Implications of IMF Loans for the Economy of Pakistan (2008-2013):

A Critical Analysis

By

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AUTHOR'S DECLARATION

I, Haider Nisar Swati, hereby declare that this dissertation titled **"Implications of IMF Loans for the Economy of Pakistan (2008-2013): A Critical Analysis"** has been entirely composed by me based on my research work, conducted under the sincere guidance of my supervisor, **Dr. Manzoor Ali Veesrio**. No part of this dissertation has been copied from any source. Furthermore, no segment of the research presented in this dissertation has been previously submitted for any degree or qualification, either in this university or any other educational institution.

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Signature: haider.

DEDICATION

I dedicate this thesis to my Mother,

Ghuncha Gul,

A real **Comrade**,

Who fought against all odds throughout her life!

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Embarking on the journey of working on my MPhil thesis has proven to be a manageable task, thanks to the serenity of my mind, the unwavering support of my family, the cooperation of my peers, and the demanding and serious approach I adopted. I am grateful to numerous individuals who, directly or indirectly, played a role in helping me achieve these favorable conditions.

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
FBR	Federal Board of Revenue
GDP	Gross Domestic Product
GNP	Gross National Product
GOP	Government of Pakistan
IMF	International Monetary Fund
NAB	National Accountability Bureau
PIDC	Pakistan Industrial Development Corporation
PML (N)	Pakistan Muslim League (Noon)
PPP	Pakistan People's Party
PPP	Purchasing Power Parity
SBP	State Bank of Pakistan
SDR	Special Drawing Rights
UNDP	United Nations Development Program
UNICEF	The United Nations International Children's Endowment
USD	United States Dollar
USP	United States Pharmacopeia
WB	World Bank

ABSTRACT

The relationship between the International Monetary Fund (IMF) and various countries, including Pakistan, has been a widely discussed subject. Initially established to assist weaker economies, the IMF's role has undergone significant changes over time. However, concerns have been raised regarding its dealings with Pakistan, primarily due to the conditions attached to the loans, creating a complex situation with limited alternatives for the country. Pakistan sought loans from the IMF with the goal of fostering economic growth. Unfortunately, the impact of these loans has been harmful to the country's economy. This adverse effect is noticeable not only in terms of purchasing power parity but also in the gross domestic product (GDP), resulting in price hikes, unemployment, inflation, decreased exports, and the decline of domestic industries. Addressing these systemic issues requires more than a one-size-fits-all solution. The researcher proposes that transformative changes are necessary at both the international and national levels to encourage progress and enhance the overall politico-economic landscape. Through a reevaluation and reform of existing systems, there is a greater likelihood of achieving sustainable and positive changes.

Keywords: IMF, Pakistan, conditionality, loan, economy

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CHAPTER ONE

INTRODUCTION

1.1. Background

An economic vulnerability for any nation often stems from insufficient or unavailable foreign exchange reserves, with research indicating that many member states tend to turn to IMF loan programs to address balance of payment issues (Hussain, 2002). Since becoming a member, Pakistan has entered into and utilized eleven loan programs up until 2013, predominantly with the IMF, to avert debt crises and payment defaults, thereby agreeing to associated conditions and requirements (Amjad, 2014). The IMF's independent evaluation section, in a 2002 report, recognized Pakistan as a classic example, highlighting that many IMF loan programs and lending decisions were significantly influenced by political considerations.

A substantial body of literature in political economy has put forth the notion that the IMF's lending to numerous developing countries, including Pakistan, is more politically and bureaucratically driven than based on economic needs or vulnerabilities of the recipient nations (Easterly, 2003). These perspectives align with economic models suggesting that bureaucracy often wields control over resources and their allocations, aiming to maximize their own interests or utilities. Additionally, donor countries collaborating with the IMF typically assert their priorities, which borrower countries often find themselves compelled to accommodate in one way or another.

In recent years, the performance of the Pakistani economy has fallen short of its potential, evident in the modest short-term to medium-term macroeconomic conditions and the emergence of structural issues leading to a downturn in the balance of payments. Nevertheless, the economy managed to stay afloat due to the positive impact of increased foreign remittances and the implementation of certain internal measures (Amjad, 2014).

The Federal Budget of the fiscal year 2008-2009 highlighted the IMF program, which was reportedly aimed at restoring financial stability and addressing macroeconomic challenges faced by the country, with the purported objective of safeguarding the low-income class. During the early 2000s, the economy of Pakistan grappled with several significant issues, including a contraction in economic growth, escalating inflation, and an expanding trade imbalance. Official estimates indicated a projected growth rate of 2% for the economy, while inflation soared to its peak at 2.5%. Moreover, both the fiscal and current account deficits had surged to 7.6% and 8.5%, respectively, by the end of 2007. Additionally, the exchange rate experienced a depreciation of 22% within a six-month period.

