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"FINANCIAL CRISIS IN PAKISTAN AND ROLE OF IMF: A COMPREHENSIVE STUDY OF THE IMPACT OF IMF LOANS AND ITS CONDITIONALITIES ON THE MACROECONOMIC INDICATORS OF PAKISTAN"

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2023

Declaration

Declaration

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Budapest, 24 November 2023

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Acronyms and Abbreviations

IMF: International Monetary Fund

WB: World Bank

SBP: State Bank of Pakistan

GDP: Gross Domestic Product

SDR: special drawing right (SDR)

U.N: United Nation

E.U: European Union

ADB: Asian Development Bank

WB: World Bank

SBA: Stand by Arrangement)

ESAF: Enhanced Structural Adjustment Facility

EFF: Extended Fund Facility

ECF: Extended Credit Facility

CPEC: China Pakistan Economic Corridor

PKR: Pakistani Rupee

Section 1: Introduction

1.1 Introduction:

World's pivotal International Financial Institutions (IFIs) includes World Bank and IMF. They are overseen by global authorities and their core mission revolves around upholding global currency system, extending financial support to disaster-stricken nations and guiding global macroeconomic strategies. While their policy execution may be inconspicuous, these goals have been integral to their vision from inception. Nations battling for economic equilibrium often falter due to ineffective policy frameworks. Thus, these countries seek assistance from such institutions to achieve accelerated growth relative to their global counterparts (Lang 2021). Essentially, economies worldwide are engaged in identifying and assessing the determinants of economic growth, encompassing a range of factors that either positively or negatively influence growth. Developing countries, in particular, face ongoing economic challenges and are in dire need of financial support. Post-World War II, on December 27, 1945, the IMF was established. As an entity, the IMF provides emergency funding to countries in distress, be it from poor financial policies or external shocks like sudden commodity price drops or financial crises in neighboring countries. Consequently, these nations are compelled to adopt stringent austerity measures, typically involving budget deficit reductions through spending cuts or increased tax revenues, interest rate hikes to curb inflation, and exchange rate adjustments (devaluation). Now a near-universal financial entity, the IMF has expanded from the 44 nations present at the 1944 Bretton Woods conference to encompass 189 countries, with few exceptions (e.g., Cuba, North Korea, Taiwan). Governed by the nations that comprise its membership and represented via a Board of Governors, typically the Finance Ministers or sometimes the Central Bank Governors (as with the U.S. Treasury Secretary), the IMF's role is to extend financial assistance to economically unstable countries. The IMF positions itself as a consortium of 189 countries, striving to enhance financial stability, boost employment growth, promote global monetary cooperation, and facilitate international trade (International Monetary Fund, 2018). Borrowing from the IMF is not a standard practice for countries in times of economic prosperity. It's when economies falter, needing to finance public expenditures and budget deficits, that they turn to the IMF. The IMF's advisory framework for nations seeking guidance primarily focuses on three aspects: Flexible Exchange Rates, Stringent Monetary Policies, and Rigorous Fiscal Policies.

The first aspect aims to stabilize the external finances of countries facing significant balance of payment deficits, achieved by bolstering the local currency with foreign exchange reserves and implementing high interest rates to prevent capital outflow. The second involves deploying demand-restraining measures to ensure sustainability in external debt repayments. The third entails executing structural reforms to avert future crises (Chang, 2020).

Developing countries like Pakistan have long struggled with poor economic conditions. Pakistan's economy has been especially unstable during democratic governments, mainly because of regular changes in politics and economic plans, which have also led to financial crises. Since becoming independent, Pakistan has always felt the need for help. It joined the IMF in 1950 and first asked for a loan in 1958, but this was quickly cancelled due to political troubles. The latest loan Pakistan got was in July 2023 for $3 billion. For 65 years, Pakistan has turned to the IMF for loans 24 times (IMF, 2023). The loans have been for different programs like SBA (Stand by Arrangement), ESAF (Enhanced Structural Adjustment Facility), EFF (Extended Fund Facility), and ECF (Extended Credit Facility). Pakistan has struggled to collect taxes and has planned reforms to fix public money issues and reduce debt. But not being able to deal with these problems, the Pakistani government has often had to borrow money. It borrows to balance payments and meet its financial duties, making it rely on the IMF a lot. The main reason Pakistan borrows from the IMF is to fix its failing economy, exchange rates, and payment balances. But this help is usually short-term and often leads to new problems as the debts grow old, and the government faces a new crisis because it doesn't have enough dollars in reserve. The IMF offers big loans for these situations, which look good at first for short-term relief.

The IMF and Pakistan have tried to make changes to fix the economy and set up a strong economic future. But these loans haven't really helped, and Pakistan still faces economic instability. The tough conditions of the IMF and poor policies have put a lot of pressure on Pakistan. These bad policies and mismanagement have forced Pakistan to keep borrowing money. Now, Pakistan is stuck in a cycle of debt, with its debt growing fast over the last 30 years. The economy was already weak, and then COVID-19 made things worse. The government hesitantly began talks for a rescue package, started selling bonds, and introduced other plans to stabilize the economy. In 2019, they signed a $4 billion loan, releasing $1 billion right away and

the rest over 36 months, with conditions like stopping fuel subsidies, bringing back taxes, ending circular debt, raising electricity prices, and balancing the budget.

The country was still in crisis when huge floods hit Pakistan, creating another financial emergency for the already troubled economy. These floods covered a third of the country, made 8 million people homeless, and damaged more than 2 million homes, causing over $30 billion in losses, as estimated by the Pakistani government with the U.N, E.U, ADB, and WB. (Rajvanshi, 2023). In August 2022, the IMF's board approved nearly $1.2 billion for Pakistan as it faced a growing death toll and widespread damage from floods called a "climate catastrophe," giving much-needed help as the nation dealt with an economic crisis made worse by the floods. This money was part of a 2019 government bailout, but the last payments were delayed because the government didn't meet IMF's requirements to cut energy subsidies. (DW, 2022)

The combined challenges of COVID-19, the Ukraine conflict, and climate disasters have pushed Pakistan to the brink of financial default. By late 2022, Pakistan once again sought the IMF's assistance and agreed to nearly all the conditions set by the organization, anticipating a $3 billion loan approval in January 2023. However, the IMF, dissatisfied with the Pakistani Government's implementation of the agreed conditions, withheld the loan approval. This decision severely impacted Pakistan's economy, leading to significant currency devaluation and record-high inflation. To secure the loan, Pakistan adjusted its annual budget, increasing taxes by $750 million and raising its interest rate to 22%, primarily to control rampant inflation. This prolonged wait for loan approval lasted until July 2023, when the IMF finally sanctioned the loan, disbursing $1.2 billion immediately in July 2023, with the remainder to be paid over the following nine months (Rajvanshi, 2023).

The IMF has often been portrayed as a relentless entity that lends money to impoverished nations while imposing detrimental policies, further plunging them into poverty. This study highlights the contentious nature of the IMF's approach towards developing economies. The IMF has been criticized for favoring developed nations and stifling the growth of emerging economies through its policy prescriptions, conditionalities, and forceful interventions. Despite Pakistan's longstanding relationship with the IMF, the country's economic situation remains dire, characterized by high inflation, unemployment, political instability, and sluggish growth. This contentious stance of the IMF necessitates an in-depth examination of its role in Pakistan and its

impact on the national economy. The IMF's actions and policies are a topic of global discussion, with numerous studies attempting to assess its effects on both developed and developing countries. This research aims to thoroughly analyze the conditions of IMF loans and their effects on Pakistan's economy by examining macroeconomic indicators.

1.2. IMF Conditions Imposed on Pakistan:

Developing countries often seek loans for survival, with the IMF and World Bank being two major financial institutions that offer assistance. However, these loans come with specific conditions. Pakistan, a developing economy, has been in a challenging financial state since its independence, primarily due to the impacts of wars. To support its growth, Pakistan has repeatedly turned to the IMF for help. Like many other countries, Pakistan has had to comply with various IMF conditions, which include (Nasir, 2020):

- **Reducing Government Borrowing:** Implementing measures to decrease the government's borrowing, usually by managing expenses more efficiently or generating additional revenue.
- **Higher Taxes and Lower Spending:** This involves increasing tax rates or improving tax collection while simultaneously reducing government spending to manage fiscal deficits.
- **Raising Interest Rates to Stabilize Currency:** Increasing interest rates helps stabilize the national currency and control inflation by making it more attractive for foreign investment.
- **Allowing Failing Firms to Go Bankrupt:** This suggests avoiding financial support or bailouts for failing companies, allowing market forces to take their course.
- **Cutting Government Spending:** Reducing expenses across various government sectors or programs to save money.
- **Structural Adjustment:** Making changes to the country's economic policies, regulations, and structures to improve economic stability or growth.
- **Privatization:** Transferring state-owned assets or businesses into private hands.
- **Reducing Trade Barriers:** Lowering obstacles to international trade, such as tariffs or quotas.
- **Increasing Prices of Financial Bills:** Raising the costs associated with certain financial instruments or units that will have impacts on financial market.

Additionally, a particularly stringent condition imposed by the IMF in its 2019 bailout plan was for Pakistan to provide detailed accounts of Chinese financial investments in the China-Pakistan Economic Corridor (CPEC) and assure that IMF loans would not be used to repay China debts. This necessitates a thorough disclosure of financial commitments and investments made by China in the CPEC project (Ayesha, 2020).

1.3 Research Problem Statement:

Around the world, many countries face poverty and economic challenges. Developing nations often struggle with issues like inflation, unemployment, budget deficits, slow economic growth, low living standards, failing financial systems, and poor exchange rates. These countries lack the financial resources to maintain their usual economic activities. In times of economic hardship, they turn to developed countries and financial institutions like the IMF and World Bank for assistance. The financial support provided by the IMF and World Bank is intended to help these developing countries progress towards becoming developed nations. While the loans have proven beneficial for some developed and developing countries, the case is not the same for all. Pakistan, a developing country, has been reliant on financial aid during difficult times and has been borrowing from the IMF since 1958 (IMF, 2023). The IMF has provided Pakistan with both financial and technical assistance, with Pakistan's external debt reaching USD 128.1 Billion in September 2023 (CEIC, 2023). However, these IMF loans have not successfully spurred economic growth in Pakistan. In fact, the more Pakistan borrows, the more it seems to experience negative economic growth. To understand the reasons behind Pakistan's economic decline, it is necessary to examine the IMF's role more closely.

1.3.1. Research Question:

RQ1. How have IMF loans and their conditions impacted Pakistan's economic growth?

RQ2. Whether these loans have a positive or negative impact on macroeconomic indicators of Pakistan?

RQ3. To what extent Pakistan's own governance has played a role in the failure to implement economic policies set by both IMF and the government?

RQ4. What measures need to be taken to improve economic conditions in Pakistan?

1.3.2. Research Hypothesis:

- IMF Loans and its strict conditionalities have detrimentally affected the Pakistan’s economic growth.
- Involving in IMF programs lead to high rate of inflation, unemployment, and poverty accompanied by a decline in both GDP rate and Balance of Account.
- Pakistan's economic troubles can be attributed significantly to its own inadequate policies, deficient governance, a lack of effective leadership, and a recurrent reliance on seeking loans.
- Avoid taking any further loans from IMF and creating and executing effective economic policies independently is the sole means to overcome economic distress, as opposed to depending on loans.

