

Question No #03

Analyze Pakistan's Journey with the IMF: Is it a path..... and their impact on sustainable growth.

I- Introduction

Pakistan's Journey with the International Monetary Fund (IMF) began in 1950 and took almost twenty loan programs yet. These loans traditionally sought due to balance of Payments, increasing debt level, high inflation and foreign exchange reserves. However, the cyclical nature of these engagements where Pakistan repeatedly returns to IMF has raised a fundamental question that do these programs pave the way for long term economic stabilization or do they merely act as temporary fixes that affected the deeper structural reform. This question will explore Pakistan's historical pattern with the IMF and how its impacts on long term economic stabilization or ~~source of~~ short term economic stability. ~~at~~ Key challenges to Pakistan's

Moreover, the

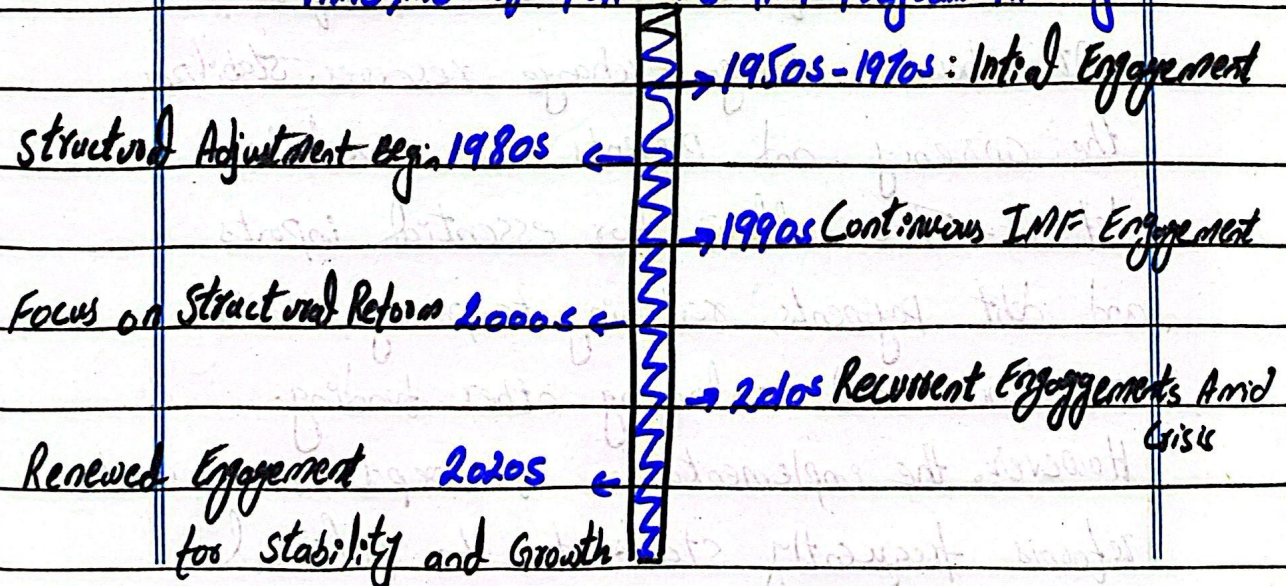
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Economy and how political instability undermines sustainable development.

II A Historical Overview of Pakistan-IMF Journey:

Pakistan has been an IMF member since 1950 and has entered over twenty programs. The Key Phases of Pakistan-IMF Journey ~~are~~ include early stabilization loan (1950s-70s), structural Adjustment Programs (1980s-90s), and recent Extended Fund Facilities focusing on energy and tax reform (2000s-2020s). The 2023-2024 Stand-By Arrangement continues this patterns of short-term rescue without long-term transformation.

• Timeline of Pakistan's IMF Program History



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III. How Pakistan's Journey with the IMF is merely a Source of Short-Term Relief.

Pakistan's experience with the IMF follows a predictable and viscous cycle.