The findings of numerous researchers indicate that political considerations have played a more significant role than the economic interests of the country. Towards the end of the subsequent tenure, the economic conditions of the country worsened, marked by a substantial increase in both IMF loans and other foreign debts. Public debts surged to 60 billion PKR due to the escalating dollar exchange rates, reaching 130 billion Rupees by the following year. In summary, the country has consistently acquired and augmented loans and debts from the IMF through various schemes to uphold monetary stability and in an effort to stabilize the Rupee (Hashmi, 2017).

1.2. Significance

The study has delved into the paramount issue facing the national economy, which revolves around borrowing under stringent IMF conditionality and utilizing these funds to restructure the macroeconomic framework of the country. These loans have played a pivotal role in reshaping both the macroeconomic and socio-economic structures of the nation. The research aims to scrutinize the expenditure and political motivations underpinning these loans, examining how they were implemented and their consequential impact on the overall structure of the country throughout the years 2008-2013.

1.3. Research Objectives

The study aims to ascertain the following:

- The rescheduling details and the conditions attached to the IMF loans during the period 2008-2013.
- The influence of these loans on the political landscape, legislative processes, and the overall reshaping of institutions.
- Evaluation of the success or failure of these loans in achieving their objectives of progress and economic growth.
- The implications of these loans for Pakistan, considering both immediate and long-term effects on the country's economic and political dynamics.

1.4. Research Questions

1. What were the terms and conditions associated with the extension of IMF loans to Pakistan between 2008-2013, and how frequently were these loans extended during this period?

2. In what ways has the IMF loan influenced domestic politics and policies in Pakistan, particularly in terms of legislative actions and institutional reforms?
3. What factors contribute to the perceived lack of success of the IMF loan in fostering progressive socio-economic changes in Pakistan?
4. What are the implications of the IMF debt trap for Pakistan, especially concerning the general population?

1.5. Organization of the Study

The study is organized into following chapters:

1. Introduction
2. Literature Review
3. Research Methodology
4. Results and Findings
5. Conclusion

CHAPTER TWO

LITERATURE REVIEW

2.1 The Context

Pakistan has grappled with economic instability for an extended period, necessitating a crucial economic overhaul. Since its establishment, Pakistan's economy has faced persistent challenges. The International Monetary Fund (IMF), established in December 1945, saw Pakistan becoming a member in 1950. Over the years, from 1950 to 2008, Pakistan sought financial assistance from the IMF on multiple occasions. In 2008, due to worsening economic conditions, Pakistan once again turned to the IMF for support. It is noteworthy that the fiscal policies implemented by the IMF have wielded a significant impact on the economies of numerous countries.

However, adverse consequences ensued in Pakistan's case primarily due to non-compliance with the agreed-upon terms during the loan application process. The objectives of the accord were centered around restoring macroeconomic stability, reducing inflation, and strengthening foreign currency reserves. Regrettably, the budget deficit and inflation continued to escalate in the subsequent years. Pakistan's fiscal policy faced challenges stemming from low economic growth and security concerns.

The government of Pakistan chose to exit the IMF program in September 2011 upon its expiration, ostensibly to improve its budgetary position (Hashmi, 2017). The gravity of the economic situation prompted the government to enter into a 6 billion bailout arrangement with the IMF. Economist Nadeem Ul Haque pointed out that the government should have approached the IMF immediately upon taking office, emphasizing the IMF's role as the lender of last resort.

However, criticism has been directed at Pakistan for repeatedly turning to the IMF without achieving lasting results to address persistent deficits. The institution has been accused of failing to tackle deeper structural problems.

The claim that non-compliance with IMF programs is the root cause of Pakistan's economic problems is contested. The IMF programs have exacerbated issues, particularly for lower strata and middle-class earners, widening the wealth gap. Extreme poverty has intensified, contributing to social unrest. It is argued that Pakistan's reliance on the IMF has not yielded lasting results, with successive governments failing to take pragmatic steps to address underlying economic issues.

Pakistan's external debt rose to $74,638 million in the third quarter of 2016, highlighting a persistent challenge. The external debt is anticipated to reach $81,546.87 billion in the coming months (Rana, 2016). While conditionality could potentially hinder progress, it is noteworthy that it is often not fully implemented. Studies suggest that a significant percentage of IMF projects are halted due to non-implementation, raising questions about the impact of conditionality on growth rates.

The complex dynamics of Pakistan's engagement with the IMF, coupled with challenges in implementation and the broader economic landscape, contribute to a nuanced understanding of the country's economic struggles and the role of international financial institutions.