1.4. Research Objectives:

The study aims to achieve several key objectives, including:

- **Investigating the Impact of IMF Loans on Pakistan's Economy:** This involves examining the effects of IMF loans on Pakistan using secondary data sources. The focus will be on how these loans have influenced Pakistan's economic landscape over time.
- **Analyzing the Effects of IMF Conditionalities on Macroeconomic Indicators:** The study will conduct a detailed analytical examination of how the conditions set by the IMF have affected various macroeconomic indicators in Pakistan. This analysis will help in understanding the broader economic consequences of these conditions.
- **Analyzing the Pakistan government’s role in Economic Distress:** The research will not only focus on IMF’s role in economic troubles but also analyze of how the Pakistan’s own governance and policies implementation has contributed to its economic distress. This analysis will deeply focus on Pakistan’s government failure in addressing their economic and financial problems.
- **Providing Recommendations for Economic Growth in Pakistan:** Based on the findings from the investigation and analysis, the study will propose recommendations aimed at

fostering economic growth and stability in Pakistan. These recommendations will be designed to address the challenges identified in the earlier objectives and suggest ways to enhance Pakistan's economic performance.

1.5. Significance of Research:

This study is important because it looks closely at how countries like Pakistan, which are still developing economically, seek help from organizations like the International Monetary Fund (IMF) to prevent the country's money system from collapsing and keep it stable, avoiding big problems like hyperinflation, declining GDP growth, current account deficits, poverty, and unemployment. The research digs into how IMF loans, with their conditions, affect important economic indicators in Pakistan, and offered possible recommendations for improving the economic situation in Pakistan. The significance of this paper stems from the continuous 65-year association between Pakistan and the IMF, despite which the country remains entrenched in economic unrest. It is crucial to investigate the causes of Pakistan's financial difficulties in relation to IMF loans.

Section 2: Literature Review:

2.1. Overview:

The IMF, a prominent financial institution, often features prominently in economic discussions and news headlines due to its role in providing financial assistance to countries, especially during economic hardships. The effectiveness of this assistance, however, is a subject of debate among researchers and economists.

Ahmad, Khalid, & Noor (2016) observed a positive relationship between government borrowing and GDP. Fidrmuc & Kostagianni (2015) identified a positive correlation between IMF loans and GDP growth. Bird & Rowlands (2017) concluded that IMF assistance has been beneficial for the sustainable development of low-income countries. Majid's 2019 research provided an insightful analysis of the effects of IMF and other external loans on Pakistan, both in the short term (within one year) and over the long haul. The study concluded that the IMF loan programs have been beneficial for Pakistan, particularly in improving the country's balance of payments. Additionally, these programs have contributed positively by reducing inflation, lowering interest rates, and decreasing the ratio of public debt to GDP. This indicates that, at least in certain key economic aspects, IMF loans have had a constructive impact on Pakistan's economy. The study by Stubbs et al. in 2020 focused on the impact of IMF programs on government education spending, revealing a more nuanced effect of these programs. Their research found that in developed economies, IMF programs had a negative and statistically significant impact on government spending on education. However, in developing economies, the effect was the opposite - IMF programs had a positive and statistically significant impact. This distinction highlights how the effects of IMF interventions can vary significantly based on the economic status and specific contexts of different countries. In the case of developing countries like Pakistan, IMF programs appear to support or at least not hinder government investment in crucial sectors like education.

Kean, Hoon, Yoong, Xavier, & Siang (2015) stated that IMF conditionalities had neither positive nor negative effects on economies. Ivanova (2003) suggested that the success of funded programs depends on a country's political stability, interest groups, and ethnic divisions. Hajro

and Joyce (2009) and Lang (2021) indicated that IMF's poverty reduction programs had limited impact on alleviating poverty, but also did not adversely affect the poor.

Dreher (2004) claimed that IMF loans had no positive relation with economic growth. Muhumed & Gaas (2016) concluded that IMF assistance often resulted in painful and destructive situations, leading to retarded growth and inequalities. Doucouliagos & Paldam (2007) found that aid generally had a negative effect, leading to higher commodity prices and slower growth. Hussain's 2002 study delved into why nations turn to the IMF and the lessons learned from such engagements. Countries that have utilized IMF resources often faced various challenges, leading them to implement policy reforms aimed at enhancing productivity, employment, and growth rates. However, the situation in Pakistan, as discussed in Hussain's research, presents a more complex scenario. Pakistan's economic trajectory is marked by uncertainty and difficulties. It is characterized by declining GDP growth and limited foreign investment, issues that IMF programs have sought to address.

Yet, as Hyder (2012) observed, these efforts have yielded only marginal benefits. One notable instance was the IMF plan's role in significantly slowing down the economy, posing a considerable challenge for the then finance minister, Sheikh, in managing this slowdown. Fazl-e-Haider (2019) further highlights the depth of Pakistan's economic challenges, noting that the country needs a growth rate of 7 to 8 percent to effectively alleviate poverty and accommodate its expanding workforce. This target growth rate is crucial for Pakistan to make substantial progress in improving its economic conditions and achieving sustainable development. However, the limited success of IMF interventions suggests that more comprehensive and tailored strategies may be necessary to address the country's specific economic challenges and objectives.

2.2. IMF Loan History with Pakistan:

Pakistan's engagement with the IMF began in 1958 under General Ayub Khan's leadership, who secured a special drawing right (SDR) through a standby agreement. This marked the start of Pakistan's long-term relationship with the IMF. Shortly after, in 1965 and 1968, Ayub Khan's finance team initiated two consecutive IMF programs, successfully drawing the full amount of SDR 112 million. This series of events established Pakistan as a new and regular client of the IMF. During the democratic years from 1972 to 1977, Pakistan approached the IMF four times

for financial support. Following this period, a dictatorship regime from 1977 to 1988 saw Pakistan turning to the IMF only twice. However, with the return of democracy in 1989, the country engaged in eight different IMF loan programs from 1989 to 1999, under the guidance of experienced democratic leadership. Democracy was again suspended from 1999 to 2008, yet Pakistan still managed to secure two IMF loans during these nine years of dictatorial rule. From 2009 onwards, Pakistan obtained four significant loans from the IMF, including the highest-ever loan of $7.3 billion in 2008, followed by $4.4 billion in 2013 and $4.3 billion in 2019, spanning a 36-month agreement period (Sarfaraz, 2019). The most recent loan, amounting to $3 billion, was acquired in July 2023 under a 9-month Stand By Arrangement (IMF, 2023).

Table 1: History of Lending Commitments as of Jan,2023 (in thousands of SDRs)

Facility	Date of Arrangement	Expiration Date	Amount Agreed	Amount Drawn	Amount Outstanding
Standby Arrangement	12-Jul-23		2,250,000	894,000	894,000
Extended Fund Facility	3-Jul-19	30-Jun-23	4,988,000	3,038,000	3,038,000
Rapid Financing Instrument	16-Apr-20	20-Apr-20	1,015,500	1,015,500	1,015,500
Extended Fund Facility	4-Sep-13	30-Sep-16	4,393,000	4,393,000	1,668,667
Standby Arrangement	24-Nov-08	30-Sep-11	7,235,900	4,936,035	0
Extended Credit Facility	6-Dec-01	5-Dec-04	1,033,700	861,420	0
Standby Arrangement	29-Nov-00	30-Sep-01	465,000	465,000	0
Extended Fund Facility	20-Oct-97	19-Oct-00	454,920	113,740	0
Extended Credit Facility	20-Oct-97	19-Oct-00	682,380	265,370	0
Standby Arrangement	13-Dec-95	30-Sep-97	562,590	294,690	0
Extended Credit Facility	22-Feb-94	13-Dec-95	606,600	172,200	0
Extended Fund Facility	22-Feb-94	4-Dec-95	379,100	123,200	0
Standby Arrangement	16-Sep-93	22-Feb-94	265,400	88,000	0
Structural Adjustment Facility	28-Dec-88	27-Dec-91	382,410	382,410	0
Standby Arrangement	28-Dec-88	30-Nov-90	273,150	194,480	0
Extended Fund Facility	2-Dec-81	23-Nov-83	919,000	730,000	0
Extended Fund Facility	24-Nov-80	1-Dec-81	1,268,000	349,000	0
Standby Arrangement	9-Mar-77	8-Mar-78	80,000	80,000	0
Standby Arrangement	11-Nov-74	10-Nov-75	75,000	75,000	0
Standby Arrangement	11-Aug-73	10-Aug-74	75,000	75,000	0
Standby Arrangement	18-May-72	17-May-73	100,000	84,000	0
Standby Arrangement	17-Oct-68	16-Oct-69	75,000	75,000	0
Standby Arrangement	16-Mar-65	15-Mar-66	37,500	37,500	0
Standby Arrangement	8-Dec-58	22-Sep-59	25,000	0	0
Total			25,392,150	17,848,545	5,722,167

Source: Own Construction (Data taken from IMF website, 2023)

2.3. Impact of IMF Loans:

The impact of multiple IMF programs on Pakistan's economy has been a mixed bag. According to Hasan (2019), while these programs have provided temporary boosts to foreign exchange reserves and made Pakistan's capital markets more appealing to foreign investors, they have not been successful in addressing the fundamental weaknesses leading to the balance of payments crisis. This indicates that the benefits of IMF interventions in Pakistan have been somewhat superficial and short-term, failing to resolve deeper economic issues.

Rana (2019) highlights the financial implications of currency depreciation and interest rate increases in Pakistan, which are intimately linked to the country's engagement with the IMF. For instance, a depreciation of one rupee adds Rs105.8 billion to the public debt, and a 1% rise in interest rates escalates the debt servicing cost by about Rs180 billion. This creates a cycle of increasing borrowing requirements for the finance ministry. The central bank's decision to hike interest rates by 1.5% as a precondition for accessing the IMF's $6 billion bailout package further adds over Rs260 billion to the finance ministry's debt servicing costs. These financial maneuvers, while aimed at meeting IMF conditions, have considerable ramifications on the country's overall debt burden.

Moreover, there is evidence suggesting that IMF loan arrangements might exacerbate poverty. Studies by Pastor (1987) and Vreeland (2002) have shown that participation in IMF programs can lead to worsening income distributions, particularly affecting the poor and the labor class. This could potentially lead to increased poverty rates, indicating that the socio-economic costs of these programs might outweigh their financial benefits, especially for the more vulnerable segments of society. These findings underscore the need for a more nuanced approach to financial aid and economic reform programs, one that takes into account the broader socio-economic impacts on the recipient country, particularly those in a vulnerable state like Pakistan.

The relationship between IMF arrangements and poverty, income distribution, and economic stability has been extensively studied, with various researchers offering critical insights. Easterly (2003), Forster et al. (2019), Garuda (2000), Oberdabernig (2013), and Vreeland (2002) found

that participation in IMF programs is associated with increased poverty and worsening income distribution. Gilbert & Unger (2009) identified a negative correlation between IMF loans and income equality. Rickard and Caraway (2019) observed that IMF public sector conditions lead to reduced government spending on wages, contributing to higher poverty rates. Kemal (1994) noted an increase in both the Gini coefficient and the poor population in Pakistan from 1987 to 1991, suggesting rising inequality.

Bengali and Ahmad (2001) concluded that while economic stabilization and growth are not mutually exclusive, the implementation of policies in Pakistan has often prioritized stabilization at the cost of growth, leading to reduced investment, purchasing power, and subsequently, a recessionary environment. This has directly contributed to increased unemployment and poverty. Working with the programmed growth and actual growth deviation, Baqir et al. (2003) discovered a negative correlation between growth and the current account. Khan and Knight (1981) argued that programs aimed at rapidly improving balance of payments through sharp deflation can have significant negative impacts on output and employment, especially in the short term. Zaidi (2000) highlighted the severe effects of such programs, particularly on the poor, who face challenges like low purchasing power, unemployment, low wages, and inequality. Hasan et al. (2013) studied the effects of IMF programs on the inflation-output tradeoff, finding that these programs do not influence this tradeoff in the short run but do affect the sacrifice ratio in the long run.