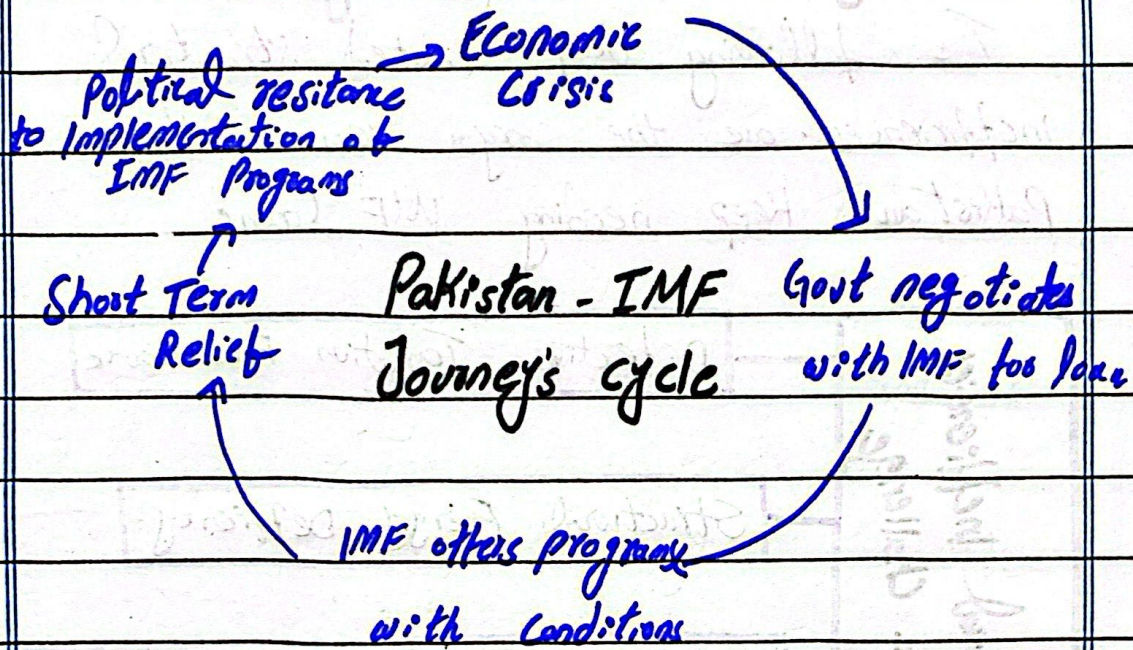
The journey starts with the economic crisis, such as ~~the~~ foreign exchange ~~crisis~~ crisis, sovereign debt distress and hyper inflation, the government typically negotiate a conditional financial arrangement with IMF. These conditions include austerity measures such as reducing subsidies, Privatization, increasing taxes and raising utility bills. Initially the loan is merely a source of short term relief.

It boosts foreign exchange reserves, stabilizes the currency, and prevents the immediate default. This allows for essential imports and debt payments, restoring temporary market confidence and unlocking other funding.

However, the implementation of deeper, transformative reforms frequently stalls due to political

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resistance and institutional capacity. Ultimately, the underlying economic issues are not resolved and the country is compelled to seek yet another IMF program.



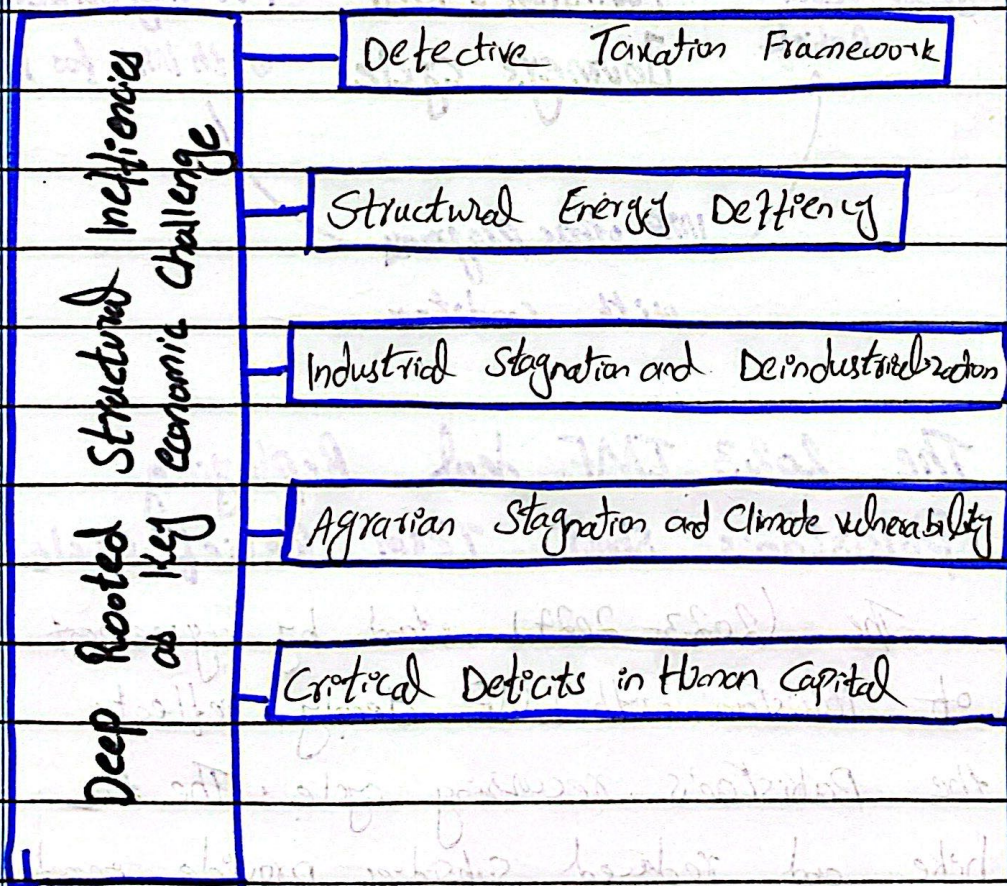
a) The 2023 IMF deal Replaying Pakistan's Short Term Relief cycle