According to Amjad and Hussain, the economy's vulnerability in terms of accessible foreign exchange assets is prominently highlighted by the frequent engagements with the IMF during the specified period. Most instances, as demonstrated in numerous cases, involve seeking funds to address the balance sheet crisis, with Pakistan entering into 11 agreements with the IMF between

1988 and 2013. These agreements, spanning various years (December 1988, September 1993, February 1994, December 1995, October 1997 - two agreements, November 2000, December 2001, November 2008, and July 2013), were primarily aimed at averting debt defaults, particularly towards the IMF, and meeting import regulations.

The consequential agreements with the IMF necessitated measures that curtailed public spending and slowed economic growth. This effect was particularly pronounced in 2008 when the economy, which had grown above 5 percent in 2007-08, experienced a significant contraction of 0.4 percent in the year 2008-09 after entering into an agreement with the IMF in November 2008. This scenario serves as a clear example of how the imposition of a stringent exchange rate constraint and the fear of default can substantially impede the pace of economic growth.

Short-term impact evaluations, a significant component of the literature, suggest that the notion that IMF loans are beneficial lacks robust support from economic evidence. IMF lending and development aid, in general, may be ineffective in promoting medium- or long-term development for various reasons, including inappropriate policy adjustments or policy changes having a detrimental effect on growth before yielding positive results. IMF funding is designed to provide short-term assistance and can serve as an emergency source of finance to prevent a catastrophic economic downturn in the event of fiscal or foreign reserve shortages. The absence of such financing might lead to bankruptcies, defaults, and currency crises.

Contrary to government expectations, the IMF's conditionality has neither positively nor negatively impacted the year following the launch of a program. Any short-term effects are attributed to loans rather than policy improvements. The dynamism of Pakistan's economic system within the five years from 2008 to 2013 is evident through the movement and overall performance of several key economic indicators (Bas & Stone, 2014).

Despite limited economic progress, consumption levels have experienced significant growth. This not only indicates that a larger portion of national output is being consumed rather than invested but also suggests that a substantial share of payments and earnings from the informal economy (estimated at 80 to 90 percent of the formal economy) is driving these heightened consumption levels (Kemal & Qassim, 2012).

The elevated levels of consumption are evident in the high profitability percentages of food businesses listed on the Karachi Stock Exchange (KSE) over the past five years. Additionally, foreign companies such as Pepsi, Unilever, and Nestle have reported substantial increases in sales and profits, growing between fifteen and twenty percent annually during this period.

Dearth levels, as measured until 2010/11 (for which data is available), have seen improvement. Dearth levels, based on a 2,350-caloric intake (equivalent to approximately PKR 11,000 per month for a six-person household or PKR 56 per day in 2010/11), deteriorated by 30 percent in 2000/01 to around 17.2 percent in 2007/08, further dropping to 12.4 percent in 2010/11. Recent data has been validated by the World Bank, which considered some criticisms against the 2010/11 estimates and confirmed that dearth levels had indeed decreased, albeit slightly higher if measured against a more stringent poverty line (Newman, 2013).

There is a noticeable expansion of the middle class in Pakistan, with the proportion of total households classified as middle class increasing from 18.8 percent to 24.2 percent between 2007-08 and 2010/11, based on a stringent definition of the middle class. Alternatively, considering a broader definition, the proportion increased from 34.6 percent to 42.9 percent during the same period (Nayab, 2011, 2013). According to a study by the Asian Development Bank in 2010, the percentage of total households living on US$ 2–4 (PPP) per day in Pakistan was approximately 32.94 percent in 2005, compared to 20.45 percent in India in the same year. The share living on US$ 4–10 (PPP) was 6.56 percent in Pakistan, compared to 4.15 percent in India. The sale of around 1.7 million bikes annually in 2013 and the increasing sales of various consumer durables indicate the rising middle class. Real wages for agricultural workers increased from 2007 to 2010, based on reports from the Agriculture Price Institute. Labor Force surveys also indicate a rise in wages in the agriculture and services sectors, although there was a decline in the construction sector (Amjad, 2012).

Pakistan has a significantly high mobile phone penetration, with 132 million mobile phone subscribers in November 2013 among a population of 180 million. This widespread mobile connectivity is a testament to the country's strong connection to digital communication technologies.

Several significant factors contributed to the resilience and dynamism of the economy during the 2008-13 recession. Explaining these positive developments amid a period characterized by stark inflation, short economic growth, and, until recently, double-digit inflation, is a challenging task. The author has attempted to identify some of these variables in the paper "Amjad, 2013." While it is essential to acknowledge that there is a substantial gap between these explanations and the macroeconomic conditions depicted in official data, which must be treated as sacrosanct unless officially altered, the principal explanations seem to be as follows: [Further details or explanations from the paper would be needed to provide a more accurate response.]