2.4. Impact of IMF Conditions:

The conditionalities imposed by the IMF, along with its influential interference in the economies of recipient countries, have not always been productive. UNLU criticized the IMF for its interference, which can conflict with the democratic rights of countries. Boockman & Dreher (2018) stated that the World Bank and IMF have positive effects only in the short run, with limited benefits in the long term. Umer, Latif & Faheem (2015) argued that if loans are not managed properly, they can become more of a curse than a blessing. In the case of Pakistan, IMF loans have worsened the economic situation.

The policies promoted by the IMF and similar institutions, such as the promotion of free trade zones, tariff reductions, and privatization, have been critically analyzed for their potential

impacts on poverty. Manzetti (1999) noted that encouraging free trade zones and reducing tariffs and import duties can decrease government revenues, which in turn limits the funds available for aiding the poor. Additionally, the removal of government-subsidized price controls, tied to freer trade, tends to increase costs for consumers. The burden of these price hikes disproportionately affects the poor, leading to greater inflationary impacts on this segment of the population. Frieden (1991) and Reuveny and Li (2003) contended that trade and exchange conditions focusing on global market manufacturing and competition affect subsistence farmers, contributing to their economic dislocation and leading to higher poverty levels.

Végh and Vuletin (2015) discussed how austerity policies in developing countries, aimed at addressing inflation, debt, and fiscal imbalances, often involve government spending cuts. Such reductions can increase poverty, particularly since these cuts often affect social programs crucial to poorer households (Stubbs and Kentikelenis 2018). Beinen and Waterbury (1989) observed that privatization, specifically the sale of state-owned enterprises (SOEs) to private firms, often leads to layoffs, increasing unemployment and poverty rates. Kurtz and Brooks (2008) pointed out that privatization can result in higher prices for public services, as private firms may seek to maximize profits in sectors with high entry barriers, further pushing people into poverty.

Morley et al. (1999) and Rudra (2002) observed that certain policies, including the standardization of income tax rates under regressive tax reforms and the creation of more adaptable labor markets, may contribute to heightened poverty levels. The 'Washington Consensus', as delineated by Williamson (1990), endorses reduced taxation for entrepreneurs and an increased reliance on consumption-based taxes like value-added taxes, which predominantly impact the disposable income of the impoverished. The IMF's advocacy for eliminating taxes on the repatriation of foreign profits, a measure intended to attract foreign investment, could lead to a decrease in governmental revenue and, consequently, a potential reduction in social expenditures for the economically disadvantaged.

Pakistan's extensive engagement with the IMF offers a comprehensive analysis of these funding programs and their influence on macroeconomic indicators. The effectiveness of IMF loans is heavily dependent on the associated policies. Critiquing policy makers, Ahmed (2012) emphasizes that lenient policies have not yielded exceptional results in any country. Both internal and external debts are crucial for economic growth. Hashmi (2017) asserts that no financial

institution can alter a nation's economic destiny without implementing stringent fiscal policies. O'Driscoll (1997), in his descriptive research, noted that the IMF's policies for developing countries are not aligned with these countries' historical policies, leading to a negative rather than positive relationship. Furthermore, Cukierman and Liviatan (1992) highlighted that policy maker productivity impacts credibility, with strong policy makers more effectively managing inflation, producing different outcomes compared to weaker counterparts.

The IMF, composed of a board of directors representing both high and low-income countries, allocates voting shares among them. Lombardi (2005) offered a unique perspective on IMF loans, noting that the limited 10% voting rights of low-income countries hinder their ability to secure loans that meet their needs. Regarding IMF stabilization policies, opinions vary. Bagci and Perraudin (1997), Schadler et al. (1993), and Khan and Knight (1981, 1985) concluded that these programs enhance a country's balance of payments, while Loxley (1984), Connors (1979), and Moran (1989) argued that these programs have no impact on the balance of payments. In contrast, Iqbal (1994) found that IMF programs negatively affected output, had an insignificant impact on exports, increased inflation, and failed to boost export levels.

Kiguel and Liviatan (1992) explored two distinct approaches in IMF programs: one using exchange rate as a stabilization tool leading to economic fluctuations, and the other focusing on monetary supply with reduced inflation signaling economic recession. In countries like Hungary, Romania, Poland, and Bulgaria, the implementation of IMF programs resulted in a decline in output. Uribe (1999) also discovered that exchange rate-focused approaches lead to expansionary policies, while monetary supply-focused strategies result in demand contraction. Khan and Knight (1981) suggested that short-term strategies addressing balance of payments issues through deflation have unfavorable effects on output and employment. Ball and Sheridan (2003) demonstrated that growth is not assured while addressing inflation. Factors such as regional, political, monetary, and global influences are beyond a government's control and can severely impede a country's economic development, as noted by Hutchison (2001).

According to Stiglitz (2000), IMF-adopted policies typically result in recessions, depressions, and slowdowns. Pakistan witnessed a boom in its economy in the 1980s. But following a period of economic hardship in the 1990s, the country's economy entered a recession. Pakistan is

plagued by extreme poverty, high unemployment, and inflation due to a lack of investment and poor economic policy implementation.

According to Ahmad's (1998) analysis, fiscal and non-fiscal factors have distinct effects on growth. Furthermore, the role of any program can be determined by the sequence in which policy improvements are adopted. The effective part of the policy is how it is ordered. While poor countries should prioritize institutional strengthening, monetary and fiscal reforms over trade or capital reforms, developed nations are better suited to implement trade liberalization reforms that enable them to integrate successfully.

Forcefully implementing policies before having a proper setup, as stated by Stiglitz (2002), would make the situation worse. For example, privatization without proper regulation prior to liberalization and privatization without sufficient competition prior to privatization would result in confusion and poor management. Things like this, where a nation experiences more employment destruction than job creation, would cause a significant reversal in progress.

Program funding has consequences and results of its own. Interest groups may be the cause of the lack of political support for initiatives, which delays their adoption. Furthermore, macroeconomic instability is crucial for the proper execution of policies, as certain nations like Egypt have demonstrated (Richards, 1991). Furthermore, Pakistan has not been able to benefit from the IMF since 1988 as a result of numerous internal and foreign changes and shocks that have prevented the economy from developing in the direction of its intended goals.

Section 3: Research Methodology

3.1. Introduction:

Chapter three's primary objective is to elucidate the research methodology adopted in this study, particularly the approaches undertaken for data collection, analysis, and the eventual compilation of the final report, titled "IMF Role in Pakistan's Financial and Economic Crisis".

This investigation delves into the repercussions felt by Pakistan's economy subsequent to acquiring IMF loans, with a special emphasis on the trends of macroeconomic indicators in relation to the loans and conditions set by the IMF. The core aim of this study is to ascertain the connection between Pakistan's economic growth and the IMF loans. The period covered in this study spans from 2000 to 2023.

3.2. Research Design:

The research utilizes a qualitative content analysis approach to assess the influence of IMF programs on Pakistan's economic health. The study relies on secondary data sources. This methodology involves analyzing patterns in the data gathered from sources cited in the Literature Review to determine whether the IMF programs have been a boon or a bane for Pakistan's economic well-being.

The qualitative analysis aims to address specific questions, as will be evident throughout this paper. It will require the creation of graphs and tables for different time periods to examine these questions in light of the relevant variables.

3.3. Data Collection Methodology:

The data for this study has been meticulously gathered from a variety of sources, including Research Papers, Government Reports, the State Bank of Pakistan Reports, IMF Database, World Bank Database, News Articles, Policy Documents, and archival financial data. These sources were meticulously chosen based on their relevance and thoroughness, as identified in the comprehensive literature review.

3.4. Selection of Sample:

In this study, purposive sampling has been employed to selectively choose documents and articles that are directly relevant and critical to the research question. This method ensures a rich and diverse array of sources, enhancing the depth of the analysis.

3.5. Ensuring Data Validity and Reliability:

To guarantee the validity and reliability of the data, a rigorous cross-verification process is employed. Multiple researchers scrutinize the findings, and measures of inter-rater reliability are implemented to ensure consistency and accuracy in the results.

3.6. Interpretation of Data:

The collected data is meticulously analyzed to discern trends, patterns and themes that are crucial for understanding the influence of IMF programs on Pakistan's economic growth and stability, inflation, unemployment, poverty, current account balance and total debt. This interpretation is key in drawing meaningful insights from the data.

3.7. Concluding Observations and Recommendations:

The final section encapsulates the principal discoveries of this study and discusses their significance in relation to the influence of IMF programs on Pakistan's economic well-being. Based on these insights, thoughtful recommendations are proposed, taking into account the potential implications for future IMF engagements and economic policy strategies in Pakistan.

Section 4: Results and Discussion

4.1. Results:

The financial turmoil experienced in Pakistan, in conjunction with the nation's interactions with the International Monetary Fund (IMF), has been a focal point of considerable interest and analysis. This segment of the study reveals the principal outcomes derived from our research, anchored in a qualitative approach to data examination. The primary goal of this research was to delve into the complex interplay between Pakistan's financial crisis and the IMF's involvement in the nation's economic stabilization endeavors. Our methodical analysis of various data sources, including government reports, economic indicators, policy documents, and data from the IMF and World Bank, alongside numerous scholarly articles and research papers, has yielded significant insights.

In this section, we systematically present our findings on macroeconomic indicators, outlining salient themes, observable trends, and critical lessons gleaned from our qualitative data analysis. These findings are invaluable for policymakers, economists, and academics who aim to gain a more profound understanding of Pakistan's financial crisis, the IMF's role, and the ensuing effects on the country's macroeconomic framework.

4.1.1. GDP Growth:

Gross Domestic Product (GDP) Growth, a pivotal metric of economic performance, mirrors a country's capacity to augment its production of goods and services over time. This indicator is fundamental in assessing economic health and progress.

Figure 1: GDP Growth rate in Pakistan from 2000 to 2023

Source: Own construction (data taken from World Bank and IMF, 2023)

Drawing from World Bank and IMF database, Pakistan experienced a decline in GDP growth in the early 2000s, plummeting from 4.3% in 2000 to 2.5% in 2002, a downturn largely attributed to political unrest. However, a remarkable surge in GDP growth was observed from 2002's 2.5% to 7.5% in 2004. The global financial crisis of 2008 also impacted Pakistan, leading to a reduction in GDP growth to 1.7%. Concurrently, Pakistan obtained a record-high loan from the IMF, which corresponded with an increase in GDP to 4.4%. In 2013, under another substantial IMF loan program, the GDP growth further ascended to 6.2% by 2018.

Subsequently, Pakistan entered a phase of circular debt, necessitating continual loans to service previous debts. In 2019, the nation experienced a significant downturn, with GDP growth falling from 6.2% to 2.5%, a 3.7% decrease within a year. The government, facing fiscal challenges, sought assistance from the IMF once more. The ensuing year, 2020, marked by the COVID-19 pandemic, saw a historic low in GDP growth, dropping to -1.3%. Despite these challenges, Pakistan rebounded impressively in 2021, with GDP growth spiking to 6.5%.

However, in 2022, GDP growth slightly decreased to 6.2%. The end of 2022 brought devastating floods, severely impacting the economy and leading Pakistan to seek further assistance from the

IMF. The anticipated IMF loan of $3 billion in January 2023 was delayed due to the IMF's dissatisfaction with the government's compliance with pre-approval conditions. This situation brought Pakistan to the brink of default, with a substantial decline in GDP growth, which plummeted to 0.3% in 2023, as reported by the State Bank of Pakistan, though the IMF recorded it as -0.5%. The State Bank of Pakistan projects a GDP growth rate of 2-3% for the fiscal year 2023-24.

IMF loans are typically accompanied by rigorous conditions aimed at fiscal stabilization, which often involve reducing subsidies, implementing tax reforms, and cutting expenditures. While these measures target long-term economic stability, they can exert short-term pressures on economic growth. The approach of increasing tax collection from existing taxpayers, without expanding the tax base or employing research-driven tax strategies to meet IMF objectives, has hindered production activities in Pakistan.