The (2023-2024) stand by agreement of Pakistan with IMF clearly reflects the Pakistan's recurring cycle. The tax hike and reduced subsidies provide immediate relief, raise foreign reserves and prevent default. However, these measures lead to increase living

Costs, high inflation and deepen poverty.
Thus, it reinforced the conditions for
next Crisis.

IV- Deep Rooted Structural Inefficiencies as Key Economic Challenges:

The following deep rooted structural
inefficiencies are the major reasons that
Pakistan keep needing IMF loans.



i)- Defective Taxation Framework:

Pakistan suffers from one of world's lowest tax to GDP ratios, hovering around 9-10%. The narrow tax base, widespread evasion, excessive indirect taxes burdenise the households and distribute the wealth in disproportionately. It deprives the state from critical resources needed for public investment and development.

ii)- Structural Energy Deficiency:

Pakistan's electricity is more than thirty percent expensive than the regional competitors and plagued by circular debt around over Rs. 25 trillion. Inefficiencies stem from costly contracts, high transmission and distribution losses due to poor infrastructure and low productivity of state-owned companies.

iii)- Industrial Stagnation and Deindustrialization:

The industrial sector of Pakistan is shrinking due to high energy costs, taxes, inconsistent regulatory policies and price hike in raw material. The industrial output declined by 1.5 Percent in first nine months of 2025 and driven away the major international corporations including Protector & Gamble, Sheel and Microsoft, also some domestic textile industries like Gul Ahmed & Nishat. It is leaving the economy vulnerable to global fluctuations.

iv)- Agrarian Stagnation and Climate Vulnerability:

Despite employing over thirty-seven percent of workforce, Pakistan is facing Agrarian Stagnation. The outdated farming techniques, water scarcity and inefficient irrigation has given a significant below both regional and land potential. The sector is vulnerable to climate change.

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Devastating floods, droughts and heatwaves destroy harvests, threaten food security and push rural areas to poverty.