The initial is the tremendous increase in transmittals, whichever surged dramatically not only through successful years since 2002 to 2008 but too during the stagflation years from 2008 to 2013. They climbed toward over USD 6.5 billion in 2007/08 and roughly USD 14 billion in 2012-13, representing approximately 6% of Gross Domestic Product in the final year. This might have played a significant role in improving customer demand; however, it necessity remain acknowledged produce things of rising output levels on the economy are not adequately recorded in macroeconomic or sectorial data.

Next, youth knot occurs because newcomers have greater levels of tutoring and services than current work power and have created self-employment options for them, including a sizable portion in tiny and familiar sector, which might not be represented by official statistics.

The increased entrance of cultivated women hooked on both casual (e.g., dressmaking, counting stylish apparel and food matters) and facility sector occupations, particularly in main urban hubs, which might be recorded only partly by economic and labor force data.

The first significant factor is the substantial increase in remittances, which surged not only during the prosperous years from 2002 to 2008 but also amid the stagflation period from 2008 to 2013. Remittances rose to over USD 6.5 billion in 2007/08 and approximately USD 14 billion in 2012-13, constituting about 6% of the Gross Domestic Product in the final year. While this may have played a significant role in boosting consumer demand, it's essential to acknowledge that the production effects of increased remittances on the economy might not be adequately captured in macroeconomic or sectoral data.

Another factor is the youth bulge, as new entrants into the workforce possess higher levels of education and skills than the existing workforce. This has led to the creation of self-employment opportunities, including a sizable portion in the small and informal sector, which might not be fully reflected in official statistics.

Thirdly, there is an increased influx of educated women into both informal sectors (such as tailoring, including fashionable clothing and food-related businesses) and formal sector occupations, especially in major urban centers. However, the representation of these changes in economic and labor force data may be partial.

These factors collectively contribute to the dynamism and resilience of the economy during the challenging period from 2008 to 2013, highlighting the importance of considering various dimensions beyond the macroeconomic and sectorial data for a comprehensive understanding of the economic landscape.

During the early years, from 2008 to 2009, there was a substantial increase in commodity prices, particularly for straw, which rose from Rs. 450/40 kg in 2007 to Rs. 950/40 kg in 2008. Similar increases were observed in the prices of other items such as rice, milk, and cattle. These price hikes contributed to higher rural incomes and wages, potentially explaining the increased demand for food products, motorcycles, and semi-trailers.

Furthermore, the substantial urbanization and the expansion of megacities have resulted in heightened job opportunities and income growth, particularly for individuals employed in the service sector. This trend of urbanization is likely to have contributed to the overall economic dynamism observed during the specified period, underscoring the diverse and multifaceted factors that influence economic trends.

The primary argument is that the Pakistani economy has not reached its full potential, attributed to both inadequate short- to medium-term macroeconomic management and the presence of significant structural constraints leading to persistent balance of payment crises. Despite external and internal factors that have provided some positive momentum, the economy has faced challenges, with the critical constraint being the foreign exchange limitation, particularly in the last decade and a half, contributing to the economy's subpar performance. While the substantial growth in remittances in recent years is acknowledged, it is emphasized that it cannot substitute for Pakistan's ongoing poor export performance.

The focus on improving Pakistan's export performance is highlighted as a key area for policy solutions to alleviate and eventually eliminate the foreign exchange constraint hindering economic growth. The text then reflects on the successes of a stabilization program implemented during the period 2008. Despite facing a challenging environment, Pakistan continued its pursuit of a stabilization program and successfully completed four quarterly reviews amid formidable domestic and external challenges. The quantitative performance was satisfactory, meeting all structural requirements. The government made tough decisions for economic stabilization, and the foreign loan from the IMF had a positive impact, particularly in the initial stage until March 2011.

However, the narrative acknowledges that despite the initial success, the country experienced an economic downturn in the subsequent years of 2011-2013. In response to these challenges, the new government of PMLN opted to seek a new bailout package from the IMF. The complexities and dynamics of economic management, both successful and challenging, underscore the ongoing efforts to stabilize and stimulate economic growth in Pakistan.

2.2. IMF Lending

International organizations (IOs) often exert influence on policy changes in their member countries. Previous research suggests that IOs, given their limited political power over member nations, use a combination of hard pressures (constraints) and soft pressures (engagement) to achieve their partisan goals. Building on this literature, the theory posits that IOs can enhance their partisan influence by attaching loan conditions aimed at improving the political independence of key policymaking entities.

In the context of the International Monetary Fund (IMF), the argument suggests that by proposing loan conditions focused on central bank independence (CBI constraints), the IMF empowers central banks to wield more partisan influence, limiting a government's ability to exploit economic policy for political gain. By separating economic governance from the national government, the IMF aims to steer political dynamics toward achieving greater policy compliance and fostering long-term macroeconomic stability.

