**The IMF and the Real Exam of Pakistan**

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The IMF was established in 1944 in the aftermath of the Great Depression of the 1930s. 44 founding member countries sought to build a framework for international economic cooperation. Today, its membership embraces 190 countries, with staff drawn from 150 nations. The IMF and the World Bank established a framework for economic cooperation aimed at creating a more stable and prosperous global economy. The International Monetary Fund (IMF) works to achieve sustainable growth and prosperity for all of its 190 member countries. It does so by supporting economic policies that promote financial stability and monetary cooperation, which are essential to increase productivity, job creation, and economic well-being. The IMF fosters global monetary cooperation, secures financial stability, facilitates international trade, promotes high employment and sustainable economic growth, and reduces poverty worldwide.

Pakistan joined IMF in 1950 as the newly established country was facing financial problems since its creation in 1947 from British India. In 1958, for the first time, Pakistan went to IMF for a bailout. the role of the IMF in Pakistan’s economy is the IMF’s strategy to ensure sustainability and avoid the boom-bust that Pakistan has been experiencing for the last few decades. The primary focus is on the stability of the prices in the country. The COVID-19 shock temporarily disrupted progress under the EFF. Pakistan’s economy is on the verge of destruction due to repeatedly pursuing IMF programs. We went to the IMF 22 times in 60 years with no sign of a positive impact on the economy and we cannot blame the IMF for this failure, rather it’s our politicians and establishment who are responsible for such outcomes. Our main problem is the weak taxation system. We do not make efficient use of our resources. A shallow and Incompetent taxation system leads us to the fiscal crisis and ultimately to another IMF program. The ultimate goal of the extended fund program is economic sustainability and a laid foundation for balanced growth. The IMF program for Pakistan suggested strategies including Effective macroeconomic stabilization through fiscal consolidation and increasing tax revenues, a Market-determined exchange rate system, price stability, and social development spending to protect the most vulnerable. The problem is related to the governance system and structural reforms of Pakistan. In global competitiveness, we have ranked 110 out of 131 countries, whereas India has 68, Bangladesh has 105, and Sri Lanka has 64.

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The ultimate goal of these IMF programs is highly desirable but there is a severe problem with the sequencing and prioritization of goals. In an extreme case, growth or stabilization, none can survive in isolation. There is no growth without stabilization, and stabilization is meaningless without growth. Pakistan’s economy lags far behind its contemporary economies Bangladesh’s growth rate is around seven per cent of GDP whereas our growth rate forecast is around 1.3 per cent. So even from the growth rate perspective, our economy is deficient. Coming to the issue of sequencing, the IMF identified three main problems in our energy sector. First, our tariff rate is low. Secondly, special group subsidies are not shown in the budget. The third problem is related to the generation and distribution of energy. Taking up the first two problems urgently, while secondary importance to generation and distribution will lead to short-run relief, but will be disastrous in the long run. Another issue is the conflicting tradeoff in the program’s objectives. In the COVID crisis, fiscal consolidation as proposed in the program will add insult to injury. Furthermore, we cannot ignore the impact of the inflation target prescribed by the IMF program on real economic activity. The inflation target suggested is around 5 per cent even in this pandemic crisis which is simply downward biased as these estimates are based on past data. Last but not least, the IMF suggested corrective measures, which seem less than complete. External imbalances which result from our internal sectors’ deficiencies will again lead to the same situation after every five years. The main loophole here lies in the fact that the overvaluation of domestic currency discourages exports. Our remittances, our central bank’s intervention in the foreign exchange markets, and our repeated IMF programs lead to an appreciation of the currency, portraying the partial resolution measures. Fiscal consolidation, which seems such a logical way out, is not just an arithmetic analysis to be carried out in isolation but one dimension in the multifaceted complex ground realities paradigm. The fiscal side should go side by side with the business activity. IMF program or any local solution cannot be fruitful unless there is a will on behalf of rulers to grow, extract the resources efficiently and use them wisely. Structural reforms consist of measures to uplift public sectors that do need not government involvement in business activity. In its true spirit, it refers to regulatory reforms and addressing institutional hazards which is, unfortunately, the least addressed and ignored aspect in all the programs. Regarding the colonial lineage, it is apparent the colonial system cannot be made responsible for our deficiency as there are other countries with the same background but they managed the post-colonial structure very well by their participation without making political noise. We need to bring the government out of unnecessary involvement in business activity which could improve the efficiency of the government and thus can strengthen it as a vibrant and capable institution. It is not a matter of going to the IMF program but rather the will to grow independently. we need to develop solutions via local research that can address our challenges effectively so that our future is not destined for IMF programs. The so-called ninth review is scheduled to run this month. Officially it’s focusing on policies to restore domestic and external sustainability, including strengthening the fiscal position. Both two sides are expected to discuss possibly raising fuel, electricity, and gas prices which are heavily subsidized by the government, and introducing new taxes. The mission will also seek to restore the viability of the power sector and reverse the continued accumulation of debt in the energy sector. Pakistan loosened its grip on its currency and increased fuel prices last year and again last week in initial steps to try to revive the bailout. The current prime minister, on Feb. 3 called the IMF’s requests for unlocking more funds tough and “beyond imagination.” Pakistan’s foreign-exchange reserves have plunged by almost half in a month, to $3.1 billion. That’s enough to cover less than a month of imports, while the global standard benchmark is three months. Pakistan’s consumer prices have surged to the highest in almost five decades, partly due to the global inflation surge following the Covid pandemic and Russia’s invasion of Ukraine. Any IMF-related price hikes will only increase its pace. The nation’s economic growth has been cut by half to 2% after floods inundated about a third of the nation, with a damage estimate in October of $32 billion. About 30% of Pakistan’s foreign debt, roughly $30 billion, is owed to China, according to a 2022 IMF report. That’s triple the amount of IMF debt and more than the amount given by either the World Bank or the Asian Development Bank.

Reaching a deal with the IMF for more money from a $6.5 billion loan program is crucial for Pakistan, which needs the funds to unlock more aid, avert a default, and replenish foreign currency reserves that have fallen to less than $3 billion. IMF staff-level discussions have extended past a scheduled and it’s now unclear when they will wrap up. The IMF’s priorities include strengthening Pakistan’s fiscal position with permanent revenue measures, reducing untargeted subsidies, and allowing the exchange rate to be market-determined. The agency also seeks to ensure the viability of the energy sector, though Pakistani authorities have ruled out increasing electricity prices this week and resisted raising gas prices for months. The timely and decisive implementation of these policies along with resolute financial support from official partners are critical for Pakistan to successfully regain macroeconomic stability and advance its sustainable development and virtual discussions will continue in the coming days to finalize the implementation details of these policies. Pakistan has not a good track record with the IMF. Most of its previous bailouts since the late 1980s weren’t completed. But it has been halted multiple times because Islamabad failed to meet loan conditions and disagreements over spending plans after the floods. If the IMF talks are not positive, a default situation waiting. IMF Reaches Staff-Level Agreement on the Combined Seventh and Eight Reviews for Pakistan’s Extended Fund Facility & hoping to conclude within a month to help the economy of Pakistan’s deficit financing and industrial output.

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