Monetary policies recommended or required under IMF agreements, such as adjusting interest rates, directly influence investment, consumption, and overall economic growth. Structural reforms proposed by the IMF are designed to improve economic efficiency and competitiveness, yet they may necessitate an adjustment period with diverse effects on GDP growth. The obligation to service IMF debt can redirect resources away from essential developmental and growth-stimulating expenditures, thereby impacting GDP growth.

In 2023, Pakistan received a critical IMF bailout of USD 3 billion, which was instrumental in averting a potential default, replenishing international reserves, and unlocking additional funding from other sources. This financial intervention was pivotal in stabilizing Pakistan's economy and marked a significant moment as the country strived to rejuvenate its economic growth following 2023. However, inflation has also adversely affected economic growth by increasing the cost of domestic products and boosting the demand for imports. The overall impact on Pakistan's GDP growth, following participation in IMF-supported programs, appears to be a contraction in growth rate. Initially, IMF loans positively influence the economy, but over time, Pakistan often finds itself returning to the IMF for additional loans to repay previous ones.

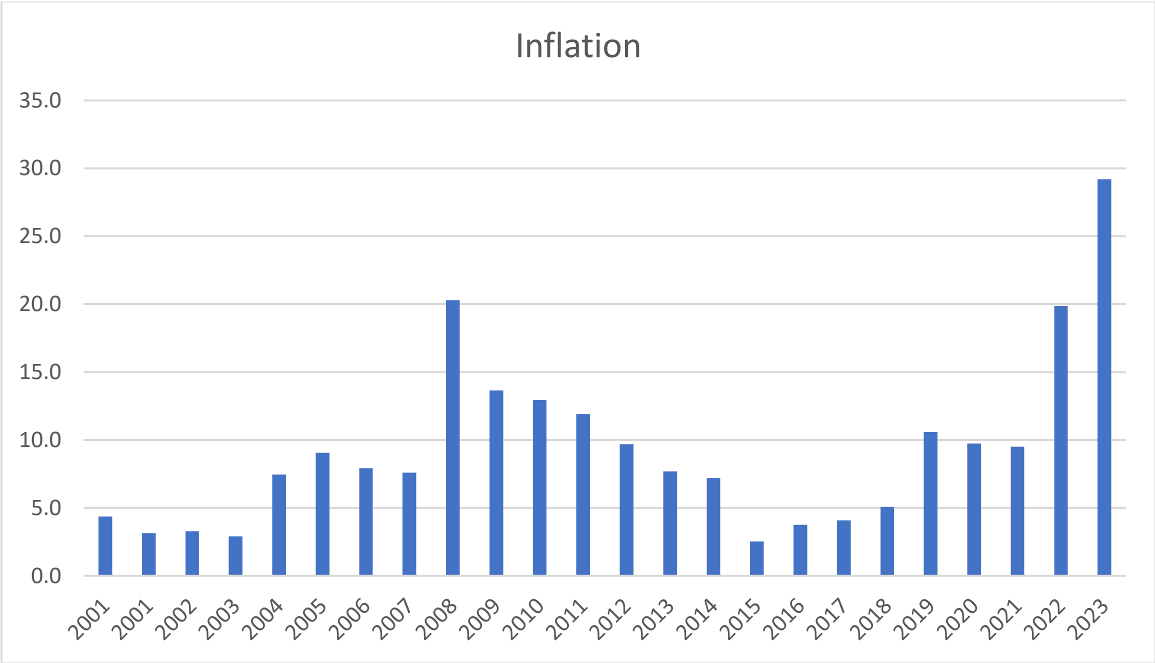
Moreover, IMF's involvement in national policies tends to diminish the effectiveness of its programs. This pattern is evident in the observed trend where a spike in GDP growth following an IMF loan is often followed by a significant decline. Furthermore, Pakistan's internal

challenges, including political instability, corruption, and policy implementation issues, contribute to its unstable GDP growth. Therefore, the responsibility for this instability lies not solely with the IMF but also with Pakistan itself. In summary, IMF loans, in the long term, appear to have a negative rather than positive impact on Pakistan's GDP growth.

4.1.2. Inflation:

Inflation, characterized as a persistent rise in the general price level of goods and services, erodes the purchasing power of currency, resulting in each unit of money buying fewer goods and services due to escalating prices.

Figure 2: Inflation rate in Pakistan, 2000-2023



Source: Own Construction (Data taken from Worldbank and IMF Database)

World Bank data illustrates fluctuating inflation rates in Pakistan from 2000 to 2022. The period from 2000 to 2008 saw a steady increase in inflation, escalating from 3% to a peak of 20.3%. However, between 2008 and 2015, there was a significant reduction, with rates falling to as low as 2.5%. Post-2015, an upward trend in inflation was observed. In 2020, the inflation rate stood

at 9.74%, marking a 0.84% decrease from 2019's rate of 10.58%, which itself represented a substantial 5.5% increase from 2018. The year 2022 saw the inflation rate reach 19.9%, with an average annual rate of 8.4% across this period.

As of October 2023, according to IMF data, Pakistan's annual inflation rate soared to an alarming 29.2%, primarily driven by heightened fuel and energy costs. This marked a continuation of persistently high double-digit inflation since November 2021.

IMF loan agreements typically include a range of conditions aimed at fiscal stabilization. These measures, designed to reduce fiscal deficits, optimize public spending, enhance revenue collection, and liberalize the economy, are intended to restore fiscal balance and improve economic efficiency. However, they can also induce inflationary pressures in the short to medium term.

One recurrent condition of IMF loans to Pakistan is the reduction or elimination of subsidies on critical goods and services such as fuel, electricity, and food. Furthermore, the IMF often advocates for expanding the tax base and increasing tax rates to boost revenue collection. These policies directly elevate the cost of living by raising prices on essential goods and services, thereby contributing to inflation.

To combat inflation and stabilize economies, the IMF frequently advocates for a stringent monetary policy, often including the raising of interest rates. Elevated interest rates are intended to temper spending and investment, but they can also augment borrowing costs and potentially precipitate stagflation – a state where high inflation and unemployment coexist with stagnant economic growth. In recent analyses, the IMF projected a downturn in Pakistan's economic growth accompanied by escalating inflation.

In 2023, the growth forecast for Pakistan's economy was a mere 0.5%, a stark decline from the 6% growth in 2022. This downturn unfolded against a backdrop of soaring inflation, peaking at 27.4% in August, thereby complicating the challenge of managing price pressures amidst the implementation of IMF reforms. The data indicates that despite engaging in numerous IMF programs, Pakistan struggled to reduce its inflation rates, with the government not successfully achieving the goal of curbing the country's inflation.

Figure 3: ATH Inflation in 2023, Pakistan running out of basic necessities. People can be seen in the given figure desperately buying subsidized flour.

Source: Google, 2023

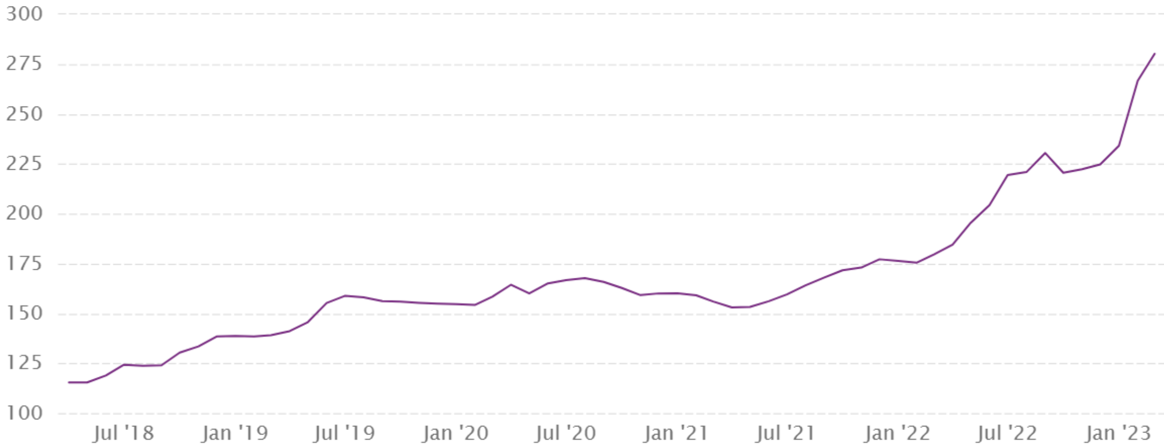
4.1.2.1. Exchange Rate:

Additionally, the IMF often advises or mandates Pakistan and other developing countries to adopt a more flexible exchange rate regime as part of their economic stabilization strategies. This transition often forms a prerequisite for receiving financial assistance. In a flexible exchange rate regime, or a floating exchange rate system, the value of a nation's currency (PKR) is determined by market forces like supply and demand. Unlike a fixed exchange rate system where a government anchors its currency to another (such as the US dollar) and intervenes to maintain this rate, a flexible exchange rate permits the currency value to respond organically to market dynamics.

The purpose of advocating for a flexible exchange rate is to allow the currency's value to align with market conditions, considered to be a more sustainable and market-friendly approach than maintaining a fixed rate. The IMF and other financial institutions may perceive the currencies of many developing countries, including Pakistan, as overvalued. An overvalued currency implies

an artificially high exchange rate, which can render a country's exports costlier for foreign buyers and make imports more affordable. Adjusting the currency to reflect its true market value typically involves devaluation and depreciation, effectively lowering its exchange rate to align with market realities.

Figure 4: Exchange Rate PKR against USD, 2018-23: Period Average: Monthly



Source: CEIC Economic Database, 2023

Table 2: USD to PKR, 2018-23:

Date	1 USD to PKR
12/29/2018	139.12
12/27/2019	154.25
12/25/2020	159
12/31/2021	178.25
12/30/2022	226.55
9/1/2023	307.63

Source: Own construction (Data taken from Google)

The devaluation of a currency can indeed precipitate inflationary pressures. When a currency's value diminishes relative to others, the cost of imported goods and services, which are denominated in foreign currencies, tends to rise in the local currency. This phenomenon is particularly impactful in a country like Pakistan, which relies substantially on imports for both consumer and industrial products.

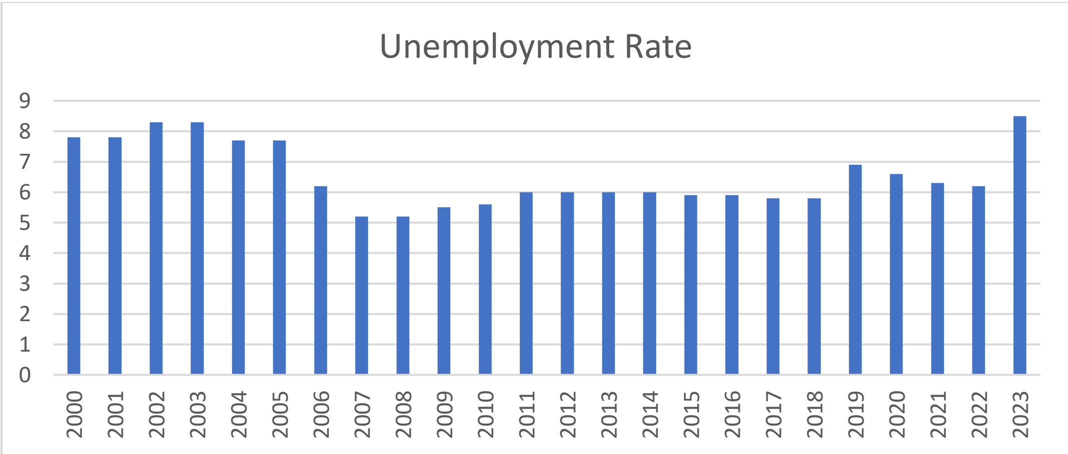
As imported goods become costlier due to currency depreciation, consumers' purchasing power diminishes, potentially leading to a decrease in demand for these imports and a corresponding increase in demand for domestically produced alternatives. This shift can result in demand-pull inflation, a situation where increased demand for local goods and services drives up their prices – essentially, an instance of excess money chasing a limited supply of goods, as consumers turn towards available local products.

