energy sector. This will increase the prices of oil, gas and electricity further burdening the country citizens to bear the financial havoc

4) Erosion of Sovereignty:

The IMF's interference in the country's financial matters and with strict pre-requisites and conditionalities for debt, Pakistan loses its sovereignty and independence to make policies and to practice free decision making

5) Debt dependency:

The IMF conditions continue the country's dependency on the debt and the cycles continues with no structural reforms and long-term economic growth plans, it keeps the country dependent on IMF's aid, assistance, debt etc

6) Policy constraints:

The IMF conditions force the country to prioritize its mandated reforms rather than domestic developmental initiatives and programs. Thus the country face extreme policy concerns and constraints with slow-down in economic growth.

7) Public distrust and discontent

The harsh IMF conditions

create discontent among the public. The erosion of trust of IMF and the national government is a serious concern that occurs and leads to public protests and riots. As the poor suffer the most, and with majority of Pakistan living under poverty line it becomes creates grievances among masses.

RECOMMENDATIONS TO CURB THE NEGATIVE IMPACTS:

As the country is need of financial assistance from the international community and financial institutions like IMF, World Bank, it is in a weaker negotiating position, so it has to agree on all IMF conditions but certain ways can be adopted

to curb the negative consequences of the IMF conditions which are as follows.

1) Careful tax impositions:

The government should be careful in imposing taxes as to safeguard the weaker and vulnerable classes to the increase in taxes and consequent rise of inflation. The addressing tax evasions and under invoicing is respectively important rather imposing uncontrolled and careless taxes.

2) Long-term Economic investments.

It is highly critical to take part and undergo long term investments that will improve the economic conditions of the country rather than depending

on foreign debt to stabilize the economy and to run the country.

3) Addressing Over-reliance on Foreign Debt:

The country's extreme reliance on foreign debt is essential to address and cater to. The gmt conditions will only continue the debt cycling process. To remove its negative repercussions, it is as important to decrease the dependency on foreign aid as to getting the financial assistance.

4) Reducing Fiscal Leakage:

Addressing corruption and other financial crimes that badly impacts the country and impacts the treasury severely needs to be catered to and reduced.

The local issues of foreign leakage will improve the financial standing of the country and reduce the over-reliance on IMF.

CONCLUSION:

The twin economic problems of the country needs to be addressed with strict economic and financial policy making and implementation. Though IMF being a financial ventilator for the country; its far-reaching implications on the Pakistani masses need to be (curbed)* acknowledged and addressed by curbing the negative impacts