Using a dataset covering 124 countries from 1980 to 2012, the study finds that the IMF assigns CBI constraints to countries with fewer checks and balances, a less independent central bank, and where the government relies more heavily on the monetization of public debt. This suggests a deliberate strategy by the IMF to use loan conditions to shape the political and economic landscape in member countries.

There is a noticeable absence of sustained economic support for the notion that IMF loans have positive long-term impacts, particularly in studies examining the short-term consequences of IMF lending. While IMF lending may not be highly effective in fostering long-term growth, similar to broader development assistance, this doesn't imply complete ineffectiveness. The ineffectiveness might stem from a lack of appropriate policy adjustments or from measures that hinder growth for several years before yielding results.

It is crucial to understand that IMF lending is primarily aimed at helping countries navigate short-term financial crises. The IMF was established to address sudden economic downturns resulting from a lack of fiscal liquidity or foreign reserves. The assumption is that in the absence of such funding, financial crises may emerge, potentially leading to sovereign defaults and currency crises.

Additionally, when evaluating the short-term effects of an IMF program, it's important to recognize that any immediate impacts are likely attributed to financing rather than policy changes. Therefore, reexamining the data solely for short-term effects and questioning the accuracy of the econometric model becomes a pertinent aspect of the analysis.

The research delved into the relationship between nonperforming loans and lending rates in commercial banks in Pakistan. Data on bank size and nonperforming loans were collected from annual reports of commercial banks, while lending rate data were sourced from the State Bank of Pakistan's statistical bulletins for the period 2008-2014. The analysis was conducted using SPSS, employing correlation and regression analysis to ascertain the connection between lending rates and nonperforming loans. The findings revealed a statistically significant positive association between lending rates and nonperforming loans in Pakistan's commercial banks.

As per Justin (2013), credit risk arises when borrowers fail to fulfill their loan commitments on time, often due to the borrower's income remaining constant despite rapid changes in the bank's lending rate.

According to the State Bank of Pakistan (2013), the total amount of nonperforming loans for all banks in Pakistan is RS 585 billion. The distribution of these nonperforming loans indicates that 69% originated from private banks, 27% from public sector commercial banks, 6% from specialty banks, and approximately 1% from overseas banks (Reinsberg et al., 2020).

IMF (International Monetary Fund) bailouts are known for their conditionality, where governments receiving much-needed loans must adhere to stringent policy changes. Some argue that politically influential countries face relatively weak conditionality. However, testing this hypothesis has challenges, including finding a measure of political significance that is not plagued by endogeneity and obtaining data on IMF conditionality.

The proposal is to measure political significance using temporary membership at the UN Security Council and analyze a newly available dataset on the level of conditionality attached to 314 IMF arrangements with 101 countries over the period 1992–2008. This approach aims to shed light on the relationship between political importance and the strength of conditionality in IMF bailout agreements.

Keynes (2008) defines the lending rate as the rate at which banks provide funding for the short-term and medium-term financing needs of the private sector. This rate typically varies based on the objectives of financing and the creditworthiness of borrowers. The terms and conditions associated with lending rates vary between countries, limiting their comparability. According to De Bock and Demyanets (2012), the lending rate is the cost of the borrowed amount that a borrower pays to the lender. Beck and Fuch (2004) state that lending rates are determined by commercial banks for the disbursement of loans. In adverse economic conditions with high fluctuations in inflation and exchange rates, banks may charge high lending rates to offset the default risk from risky borrowers. Conversely, in prosperous economic conditions, banks may reduce their lending rates.

Munailo (2014) emphasizes that the business of commercial banks is exposed to the risk of default from borrowers, and lending rates can influence poverty, financial crises, and political instability in the economy over the long run. According to Ngugi (2010), the interest rate represents the price of borrowed money and reflects market information about anticipated future inflation.

In a recent study conducted by Cuncinelli (2015) on the Italian banking sector, the relationship between nonperforming loans and bank lending behavior was examined. The study, based on a sample of 488 Italian banks for the period 2007 to 2013, found a significant negative relationship between nonperforming loans and the lending behaviors of banks.

Masood (2009) argued that the Pakistani banking sector faces a critical issue of a significant number of non-performing loans, impacting not only the banking industry but also the economic condition of Pakistan. The prevalence of loans granted on political grounds contributes to a higher default rate. To address this, Awan, Nadeem & Anjum (2015) suggested the removal of political interference in banking affairs through proper legislation.

According to the World Bank, Pakistan ranks 14th in the list of countries with nonperforming loans. The average value of Pakistan's nonperforming loans was 14.4% from 2000 to 2013, with a maximum of 23.4% in 2001 and a minimum of 7.3% in 2006. As reported by the State Bank of Pakistan (2013), the total amount of nonperforming loans is RS 585 billion for all banks in Pakistan. Of these, 69% are attributed to private banks, 27% to public sector commercial banks, 6% to specialized banks, and approximately 1% to foreign banks.