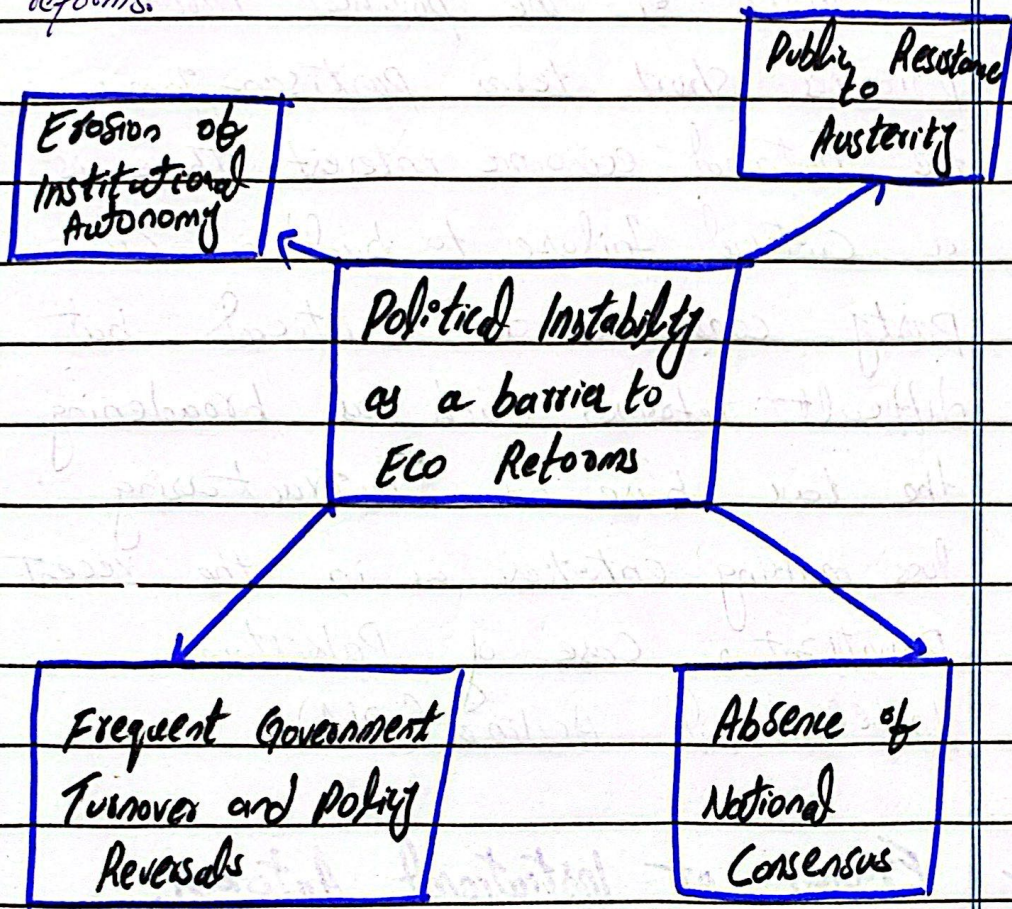
V.) Critical Deficits in Human Capital:

Pakistan ranks 168th out of 193 countries on the Human Development Index. Educational outcomes are poor, with only sixty percent of children completing primary school. Similarly, Health outcomes are weak, with government spending on healthcare remaining below two percent of GDP. Ultimately, This underinvestment results in an under-skilled workforce, creates a vicious cycle which limits resources for further investment in people.

V Political Instability as Key Economic Challenge:

The Economic reforms keep failing in implementation due to constant political instability and weak management by government. These are the following

Political barriers that hinder the economic reforms.



i) - Frequent Government Turnover and Policy Reversals:

The frequent changes in the government whether through elections or by other means often lead to abandonment of long term policies. This lack of continuity destroys the investors confidence and prevents any policy from reaching maturity.

ii) Absence of National Consensus:

Most of the political parties priorities short term partisan-games over the national economic interest. There is a critical failure to build a cross party consensus on critical but difficult reforms, such as broadening the tax base or restructuring loss making entities as in the recent privatization case of Pakistan International Airlines (PIA).

iii)- Erosion of Institutional Autonomy:

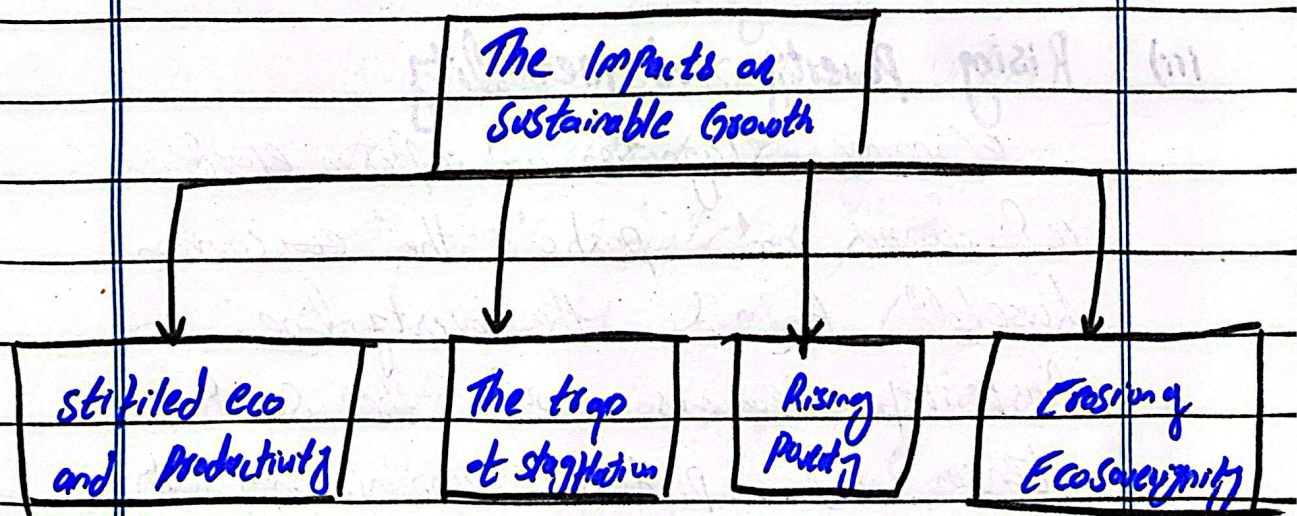
Pakistan's key economic institutions such as Federal Board of Revenue (FBR) and the state bank of Pakistan (SBP) are subject to political interference which undermines their operational independence and professionalism, leading to corruption and weak monetary policies.

IV- Public Resistance to Austerity:

IMF mandated austerity measures such as removal of subsidies broadening of tax base and tariff hikes directly increase the cost of living. Consequently public protests and causes social unrest forcing the government to delay or abandon reforms.

VI IMPACTS of the Key challenges on the Sustainable growth of Pakistan

The combination of deep structural flaws and political instability creates a vicious cycle that actively hinders the prospects for sustainable growth.



i.)

Stifled Investment and Productivity

Uncertain policies, high business cost and poor infrastructure deters both foreign and domestic investment. Net foreign Direct Investment (FDI) has declined, falling from \$1.9 billion in FY22 to \$1.5 billion in FY2023.

ii.)

The Trap of stagflation:

Pakistan's economy is caught in a state of stagflation, simultaneously experiencing high inflation, high unemployment and low growth. While the State Bank of Pakistan (SBP) raises its target rate to combat inflation which peaked at 29.3% in 2023 that choked economic activities.

iii.)

Rising Poverty and Inequality

Economic stagnation and inflation eroded real incomes and pushed the common household towards the poverty line.

Austerity measures worsen the social tension and produce economic inequality.

I) Erosion of Economic Sovereignty:

The recurring need for IMF programs and the strict conditions attached have led to a widespread public perception that Pakistan's economic policy is being dictated by external actors. As the Federal budget of FY25 to FY26 was first approved by the IMF and then implemented in country.

II Conclusion:

In a nutshell, Pakistan's long history with the IMF has been one of the short-term relief, not lasting reform. While IMF loans have saved the economy from collapse multiple times, they have not fixed its built-in problems such as unfair tax system, persistent energy crisis, poor ~~and~~ weak industries, ~~and~~ weak education and health. Making things worse, political instability and weak leadership kept stopping the real change from happening. Pakistan's future

does not depend on another IMF deal,
but on its own leaders, uniting to
fix these core issues with unity
and courage. without this, the
country will stuck in a cycle of
crisis and temporary bailouts, never
achieving true prosperity.

Question NO#01

Discuss the need for privatization in Pakistan, considering the performance of State-Owned Enterprises (SOEs). Critically review Privatization process in Pakistan

I- Introduction

In Pakistan, the state-owned Enterprises (SOEs) were created to support development and provide essential services, but over time many of them have become centers of inefficiency, political interference, and continuous financial losses, placing a heavy burden on the national exchequer. As a result, privatization has emerged as a key policy tool to improve efficiency, reduce fiscal pressure, and reform economic governance.

The December 2025 Privatization of Pakistan International Airlines (PIA) represents a major milestone in this process, but it also exposes serious structural weaknesses in Pakistan reform's approach. This answer analyzes the poor performance of State

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Owned Enterprises to justify privatization. Critically reviews the PIA privatization as a case study, and proposes a transparent and strategic framework to ensure that future privatizations serve the long-term national interest.