For industries within Pakistan that depend on imported raw materials or intermediate goods, a depreciating currency can escalate production costs. Businesses facing such increased costs often transfer these additional expenses to consumers through higher prices for finished goods. Furthermore, workers may seek higher wages to offset the rising cost of living, potentially triggering wage-price spirals, where businesses offset increased labor costs through higher product prices.

4.1.3. Unemployment:

Unemployment, as a crucial macroeconomic indicator, quantifies the proportion of the labor force that is actively seeking but unable to secure employment. It serves as a barometer for the economic vitality of a nation, reflecting job availability and the overall well-being of its workforce. Generally, lower unemployment rates are indicative of a robust economy, while higher rates may denote economic distress or challenges.

Figure 5: Unemployment rate in Pakistan, 2000-2023



Source: Own construction (Data taken from IMF Database)

Drawing on IMF data, the early 2000s in Pakistan were marked by significant unemployment challenges. In 2002-03, the unemployment rate peaked at 8.30%, the highest recorded in the span from 1986 to 2021. Since 2010, the average unemployment rate in Pakistan hovered around 5.45%. The rate saw a slight decrease to 6.30% in 2021, down from 6.90% in 2019.

For the year 2022, the unemployment rate was reported at 6.2%, reflecting a marginal decrease of 0.1% from the previous year. The forecast for 2023 indicated a projected rise in the unemployment rate to 8.5% by year-end, potentially the highest in the last four decades. Further projections by the IMF suggested an 8% unemployment rate for the fiscal year 2024, anticipating a decrease from 8.5% in FY22-23 to 8% in FY24, followed by a further reduction to 7.5% in 2025.

The IMF's stabilization programs in Pakistan appear to have been ineffective in mitigating unemployment. Data shows a deteriorating employment situation during 2000-2023, coinciding with IMF-supported programs. From 1.7% of the total labor force in 1970, unemployment rose to 7.8% in 2000 and further to 8.5% in 2023. One of the key conditions of IMF programs has been the reduction in public expenditure, which can be achieved through cutting back on commodity purchases or employment costs, either by reducing employment or by limiting wage increases below the rate of inflation.

IMF loans often include structural reforms aimed at economic stabilization. These reforms can result in short-term job losses, particularly in public sector enterprises undergoing restructuring or privatization. Austerity measures, such as reduced public spending, can lead to job cuts in the public sector and dampen overall job creation. Market liberalization and deregulation, typically promoted by the IMF, can create competitive market conditions. While potentially beneficial for long-term economic growth, these changes can initially result in job displacements.

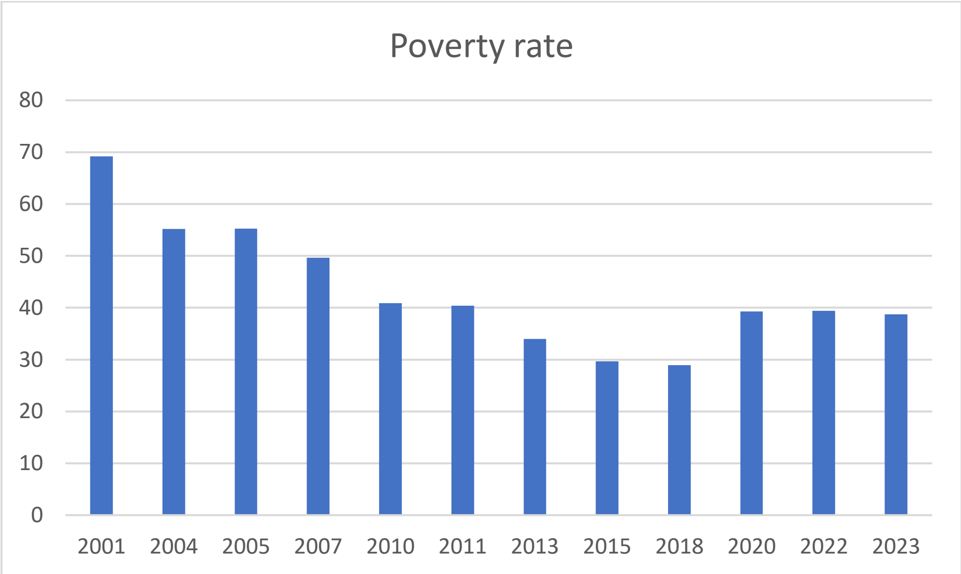
Fiscal consolidation measures under IMF programs have contractionary effects on the Pakistan's economy, leading to reduced economic growth and potentially higher unemployment, especially if these measures are implemented abruptly. While IMF programs emphasize investing in human capital, which can positively impact employment in the long term, the immediate effects might not be apparent, particularly during periods of fiscal consolidation. The continuous implementation of contractionary policies has led to limited economic expansion, insufficient to accommodate the growing labor force. During these programs, the Pakistani economy

experienced not only complete recruitment freezes but also initiatives like the "golden handshake" to promote early retirement. Concurrently, a continuous decrease in development expenditures has further exacerbated the employment situation in the country

4.1.4. Poverty Rate:

Poverty, as a key socio-economic indicator, measures the proportion of the population living beneath a defined income or consumption threshold, shedding light on the economic well-being and resource distribution within a society. Reducing poverty is a fundamental objective of macroeconomic policies, aiming to foster a more equitable and prosperous society.

Figure 6: Poverty rate in Pakistan, 2000-2023:



Source: Own Construction (Data taken from IMF and WB datasets)

Over the past decade, Pakistan has witnessed an increase in poverty rates and a contraction in its middle-class demographic, posing serious challenges to the country's stability. According to the World Bank, the most recent comprehensive Household Integrated Economic Survey (HIES) for accurately gauging poverty was conducted in 2018. As per IMF data, from 2000 to 2018, Pakistan experienced a notable decrease in its poverty rate, falling from 69.19% in 2001 to 40.86% in 2010, and further to 28.93% in 2018, based on a lower middle-income poverty benchmark of USD 3.2 per day.

However, the period between 2020 and 2023 saw a significant rise in poverty rates, attributable to factors such as the COVID-19 pandemic, severe flooding, political instability, and delays in IMF loan approvals. The World Bank estimated the poverty rate at 39.3% for the fiscal year 2020-21, using the same poverty threshold of USD 3.2 per day.

By 2023, the poverty rate was projected to have increased marginally to 39.4%, marking an over 5 percentage point jump from the previous year. The World Bank has critiqued Pakistan's economic development model, citing its inability to effectively alleviate poverty. It reported that poverty in Pakistan soared from 34.2% in the fiscal year 2022 to a daunting 39.4% in the subsequent fiscal year, pushing approximately 12.5 million individuals below the poverty line.

The World Bank's recent report in 2023 attributes this significant rise in poverty to diminished economic activity and incomes, unprecedentedly high food and energy costs, service disruptions, and the devastating impact of the 2022 floods on crops and livestock. High inflation has led to a drastic reduction in demand and economic activity, causing widespread industrial shutdowns and scaled-back operations. Concurrently, a rapidly depreciating rupee (which only saw an appreciation in September 2023) has resulted in a drop in real incomes, with the previous year's floods exacerbating economic hardships. Additionally, increased power tariffs and fuel prices have further burdened households.

The report also highlights that over 80% of impoverished workers in Pakistan are employed in sectors such as agriculture, manufacturing, construction, and trade. The subdued economic activities in these areas have adversely affected job quality and labor incomes for poor households and those at risk of falling into poverty.

Figure 7: Poor children in Pakistan fighting for government's food aid.

Source: Google, 2023

According to WB report in 2023, the real value of remittances from abroad has diminished, compounding economic challenges in Pakistan. Concurrently, food inflation soared, averaging 38.7% in FY23. Elevated energy prices are expected to perpetuate domestic price pressures, potentially escalating social and economic instability. This inflationary environment has eroded households' real incomes and purchasing power, with the impact being particularly severe for poor and vulnerable households. These groups typically allocate around half of their budget to food, and households in the poorest decile have experienced an inflation rate around 7 percentage points higher than those in the richest decile. The World Bank has expressed concerns that sustained high food and energy price inflation, coupled with lack of significant growth, could lead to social upheaval and negatively affect welfare, especially for those in worse-off households who have already seen their savings and incomes reduced.

When nations seek financial assistance from the International Monetary Fund (IMF), it's often in response to economic hardships like high debt levels, balance of payments issues, or currency devaluation. In return for financial support, the IMF typically mandates structural reforms to enhance the country's economic stability and sustainability. These reforms may involve fiscal consolidation, aimed at reducing budget deficits and public debt levels. However, such reforms,

especially those focused on fiscal consolidation, can have detrimental impacts on poverty for several reasons.

Pakistan usually subsidize essential goods and services like food, fuel, and healthcare to help poor people purchasing these essential needs however, IMF recommended subsidy removal and increasing taxes that result in higher prices for these essentials, diminishes the purchasing power of households and makes it harder to afford basic necessities.

To reduce budget deficits, government might cut public spending, affecting social services like education and healthcare, which can limit access to these critical services for vulnerable populations.

IMF-mandated reforms often include austerity measures like wage freezes, public sector layoffs, and reduced social benefits, potentially leading to job losses and income reductions, pushing more people into poverty.

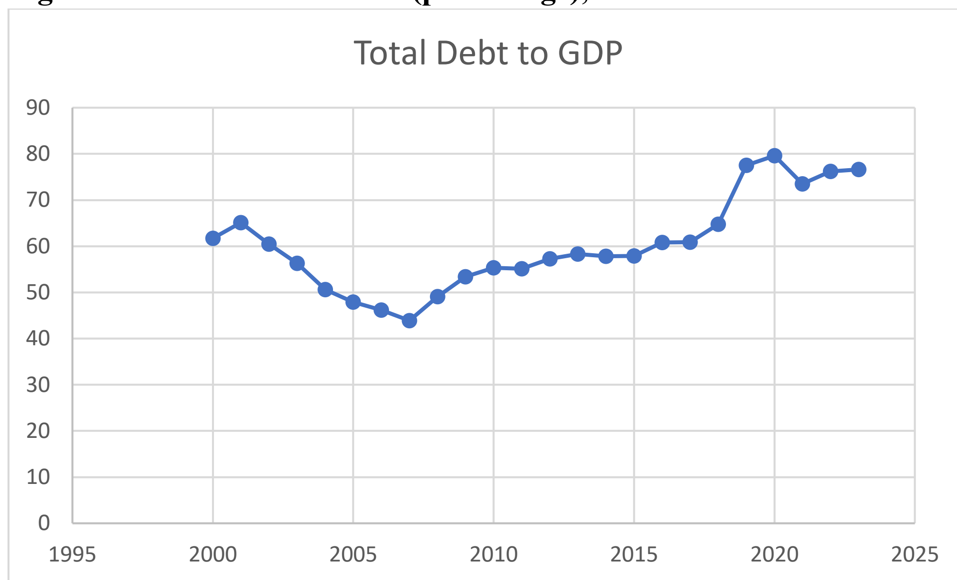
Structural reforms can lead to job losses, particularly in sectors impacted by privatization or reduced public spending, which can elevate poverty levels as people lose their income sources.

To alleviate the negative effects of these structural reforms on vulnerable groups, IMF programs often underscore the importance of social spending, which may include targeted cash transfers, food assistance, or education subsidies. However, the success of these measures in mitigating poverty largely depends on the strength and efficiency of the existing social protection systems. If these systems are weak or poorly managed, the intended benefits may not effectively reach those in dire need.