2.3. Lending Details

Overseas debt and liabilities in Pakistan increased by more than Rs. 705 billion in less than six months (2008-2009), primarily due to a Rs15 per dollar decline in the currency's value. The country's overall external debt rose by almost $7 billion to $47 billion since June 2007.

Following the floods in Pakistan, the Federal Flood Commission (FFC) received Rs. 87.8 billion (approximately 900 million USD). FFC records indicate that several projects were initiated, funded, and completed. However, reports suggest that little actual work has been accomplished due to ineffective management and corruption (Ahmad, N. 2015).

Both the Pakistan Peoples Party and the Pakistan Muslim League-N administrations have been in violation of this condition. In the short term, the government has set a constitutional deadline of June 2018 to bring the liability to 60% of the Gross Domestic Product level, as opposed to the earlier deadline of June 2013 (Rana, S. 2016). In 36 months, Pakistan has obtained $25 billion in fresh credits (The Express Tribune, 2016).

Moreover, donor administrations within international financial institutions have their own preferences, and these institutions can be compelled to comply with their decisions (Fleck and Kilby 2006, Dreher and Jensen 2004, Andersen et al. 2005). With this perspective, when assessing international financial institutions' lending to Pakistan, we perceive these institutions as administrative and political entities that leverage the influence of their shareholders, i.e., administrators and major stakeholder countries.

2.4. Rescheduling and Conditions

Pakistan experienced a significant downturn in its macroeconomic structure during the periods of 2007-2008 and 2008-2009, attributed to a combination of domestic and external factors. Upon assuming power in 2008, the Pakistan People's Party (PPP) government promptly sought financial assistance from the International Monetary Fund (IMF) through a bailout package amounting to SDR 4.94 billion.

The IMF's economic stabilization program, implemented in collaboration with the PPP government, aimed to address key issues such as a high financial deficit, which stood at 7.4 percent of the GDP in 2007/08. The objective was to reduce this deficit to 3.3 percent by implementing measures such as curbing public expenditures and increasing tariffs.

In the federal budget of 2008-2009, the PPP government undertook significant measures to restore the macroeconomic structure and address financial destabilization. The country faced several pressing economic challenges, including a stagnant economy, soaring inflation, an escalating financial deficit, and a widening trade gap. Economic growth was projected at a modest 2%, inflation reached 2.5% in August 2008, and both fiscal and current account deficits reached 7.6% and 8.5%, respectively, during the fiscal year 2007-08. Additionally, the exchange rate depreciated by 22% in a span of six months.

During this critical period, Pakistan found itself compelled to implement various reforms, notably in tax administration and interest rates, in response to the economic challenges it faced. However, the structural adjustments necessary for a more comprehensive economic transformation were not adequately addressed. In exchange for financial assistance, the

International Monetary Fund (IMF) imposed stringent austerity measures, raising concerns about the potential negative impact on the living conditions of workers and the poor.

Pakistan borrowed approximately SDR 13.79 billion from the IMF, with the Pakistan People's Party (PPP) securing 47% of the loans, followed by the Pakistan Muslim League-Nawaz (PML-N) at 35%, while military dictatorships accounted for a mere 18%. The austerity measures under the Extended Fund Facility (EFF) program included budget cuts, subsidy reductions, privatization, currency depreciation, tax increases, and cuts in public sector development expenditures.

Notably, the IMF's prescribed measures did not sufficiently address the issue of under taxation among the upper class and powerful rural landlords. As a result, workers and the poor bore the brunt of these measures. The IMF also emphasized a structural reform agenda, focusing on improving institutions dealing with public enterprises, combating money laundering, addressing issues of terror financing, creating a favourable business environment, and boosting trade.

Akram-Lodhi and Kay (2012) have contributed to the understanding of structural changes in Pakistan over a span of sixty years through a framework of political economy. Their work explores where and how these transformations occurred, encompassing various aspects such as society, economy, class dynamics, culture, and consumerism. Employing a political economy framework, they assessed Pakistan's trajectory of political and economic development.

The focus of their analysis is on the economic and social history of Pakistan, examining the nature of structural transformations over time. The narrative in their work highlights major events and developments that have shaped Pakistan's economic, social, and political landscape. The authors acknowledge the influence of unforeseen repercussions on historical events but also emphasize the predictability of social and economic changes, leading to reasonably assured outcomes.

Key observations from their work include the substantial growth of urban populations, the emergence of a middle class, and the thriving informal sector. They note the transformation from a tendency toward 'universal urbanization' to 'urbanization with informalization,' where urbanization and informal production and exchange dominate social and political interactions.