II- Why Privatization is a Need: Reviewing the Performance of Pakistan's State-Owned Enterprises (SOEs):

Pakistan's State owned Enterprises (SOEs) have been performing poorly for many years. They waste money, work inefficiently, and put a heavy burden on the national budget. This creates a strong economic and administrative case for privatization.

i). Continuous Financial Losses and Poor Management:

State-owned Enterprises in Pakistan, in practice, often become financial drains due to systemic inefficiencies rooted in political interference, weak accountability, and mismanagement, contradicting their intended role as providers of essential

Public services. This is starkly evident in major SOEs: **Pakistan Steels Mills**, which ceased production in 2015, has accumulated losses exceeding PKR 600 billion while continuing to incur substantial administrative costs; **Pakistan International Airlines**, which operates with an extraordinarily high employee to aircraft ratio of 269:1 compared to global benchmarks like **Turkish Airlines** 23:1, and **Pakistan Railways**, which is crippled by outdated infrastructure, manual systems, and persistent financial deficit that undermine the national transport network. These cases collectively illustrate how poor governance and operational failures transform strategic public assets into persistent burdens on the national exchequer.

ii) - Demonstrated Success of Privatization

In economic theory, it is evident that both domestic and international privatization can enhance efficiency and profitability by aligning management with market incentives. Pakistan's own experience in the 1990s illustrates this:

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banks like MCB, HBL and UBL became profitable taxpayers following their sale, with MCB alone contributing PKR 29 billion.

Similarly, Karachi electric reduced line losses from 34% to 15% post-privatization, eliminated costly benefits, and began generating profits, paying PKR 2.8 billion in taxes by 2022. This aligns with global models, such as Japan's efficient Privatized railways, and India's Public-Private Partnership, which demonstrate that secure quality and operational performance can improve under private management.

iii). The Government's Appropriate Role

Economic consensus holds that the state is a poor commercial manager. Its primary function should not be running businesses but enabling a competitive market through regulation and public goods provision. The necessary role of government should consist of three parts:

- i) ensuring quality
- ii) fair pricing

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iii) - market fairness as a regulator
investing in transport, energy, and digital
infrastructure to lower business and crafting
supportive policies like tax incentives and
trade agreement to stimulate private investment,
innovation, and sectoral growth.

III - Critical Review of the Privatization of PIA (Pakistan International Airlines):

In December 2025, the government
sold a controlling share of PIA to an
Arif-Habib-led Consortium of Rs. 135
billion. Although this was an important step
the entire process had serious weaknesses
and exposed the deep problems in Pakistan's
reform system.

i). Major Gains and Milestones in PIA privatization:

This sale ended a very long delay
as it was Pakistan's first major
privatization in almost twenty years,
and it fulfilled both IMF requirement

a government commitment. The auction was conducted in a live and televised manner with bidding between major business groups the Arit Habib Group and Lucky Cement, which created real competition. As a result, the final price was **3.5% higher than the suppress Rs.100 billion reserve price**. The process also had a strong political backing, as the Prime Minister described it as a '**Historic Day**', showing clear political commitment.

Major Gains	1. Full fillment of IMF & govt requirement
	2. Indulging and attracting business groups
	3. Strong political commitment

ii). Flaws and Challenges in the PIA Privatization of Process

These are the following flaws and challenges in the PIA Privatization of Process.

Flaws and
Challenges
in the
PIA
Privatization
of
Process

- 1- Hidden losses shifted to Public
- 2- Unclear Pricing with favourable Deal for Buyers
- 3- Limited Foreign Participation and risk of hidden nationalization
- 4- Non Disclosure of Critical Transition Information
- 5- Inexperienced buyer passes operational risk

1- Hidden losses shifted to Public

The sale of PIA only happened because the government paid off its Rs. 670 billion debt. This made the Airline look good for buyers, but the tax payers, covered the bill for years of bad management. So, it just showed how costly the government failure was.

2- Unclear Pricing with favourable deal for Buyers:

The deal lacked transparency, as the

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bidding method was not disclosed. It terms were buyer friendly, with only Rs-10 billion paid upfront for controlling 75% of stake. The remaining Rs. 125 billion is merely a long term investment promise, shifting the risk of non-delivery to state.

3- Limited Foreign Participation and Risk of Hidden nationalization:

The absence of foreign bidders points to low global confidence or an unattractive deal structure. Furthermore, the involvement of military owned Fajri Fertilisers suggests this was "quasi-nationalization" - shifting control between state institutions, not genuine privatization.