4.1.5. Total Debt:

Government debt, a crucial fiscal indicator, measures the total financial liabilities of a government, typically expressed as a percentage of its Gross Domestic Product (GDP). This metric indicates the extent of debt accumulation by the government and its capacity to manage fiscal obligations. A high government debt-to-GDP ratio can signify potential risks to economic stability and affect a nation's creditworthiness.

Figure 8: Gross Debt to GDP (percentage), 2000 to 2023



Source: Own construction (data taken from IMF dataset)

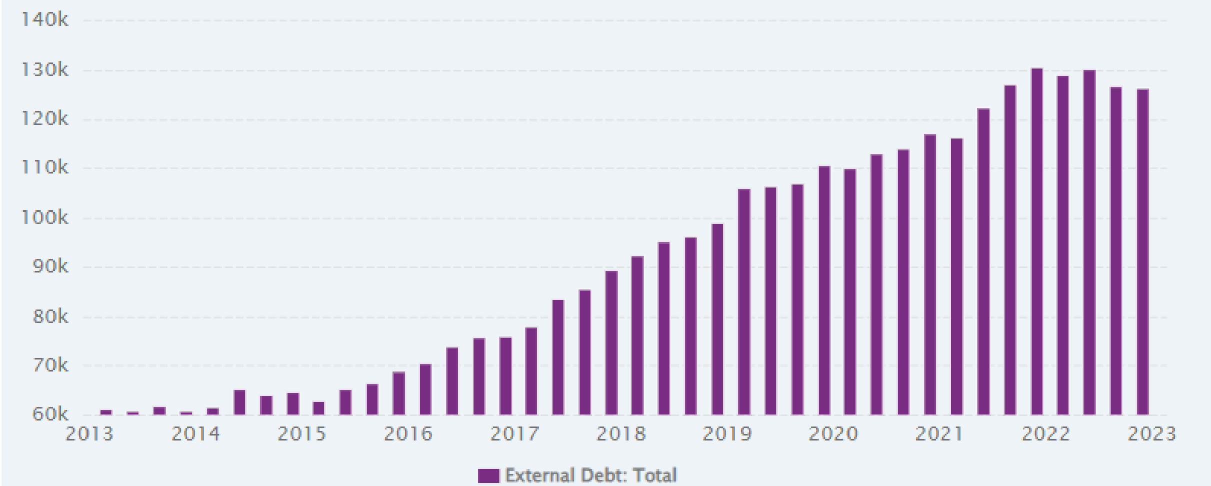
Pakistan's journey with the International Monetary Fund (IMF) began shortly after its independence, initially seeking financial stability. However, over time, rather than achieving stability, Pakistan has increasingly found itself engulfed in debt. The country now faces a situation where it must secure new IMF loans to repay its maturing debts, leading to a circular debt condition. According to the IMF, Pakistan's government gross Debt to GDP Ratio in the past three decades has consistently been above 50%, except for a brief period from 2005-08 when it dipped to 44%.

The gross Debt to GDP ratio was 61% in 2000, which then decreased to 44% by 2007. However, from 2008 onwards, it followed an upward trajectory, reaching 57.9% in 2015 and escalating to an all-time high of 79.6% in 2020. In FY 2021, there was a slight reduction to 73.5%, a decrease of 6.1%. Yet, in FY 2022, the ratio increased again to 76.2%, and in 2023 it was recorded at 76.6%. These figures are alarmingly high and indicate a deteriorating economic situation in Pakistan.

Data from reputable sources, including the World Bank, UNICEF, the Economic Survey, the International Diabetes Federation, UNAID, and the State Bank of Pakistan (SBP), place Pakistan among the top 10 countries with the highest external debt, totaling $127 billion. This amount has more than doubled in the last decade, from $61 billion in 2013. The country owes substantial

amounts to various creditors, including $0.3 billion to the Paris Club, $33.1 billion to multilateral donors, $7.4 billion to the International Monetary Fund, and $12 billion in international bonds such as Eurobond and Sukuk. Around 15% of the external debt, approximately $17.1 billion (6.15% of GDP), is owed to China, largely attributable to the China-Pakistan Economic Corridor.

Figure 9: Pakistan external debt in Billion USD



Source: CEIC Economic Database, 2023

Pakistan faces a multitude of daunting challenges that significantly impede its economic stability and development. These include managing escalating national debt, addressing inefficient resource utilization, contending with a rapidly growing population, combating rising unemployment rates, and improving inadequate health and education facilities. Additionally, the country grapples with an energy crisis and the detrimental effects of public sector enterprises. Of particular concern is Pakistan's circular debt, which ranges between Rs 1200 to 2500 billion, an amount nearly equivalent to its annual budget.

The impact of IMF loans on Pakistan's economy is multifaceted, contributing to an increase in external debt. Borrowing from the IMF adds to Pakistan's total debt burden, particularly the portion owed to foreign entities. These loans are often accompanied by conditions mandating fiscal adjustments and structural reforms, which can be financially straining in the short term. This scenario may necessitate further borrowing to cover budget deficits and facilitate required changes, exacerbating debt accumulation.

Pakistan's habitual reliance on IMF loans indicates a cyclical pattern of economic crises, where these loans serve as temporary solutions without addressing underlying issues. Absent sustainable economic reforms, Pakistan may continue to face recurring financial difficulties. Frequent borrowing from the IMF and other international lenders can result in a debt trap, where a significant portion of national revenue is devoted to debt servicing, limiting funds available for productive investments in the economy and stifling long-term economic growth.

IMF programs often encourage a more flexible exchange rate regime, leading to currency devaluation. The IMF and other financial institutions commonly view the currencies of developing countries, including Pakistan's Rupee, as overvalued, necessitating rationalization. Currency depreciation increases the cost of servicing foreign-denominated debt in local currency terms, adding to the debt burden, especially if a substantial portion of Pakistan's debt is in foreign currencies.

Pakistan frequently seeks IMF loans to address fiscal deficits, which arise when government expenditures exceed revenues. While these loans offer short-term relief, they may not resolve long-standing issues of inadequate revenue generation and rising expenditures, potentially perpetuating or exacerbating fiscal deficits. High fiscal deficits can place additional strain on the country's finances, requiring further borrowing to bridge budget gaps.

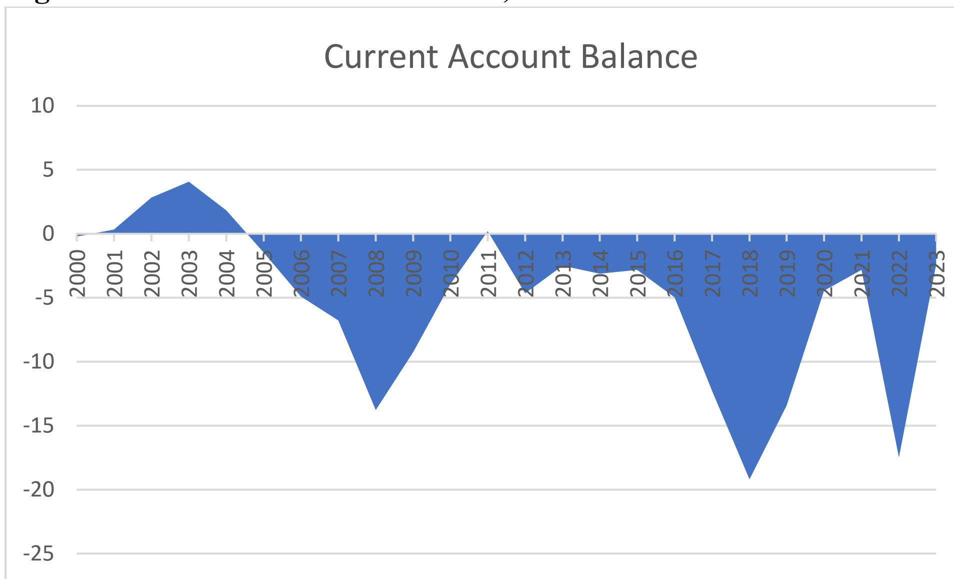
Interest payments on IMF loans add another layer to Pakistan's financial challenges. Like any debt, these loans accrue interest, contributing to the country’s financial obligations. If the economy does not grow sufficiently, generating adequate revenue to cover these costs becomes challenging, further straining national finances.

In conclusion, the impact of IMF loans on Pakistan's economy involves a complex balance between immediate financial support and enduring challenges. These loans provide crucial short-term relief but come with conditions demanding structural and fiscal adjustments, often leading to increased debt accumulation and financial complications, particularly in the context of currency depreciation and interest payments.

4.1.6. Current Account balance:

The current account balance is a key macroeconomic indicator that gauges the net flow of goods, services, income, and current transfers between a nation and the rest of the world over a specific timeframe. This measure offers insights into a country's economic relations with other nations, encompassing aspects such as trade balance, foreign investment income, and current transfer payments. A surplus in the current account indicates that a country's exports exceed its imports, while a deficit implies the opposite.

Figure 10: Current Account Balance, 2000-2023



Source: Own construction (Data taken from IMF Dataset)

Based on IMF data, Pakistan experienced a relatively positive trend in its current account balance in the early 2000s, achieving an all-time high surplus of $4.07 billion in 2003. However, the country has since grappled with current account deficits, witnessing a decline to a $1.47 billion deficit in 2005, which further deteriorated to a $13.79 billion deficit in subsequent years.

There was a brief improvement in 2011, with a $0.21 billion surplus recorded. Nonetheless, Pakistan's current account balance plunged into significant deficits thereafter, reaching a substantial $19.19 billion deficit in 2018. The years 2020 and 2021 showed some recovery, with

current account deficits of $4.45 billion and $2.82 billion, respectively, marking a notable improvement of $16.37 billion compared to 2018.

However, this trend was short-lived. Severe floods and political instability in Pakistan led to a tightened economic situation, resulting in a current account deficit of $17.48 billion, highlighting a trade imbalance with imports exceeding exports by approximately $45 billion. In the first half of 2023, Pakistan's financial condition deteriorated, particularly as the IMF delayed approving a $3 billion loan due to unmet loan requirements. In July, however, Pakistan received the first installment of $1 billion, leading to an improvement in its economic performance. Subsequently, a positive trend emerged, with the current account deficit reducing to $2.39 billion.

IMF loans often entail conditions for fiscal consolidation that can affect the current account. For example, reducing government expenditure might lead to decreased imports, potentially improving the current account balance. However, the IMF also typically encourages Pakistan to adopt more flexible exchange rate regimes as part of their economic stabilization programs. This approach allows the currency's value to be determined by market forces, often resulting in currency devaluation and depreciation. While this can make exports more competitive, it can also increase the cost of imports, particularly for a country like Pakistan that relies heavily on imports, thereby creating a deficit situation in its current account balance.

The structural reforms recommended by the IMF are designed to enhance exports and reduce imports to address the current account deficit. However, the success of these reforms depends on various domestic and global economic factors.

IMF programs often prioritize short-term stabilization and fiscal discipline, which can lead to reduced public investment and potentially slower economic growth. A weaker economy with lower income levels might result in decreased imports, thereby improving the current account balance, but this could come at the cost of long-term economic development. Additionally, the repayment obligations associated with IMF loans require countries to allocate a portion of their foreign exchange reserves and revenue to servicing these debts, which can strain foreign exchange reserves and affect the current account balance, especially if the country struggles to meet its debt service obligations. Reliance on IMF loans can also foster a dependency on external financing, necessitating adherence to specific conditions and targets. This dependency can be

detrimental to a country's long-term financial stability, as it may continuously require external assistance to maintain its current account balance.