The implications of these changes for future development in Pakistan remain uncertain. "Issues in Pakistan's Economy: A Political Economy Perspective" is deemed valuable for scholars interested in Pakistan's economic history and development. It provides insights into how social and economic processes influence structural transformation and the evolution of the state and society from a political economy perspective.

Frenkel & Rapetti's evaluation in 2009 focused on the factors influencing a country's external debt and the trends associated with increases and decreases in debt levels. External debt is acknowledged as one of the significant risks in economic development for countries, regardless of whether they are developing or developed. Developing nations, in particular, face challenges such as capital constraints, low savings, outdated technologies, insufficient education, and a lack of economic development resources.

In the case of Pakistan, the public debt situation is characterized as serious and similar in nature to the challenges faced by developing countries. The escalation of Pakistan's external debt is attributed to the misuse of loans, with many developmental projects left unfinished due to political instability and frequent policy changes. Each new government's introduction of new projects and policies has added to the economic burden.

Several factors contribute to the precarious economic situation in Pakistan. The rapid growth of the population increases demand, and the country's reliance on wheat imports exacerbates the food security challenge. Significant defense spending, while necessary for national security, adds to the foreign debt burden. The unsustainable increase in external debt poses serious threats to development, hindering economic stability, poverty alleviation, and growth.

The rise in external debt has discouraged foreign investment by causing depreciation in exchange rates and creating a risky business environment. Additionally, it constrains governments from implementing structural reforms in various economic sectors. Overall, the findings underscore the complex challenges associated with external debt and its implications for economic development in Pakistan.

The quote from Barack Obama emphasizing that a nation should live within its means reflects the principle of fiscal responsibility, advocating for countries to manage their finances prudently. In the context of Pakistan, the reliance on external borrowing, particularly from institutions like the IMF, is driven by various factors contributing to economic challenges.

One of the primary issues is the substantial foreign and domestic debts. The rising debt levels, coupled with a deficit in the balance of payments, low exports, and structural issues in revenue generation, create a challenging economic environment. The government's external debt has witnessed an increase, reaching $65.8 billion in January 2019 from $64.1 billion in June 2018. The expansion of debt has implications for domestic investment prospects.

In 2019, Pakistan's total debt reached PKR 40.2 trillion, reflecting the cumulative impact of excessive borrowing and other factors such as capital flight. This growing debt burden poses a significant challenge to the country's economic uplift and stability.

Given these economic challenges, Pakistan has repeatedly sought IMF loans for economic stabilization. The IMF loans often come with conditions aimed at addressing the underlying economic issues and promoting fiscal discipline. However, finding sustainable solutions to reduce reliance on external borrowing and manage the debt burden remains a critical task for Pakistan's economic policymakers.

The issue of inadequate annual revenues in comparison to public expenditures is a critical challenge for Pakistan's economic stability. The annual revenue growth rate, as exemplified by the Federal Board of Revenue (FBR) collecting Rs. 2060 billion at the beginning of 2019, has been notably low, registering a growth rate of 3.2%, which is the lowest in 20 years. This situation constrains the fiscal space for successive governments.

There was an ambitious claim by the Pakistan Tehreek-e-Insaf (PTI) government to double FBR's collection to Rs. 8000 billion, but the actual collection fell far short of this target. The government initially reduced the FBR target to Rs. 4398 billion from Rs. 4435 billion, and even meeting this revised target proved challenging, with the collection projected to be around Rs. 4100 billion.

The poor revenue growth raises questions about the government's effectiveness in reforming the tax system. The growth of 3.2% is notably low compared to the nominal economic growth rate of over 11%, indicating a significant gap in revenue generation. The absence of proper mechanisms to tax the affluent segments of society further exacerbates the challenge.

In light of these revenue shortcomings, successive governments find themselves relying on foreign monetary institutions, such as the IMF, to stabilize the stagnant economy. Addressing the structural issues in revenue generation and implementing effective tax reforms becomes crucial for achieving fiscal sustainability and reducing dependence on external borrowing.

The absence of a pragmatic economic plan and a tendency to resort to short-term measures, such as direct or indirect taxation, have contributed to Pakistan's recurrent reliance on the IMF for economic stabilization. Successive governments have often been critical of previous policies but have failed to bring about substantial changes, resulting in a lack of long-term economic vision.

Haphazard policies and a focus on immediate concerns rather than sustainable economic development have had detrimental effects on the country's prosperity. The growth rate, as per the Pakistan Economic Survey 2018-2019, fell short of the target, standing at 3.3% for the fiscal year 2019 against the targeted 6.6%.