4 Non-disclosure of Critical Transition Information:

Key documents including the information memorandum, bidder rules payment schedule, and enforcement details were never published. This severe lack of transparency eroded public trust and fueled widespread speculation and

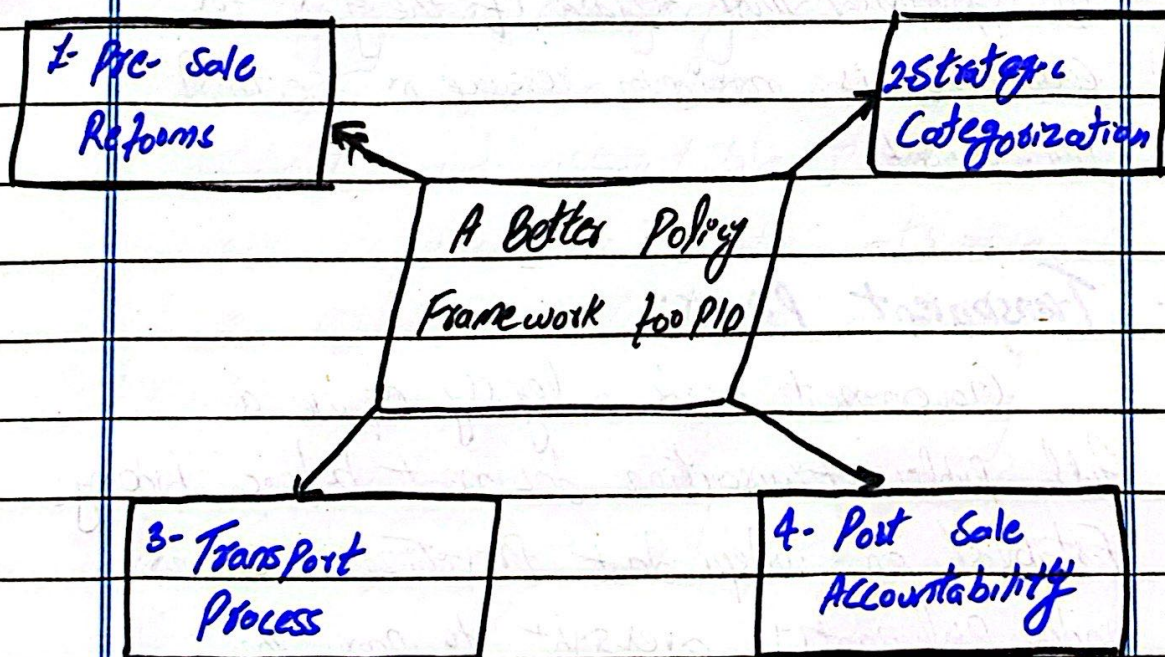
Suspicion

5- Inexperienced buyer Poses operational Risk:

The winning consortium lacks aviation experience, unlike past sales like Air India to Tata. Granting them operational control over fares, routes, and staffing poses a significant risk to PIA service and long-term stability.

IV- A Better Policy Framework for Privatization in Pakistan:

The PIA case shows that Pakistan urgently needs a clear, honest, and transparent system for future privatizations.



i)- Pre-Sale Reforms:

government should pass an SOE
Autonomy Law to ensure professional, apolitical
management. Mandate the publication of
an independent "SOE Health Report"
before any sale, clearly separating core
value from legacy debt.

ii)- Strategic Categorization:

Classify SOEs into three groups:

- i) **Strategic** (Keep state owned for management)
- ii) **Commercial** (Prioritize for privatization)
- iii) **Failed** (liquidate immediately).

The government must declare if the goal for
each sale is maximum revenue or sectoral
improvement.

iii). Transparent Process:

Government needs a legally require a
full public transaction document before bidding.
Establish an independent Privatization Commission
under Parliamentary oversight to manage the
Process.

iv)- Post Sale Accountability:

Strengthen sector regulators before selling utilities. Create a public online dashboard to track the buyer's compliance with all post-sale commitments.

V- Conclusion:

The Privatization of PLA was necessary, but it also proved that privatization cannot replace good governance; it only exposes its absence. If Pakistan wants to break the cycle of failure, bailouts, and forced sales, it must stop relying on emergency and secretive deals. The future lies in a planned, transparent, and accountable privatization system in which the state acts as a strong regulator instead of a bad business manager. Only in this way can privatization truly serve the long term national interest rather than short term political or financial needs.