The financial crisis in Pakistan, in conjunction with its involvement with the IMF, underscores several critical issues. IMF loans, designed to stabilize economies, often impose rigorous conditions, including austerity measures that can burden the population. These measures can exacerbate poverty, worsen unemployment, and negatively impact social services. Beyond the challenges related to the IMF, Pakistan's government's own economic policies significantly contribute to the country's financial difficulties. Mismanagement of resources, failure to control inflation, and pervasive government corruption exacerbate economic strains. Inadequate policy implementation, poor revenue generation, and a lack of comprehensive reforms have impeded the effectiveness of these programs.

Corruption in Pakistan, pervasive in both government and other sectors, remains a major problem, hindering economic growth, eroding public trust, and diverting resources from vital public services. The complex challenges facing Pakistan—including stringent IMF conditions, skepticism regarding the efficacy of loan programs, flawed government policies, and corruption—collectively add to the intricacies of the country's financial crisis. Addressing these multifaceted issues is crucial for achieving sustainable economic stability and growth in Pakistan.

4.2: Discussion:

The International Monetary Fund (IMF), since its establishment, has been a pivotal entity in offering financial aid to nations grappling with economic difficulties. Its core mission revolves around fostering global monetary cooperation and stabilizing economies, especially focusing on assisting impoverished countries. Pakistan, since its independence, has repeatedly sought IMF support, resorting to its assistance 24 times. Through various loan programs, including bailout packages and extended loan facilities, Pakistan has received substantial financial aid from the IMF. However, despite this assistance, Pakistan's economy has not attained the desired level of stability, leading to questions about the efficacy of IMF loans and prompting a reevaluation of Pakistan’s economic policies.

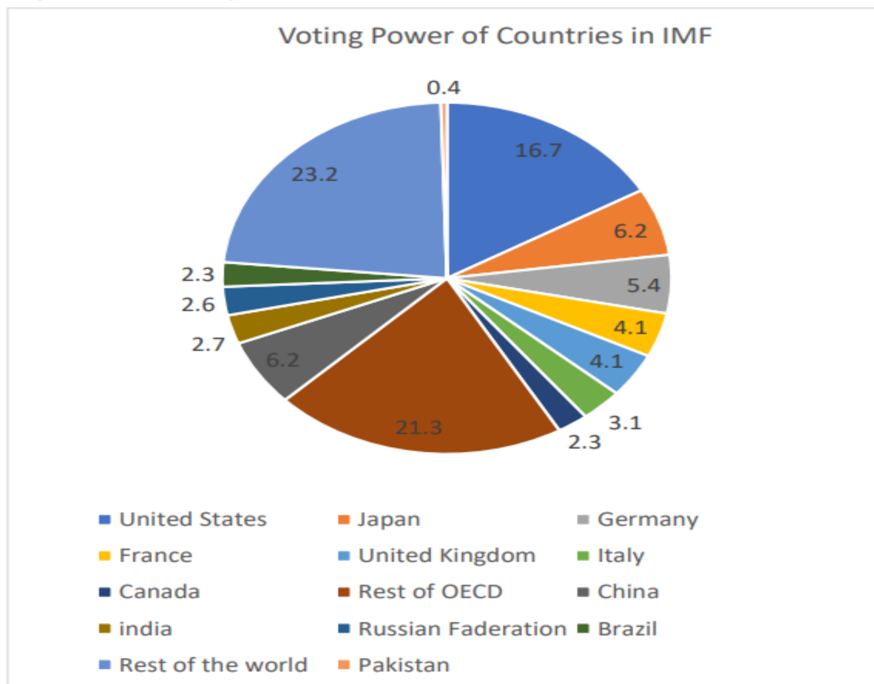
4.2.1 Arguments Against IMF:

Numerous arguments challenge the effectiveness of IMF programs and policies in fostering financial system improvement, particularly in developing nations such as Pakistan. Critics contend that certain aspects of IMF interventions may hinder rather than facilitate economic progress. The need for a reassessment of IMF strategies arises, urging a closer examination of the challenges faced by countries like Pakistan in achieving sustainable economic development through IMF collaborations.

4.2.1.1. Voting Power:

The IMF, with its 189 member nations, is the largest financial institution of its kind. However, the representation of countries in the IMF, based on share and quota, does not accurately mirror the real-world structure. The allocation of share and quota within the IMF disproportionately empowers a few countries, leaving others with lesser influence. The United States holds the highest power with a 16.73% share, followed by Japan at 6.14%, and China at 6.08%. Other countries collectively hold a 23.2% share, with Pakistan having a mere 0.43%.

Figure 11: Voting Power of Countries in IMF



Source: IMF Website

Critics like Muhumed M. M. (2014) have argued that this distribution, heavily influenced by Western dominance, fails to reflect a fair and equitable system. Less economically powerful countries like Pakistan have limited sway over the terms and conditions of their loans. Consequently, when Pakistan borrows from the IMF, it often faces high interest rates, stringent payback terms, and tough conditions. The inherent power imbalances within the IMF pose significant challenges for less influential nations in negotiating fair loan terms. Factors like economic and geopolitical importance can also skew IMF decisions.

To address this disparity, countries like Pakistan can push for governance reforms within the IMF and seek solidarity from other nations to achieve more equitable lending conditions. Such reforms would aim to ensure that the needs and voices of less economically powerful countries are adequately represented and considered in IMF decision-making processes.

4.2.1.2. Ineffective Policies:

The IMF has faced criticism for its failures in devising effective strategies and policies for countries in crisis, leading to the ineffectiveness of its programs. A critical issue is that IMF policies are often developed by Western experts whose recommendations are based on the financial systems and conditions of developed countries. This approach can overlook the unique circumstances and needs of recipient countries, resulting in programs that fail to address the core economic issues. The lack of customization and flexibility in IMF policies can exacerbate the challenges faced by countries in crisis, as these one-size-fits-all solutions may not align with the specific economic, social, and political contexts. To improve the effectiveness of IMF programs, it is essential to adopt a more inclusive and context-sensitive approach, where the specific situation, needs, and goals of the recipient country are considered. Tailoring policies to individual countries can better support economic stability and growth, reducing the likelihood of program failures.

Additionally, IMF policies are often criticized for disproportionately burdening the poor. The pressure of debt repayment and associated interest typically falls on the lower-income segments of society. In Pakistan's case, the IMF's approach has been repeatedly deemed ineffective, hindering national productivity and growth potential. This persistent burden on the poor and the failure to foster sustainable economic growth call for a reassessment of the IMF's impact on

developing countries. A reevaluation of the approach, with a greater focus on the welfare of vulnerable populations, is crucial.

4.2.1.3. Unfavorable Conditions:

The conditions attached to IMF loans often exacerbate economic challenges for recipient countries. When accepting loans from the IMF, countries like Pakistan are compelled to agree to various stipulations, which frequently worsen their economic situations. These conditions include currency devaluation, budget deficit reduction, and interest rate hikes, as well as lowering trade barriers and deregulating prices. Such measures can lead to deeper indebtedness, as currency devaluation increases the cost of repaying foreign-denominated debt. The removal of trade barriers can result in increased unemployment, as domestic industries struggle to compete with imported goods from developed countries. Additionally, rising costs for utilities and education can effectively deprive poor populations of basic living standards. In summary, the conditions imposed by the IMF on countries like Pakistan often aggravate their economic predicaments.

4.2.1.4. Trade Liberalization and Privatization:

The IMF's endorsement of trade liberalization and privatization is often met with skepticism, particularly regarding its effects on developing countries. Critics argue that these policies can disproportionately benefit developed nations while potentially exacerbating poverty in less developed countries. Privatization, a key element of IMF recommendations, is criticized for potentially leading to monopolistic markets, reducing competition, and adversely impacting consumers. The concern is that such policies might favor the interests of foreign corporations and affluent elites at the expense of the general populace in developing nations. Balancing market-oriented reforms with the protection of the interests of the poor and vulnerable remains a significant challenge for countries implementing IMF policies. Effective regulation and thoughtful implementation are crucial to ensure that these reforms promote economic growth without deepening inequality.

4.2.1.5. Income Distribution:

The impact of IMF loans on income distribution within an economy is a subject of considerable debate. The austerity measures and economic reforms mandated by these loans often disproportionately impact the income and welfare of poorer and more vulnerable groups. Such policies can lead to heightened income inequality, especially when they result in reduced social spending and cutbacks in programs that predominantly benefit lower-income segments. Consequently, the economic burden and benefits of IMF loans can significantly influence income disparities within a country. Studies by researchers like Gilbert & Unger (2009) have noted the increase in income inequality associated with IMF conditions.

4.2.1.6. Interference in Recipient Country:

The IMF has been criticized for its lack of transparency and undue involvement in the internal affairs of recipient countries. Critics assert that the organization often proposes solutions without fully comprehending the root causes of an economic crisis. For the IMF to be more effective, it is crucial to engage comprehensively with recipient nations, gaining an in-depth understanding of their unique challenges and considering the potential repercussions of recommended policies. Such an approach would enable the development of more customized and informed solutions, better equipped to tackle the specific issues that precipitate economic crises.

4.2.2 Arguments Against Pakistan's Own System:

Indeed, Pakistan's economic situation largely depends on itself, emphasizing that IMF programs should serve as assistance rather than a remedy. To address economic challenges and break free from reliance on loans and aids, Pakistan must prioritize introspection into its policies and governance. By focusing on internal reforms, Pakistan can pave the way for sustainable economic growth and reduce dependence on external interventions. This entails a critical examination of the shortcomings within the national system which are discussed below.

4.2.2.1. Debt Accumulation:

Pakistan's reliance on loans, particularly bailout loans, has not been a viable solution for sustainable economic development. The country frequently finds itself in a cycle of borrowing, where loans are taken to pay off previous debts, leading to a compounding debt crisis. This cycle is exacerbated by a significant current account deficit, driven by the fact that imports far exceed exports. As Baloch (2018) notes, for every dollar earned, the country spends approximately 2.2 dollars. This continual debt accumulation restricts long-term economic growth and development, as a large part of the national budget is consumed by debt servicing. To break free from this cycle and ensure economic stability and growth, Pakistan needs to focus on structural reforms, boosting exports, and reducing reliance on external financing. Self-sufficiency and internal resource generation are key to moving away from dependence on IMF and other lenders. A country burdened with heavy debt faces challenges in achieving development and risks sinking deeper into financial crisis.

4.2.2.2. Governmental Biases:

The issue of ineffective governance in Pakistan significantly contributes to its economic challenges. While the IMF's strategies have not always yielded desired results, Pakistan's own leadership and policy-making framework have also been lacking. As Latif (2005) pointed out, the development of the country cannot solely rely on loans if the internal system remains flawed. Corruption within the government undermines public trust and diverts funds that could be used for development. The failure of leaders to act in the best interest of the people has perpetuated many of Pakistan's economic problems. Inefficiencies and ineffectiveness in governance further compound these issues. The enhancement of Pakistan’s policy-making team with competent professionals is crucial for effective decision-making and improved outcomes in various sectors. To foster economic growth and development, it is imperative to address corruption and improve governance, ensuring a transparent and accountable economic system.

4.2.2.3. Industrialization Shortfall:

Pakistan's economic challenges are partly due to its limited investment in industrialization. Industrial sectors are key drivers of economic growth, job creation, and technological

advancement. The country's focus on industrial development has been insufficient, leading to a heavy reliance on agriculture and services, which can impede economic diversification. Industrialization can enhance productivity, increase exports, and help reduce trade deficits. Without significant investments in industry, Pakistan misses opportunities for value addition and global competitiveness. Factors like inadequate infrastructure, energy shortages, and regulatory barriers further inhibit industrial growth. For a more balanced and robust economic landscape, Pakistan needs to prioritize industrialization.

4.2.2.4. Political Instability:

The history of political instability in Pakistan, characterized by frequent changes in leadership and government interference, has been detrimental to its economic progress. Over the past seven decades, no prime minister has completed a full five-year term. The involvement of institutions like the judiciary, presidency, and military in political matters often results in the removal of elected leaders. Economic development in Pakistan requires genuine, free, and fair elections, free from foreign influence, allowing people to choose their government. Political stability is essential for sustainable development, as it supports consistent, long-term policies and reforms that drive economic growth and prosperity. With its rich natural resources and strategic geographical location, Pakistan needs a stable government capable of utilizing resources effectively, crafting foreign policies that benefit the nation, and implementing strategies to boost the economy and reduce reliance on loans.

4.2.2.5. Lack of Secure Investment Opportunities:

Pakistan's economy also suffers from a scarcity of transparent and secure investment opportunities, deterring foreign investments and engagement from multinational companies. To foster economic growth, Pakistan must transform into a stable democratic nation offering equitable and secure conditions for investment. A conducive investment environment can attract foreign capital, contributing to GDP growth, reducing unemployment and poverty, and facilitating technology and expertise transfer. To capitalize on these benefits, creating an appealing and secure investment climate should be a priority for Pakistan.

Section 5: Conclusion and Recommendation

5.1. Conclusion:

Since its first engagement with IMF-supported programs in 1958, Pakistan has been a long-standing participant, marking a 65-year history. This extensive period warrants a thorough evaluation of these programs' effectiveness. Worldwide, macroeconomic outcomes are often the primary criteria for assessing the success of IMF-supported initiatives. This paper delves into various macroeconomic impacts in Pakistan post-IMF program adoption. The research focuses on the influence of IMF loans on key economic indicators, including GDP growth, inflation, current account balance, unemployment, gross debt-to-GDP ratio, and poverty levels.

IMF reports indicate short-term economic growth for Pakistan. Yet, our findings suggest that in the long-term, economic growth has faltered, unemployment has escalated, and policies such as immediate trade liberalization have led to the shutdown of domestic industries. Currency devaluation has also significantly raised import costs. Presently, Pakistan grapples with a challenging economic situation, with escalating fuel costs and limited options for improvement.

The short-lived nature of policy implementations has adversely affected Pakistan's governance. The study concludes that Pakistan requires a targeted policy, potentially within an IMF framework, to address these longstanding issues. The country continues to struggle with rising unemployment, inflation, poverty, energy crises, and balance of payment challenges. The findings reveal persistent instability in governance and policy execution in IMF lending programs, hindering Pakistan's ability to achieve macroeconomic goals like poverty reduction, inflation control, and maintaining a healthy balance of payments.

A key issue with privatization was the lack of preparatory measures for the workers who would be laid off, leading to chronic unemployment that continues to rise. The swift move towards open trade, including the reduction of tariffs and other protective measures, has led to the shutdown of approximately 3000 domestic units (Amjad, 2004). The transition in tax policy from tariffs to more regressive forms has exacerbated income inequality.

The crux of Pakistan's economic woes lies in its reliance on imported goods, which has adversely affected domestic market prices and diminished its competitiveness in global markets. The latest

IMF program, the 24th, has introduced contractionary monetary policies and reduced public spending, leading to negligible economic growth.

Historically, IMF loans in Pakistan have served as a temporary fix, helping governments to stay afloat. Successive governments have preferred easier policies over more challenging ones. A detailed analysis of IMF programs reveals that they provide only short-term relief to a floundering economy. They act as a supplement to weak fiscal and monetary systems, masking long-standing, self-serving policies rather than offering sustainable solutions. These programs are not cures but temporary arrangements to mitigate immediate financial crises.

IMF bailouts are not designed for holistic restructuring or strategic re-budgeting. They fail to fully utilize available resources. The paper concludes that the impact of IMF programs on Pakistan's economy is largely negative, especially for the poor. The inability of the Federal Board of Revenue (FBR) to meet budgetary targets underscores the inefficiency of these programs in addressing current economic and socio-financial challenges. Rising inflation, unemployment, power tariffs, and downsizing in both public and private sectors highlight the shortcomings of IMF's "magical monetary treatment." The paper asserts that IMF bailouts are not aimed at stabilizing the economy but rather at providing short-term support, often misinterpreted as a pathway to prosperity. This underscores the need for Pakistan to develop independent national tax and monetary policies.

The study highlights that IMF-supported programs have adversely affected Pakistan's current account balance during their tenure. The immediate liberalization of trade resulted in the closure of many domestic businesses. The persistent devaluation of the Pakistani rupee against the dollar has escalated the costs of crude oil and machinery – critical imports for the domestic industry – thus impairing the competitiveness of local firms against international counterparts. Additionally, the economic reforms have led to a substantial rise in unemployment, with policies like privatization, cuts in public spending, and contractionary monetary measures all contributing to this increase.

The paper advocates for Pakistan to reconsider its reliance on IMF programs in the future. Notably, Pakistan's extensive history with the IMF suggests a need for a strategic shift. The government should prioritize rebuilding the economy on sustainable foundations, focusing on enhancing GDP growth through innovative technology, productive investments, and increased

exports, while simultaneously reducing unemployment. To address the trade deficit, policy reforms should encourage domestic production and limit imports, especially those not contributing to capital formation.

Pakistan's struggle with low organizational performance, unstable political climate, and inadequate infrastructure can be largely attributed to poor governance. Effective governance, characterized by political stability and strong connections with state institutions and civil society, is crucial for addressing these challenges. Good governance, marked by competent, transparent, and responsive management of resources and businesses, is essential for effective poverty reduction and economic growth. It also involves strengthening institutions to implement policies with broad public engagement.

The findings of the study conclude that the conditions imposed by the IMF were not aligned with Pakistan's domestic objectives. Various structural adjustment policies, such as reducing the budget deficit, increasing indirect taxes, adjusting the exchange rate, and cutting subsidies, have intensified economic issues during Pakistan's adjustment period. Efforts to reduce the budget deficit, primarily through cuts in development expenditure rather than increasing revenue or reducing current expenditures, have led to higher unemployment, greater income inequality, and increased inflation. The hike in indirect taxes has similarly negatively impacted unemployment, income inequality, and inflation, while stifling per-capita GDP growth. Adjustments in the exchange rate have further exacerbated unemployment and inflation. Moreover, the elimination of subsidies, a key aspect of these programs, has led to increased unemployment and income inequality, reduced per-capita income, and fueled inflation.

Furthermore, the study concluded that the IMF's policies have not been beneficial. A key takeaway is that solutions must be internally driven. Based on the results and discussions, it appears that the IMF primarily serves the interests of developed nations, with its purported goal of aiding developing countries remaining largely unfulfilled. The treatment of developing nations by the IMF has been found lacking. The study revealed a negative correlation between IMF loans and Pakistan's GDP. To enhance GDP Per Capita, the study suggests reducing reliance on IMF loans, viewing them as burdensome to the economy. Pakistan is trapped in a cycle of debt, borrowing new loans to repay existing ones and their interest payments. It is evident that neither past nor current IMF bailout programs have ameliorated Pakistan's economic situation. Pakistan

must leverage its own resources to gradually become independent, reducing its reliance on external debts and bailout packages. Repeatedly seeking help from the IMF is likened to repeatedly consulting a doctor whose treatments have previously failed.

5.2. Recommendation:

The discussion underscores that IMF stabilization policies have negatively impacted Pakistan's fragile economy. However, it is crucial to seek sustainable solutions for long-term economic growth without resorting to financial aid under stringent conditions. Pakistan is a resource-rich country, but these resources are underutilized. The following recommendations are proposed for strengthening Pakistan's economy in the long term:

Accountability: There is an urgent need for accountability in Pakistan, where individuals and organizations must be held responsible for actions that negatively affect public interest. This involves enhancing political accountability, ensuring public servants answer to their constituents, and improving management and hierarchical responsibility. Establishing a fair system to prevent politicians from extracting funds from the economy and engaging in corruption is essential. Corruption leads to capital flight, exacerbating economic crises and increasing reliance on loans, thereby escalating national debt. Addressing corruption is a critical step towards economic growth. Effective measures against corruption can prevent the outflow of money from the economy, thus averting a financial crisis and reducing the need for additional loans that burden the economy.

Efficient Governance: The implementation of effective and efficient governance is critical for Pakistan. Efficient governance implies the optimal and systematic utilization of resources to ensure maximum societal benefit. Pakistan must concentrate on formulating and implementing its own policies that support economic growth, addressing various shortcomings in its economy. A robust governance framework is needed, encompassing diverse policies and proactive measures to curb inflation, alleviate poverty, and enhance tax collection, thereby fostering higher economic growth. Improving the standard and quality of public services is essential, along with establishing a government that prioritizes its citizens and demonstrates sound financial management. Pakistani institutions and practices must be reformed to serve all stakeholders promptly and effectively. For instance, Pakistan's current bureaucratic system struggles with

effective taxation management, highlighting the need for reforms that prioritize the interests of citizens.

Tax Collection: A key solution lies in establishing equitable tax policies through a progressive tax culture. Despite a population of 230 million, only about 1% are taxpayers (registered tax number holders). Expanding the tax base with no exemptions and reductions could significantly increase revenue, steering Pakistan towards self-reliance. Making taxes on land property and agricultural income mandatory will boost federal revenues and prevent the misuse of agricultural subsidies by affluent farmers. Documenting the economy and integrating data from various departments like NADRA, immigration, banks, etc., to create a comprehensive database for auditing taxpayers and capturing those whose expenditures exceed their declared incomes is also crucial.

Transparent Administration: The performance of civil servants, reliant on public trust, is a cornerstone of effective governance. The absence of transparent public administration, coupled with unethical practices, poses a significant threat to good governance and economic stability. Corruption, a major form of unethical behavior, is often cited as the most significant barrier to political, economic, and social development.

Industrialization: Fostering an environment conducive to business, with simplified procedures and incentives for new enterprises, is essential for industrial and business sector growth. This approach will help reduce imports and increase exports. A focus on technologically advanced industrial development can reduce the import burden, especially as a devalued currency raises import costs and exacerbates the current account deficit. Promoting Special Economic Zones (SEZs) with benefits like low-tariff power, tax reliefs, and immediate subsidies will aid in industrialization and export enhancement. Establishing technical institutes with relevant curricula is important for developing a skilled workforce for a strong industrial sector capable of competing internationally. Additionally, forming specialized teams to research and improve the quality of exports is vital to reduce import dependency.

Agricultural Development: Revitalizing the economy through agricultural advancement is vital. Providing subsidies to farmers, reducing power tariffs, and offering interest-free loans can open new revenue avenues. Investments in the Livestock and Dairy sectors are crucial not only to

meet local needs but also to limit imports of certain non-essential food items through technological advancements.

Investment in Tourism: Tourism development holds great potential for Pakistan's future. In 2016, tourism contributed $7.6 billion USD, equivalent to 2.7% of Pakistan's total GDP. By 2025, the government expects the tourism sector to contribute approximately $9.5 billion (Rs1 trillion) to the economy. Pakistan is rich in diverse tourist attractions, including religious, adventure, and scenic spots. Serious investment in this sector could open avenues for Foreign Direct Investment (FDI) and employment growth.

Improve Banking System: Enhancing the banking system to facilitate remittances from overseas Pakistanis through official channels can significantly boost foreign exchange reserves.

Invest in Human Capital: Investing in human capital is crucial. Developing the industrial sector, which provides substantial employment and improves living standards, also increases production and national income.

Privatization: The privatization of loss-making state-owned enterprises, such as PIA, Steel Mills, and PTCL, is recommended. Adopting policies that attract investments and make the economy more appealing to foreign capital is essential.

Control on Imports: A stringent ban on the import of non-essential luxury items for a minimum of three years is suggested to control unnecessary expenditure.

Political Stability: Achieving economic stability is a prerequisite for political stability. Since its inception, Pakistan has grappled with political instability, which in turn adversely affects economic stability. Ensuring political stability is therefore crucial for the country's overall development and progress.

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