The persistent fiscal and trade deficits have been key factors driving Pakistan to borrow loans from the IMF. The country has faced ongoing challenges in managing current and fiscal account deficits, with leaders failing to build and safeguard financial reserves. The World Bank, in its report, attributed the fiscal deficit to weak governance, emphasizing the need for more effective government policies to address economic challenges. Addressing these issues requires a shift towards comprehensive and sustainable economic planning to foster long-term growth and stability.

Corruption, money laundering, and regressive taxation practices have significantly contracted Pakistan's fiscal space, contributing to its heavy dependence on international monetary institutions like the IMF. The misuse of public funds by corrupt political elites has been a pervasive issue, as reflected in Transparency International's Corruption Perception Index, where Pakistan ranks 124 out of 180 countries in 2020.

The country's reliance on the IMF is exacerbated by its failure to meet fiscal targets, a challenge compounded by import liberalization agreements made with the WTO in 1992. The overall trade and fiscal liberalization have posed challenges to Pakistan's economic structure.

The inability of successive governments to tap into the actual tax potential of the country has resulted in regressive taxation policies. This haphazard approach to taxation hinders economic growth and forces the country to heavily depend on foreign aid. The elite class in Pakistan, constituting only 1% of the population but owning 90% of the country's resources, often evades taxes, contributing to the economic challenges.

The regressive tax system, coupled with the consumption of wealth and tax evasion by the elite, has further strained the economy. The existence of laws like the Protection of Economic Reforms Act, 1992, has allowed some corrupt elites to benefit at the expense of streamlining the tax system. As a result, regressive taxation practices continue to limit the economic space, prompting Pakistan to seek financial assistance from international institutions.

2.5. Implications

The study utilizes Pakistan as a representative case to examine the impact of IMF resources on macroeconomic uncertainty and actual economic growth. Through the application of Vector Auto-regression model methods, the analysis spans the period from 1980 to 2014. Various counterfactual scenarios are projected to observe the effect of a significant institutional factor, KOF globalization index, on these economic indicators.

The results of the study suggest that by placing increased emphasis on improving the quality of institutions and addressing constraints, it is possible to reduce macroeconomic uncertainty.

Consequently, a higher growth rate of Gross Domestic Product (GDP) can be achieved. This underscores the importance of institutional improvements in fostering economic stability and growth.

The latest report from the IMF highlights that Pakistan's external debt has been primarily increasing due to the government's inability to boost exports and attract foreign direct investment (FDI). The acquisition of expensive foreign loans has contributed significantly to the growth of the country's external debt. The government has raised funds through various means, including issuing bonds in the international debt market, obtaining advances from multilateral banks such as the World Bank (WB), Asian Development Bank (ADB), and Islamic Development Bank (IDB), and receiving loans from bilateral sources.

Over the past three years, the government has acquired $3.5 billion by issuing bonds in the international debt market, along with additional funds from various international financial institutions. The situation on the domestic front is also challenging, as the government has taken significant amounts in fresh credits over the last three years, totaling Rs3.114 trillion. The total domestic debt and liabilities as of June in the fiscal year amounted to Rs22.4 trillion.

While the Finance Ministry argues that the increase in domestic debt does not pose an immediate threat of default since these debts are in local currency, concerns arise about the high total interest payments on the domestic debt, standing at Rs3.43 trillion over the past three years. This amount surpasses what the government borrowed from domestic sources during the same period. The government emphasizes that the interest rate on the domestic debt as a percentage of GDP is moderate, around 4%. However, the absolute value of interest payments remains a significant fiscal challenge.

Green's analysis from 2003, focused on the influence of IMF loan programs on economic growth and macroeconomic instability in borrowing states, particularly in the context of Pakistan. The analysis considered factors of political and economic institutional quality, evaluating their impact on real economic development and macroeconomic stability.

The potential merits of implementing an IMF-supported program in Pakistan include addressing longstanding budget deficits, improving revenue at both federal and provincial levels, and providing resources to invest in social infrastructure. The flexible exchange rate resulting from the program could support domestic producers and exporters, contributing to monetary stability.

The structural reform agenda prescribed by the IMF aims to stabilize the economic structure and address issues in various sectors, such as commodity production and industrial construction.

It's important to note that while such programs may have positive outcomes, there can be challenges and criticisms associated with them. The success of the program depends on effective implementation, and there may be social and economic implications that need careful consideration. Additionally, the actual impact on economic growth and stability will unfold over time and would require ongoing evaluation.

Despite its potential benefits, the three-year program also comes with significant drawbacks. One notable disadvantage is the imposition of stringent IMF conditions. The reduction in social sector spending could disproportionately impact the already vulnerable poor population, exacerbating their existing economic challenges. IMF's insistence on rupee devaluation and increases in electricity and CNG prices may have adverse effects on Pakistan's economy.

Additionally, the emphasis on compliance with FATF by the IMF is a concern, as it is perceived to be exploited by rival states like India to push Pakistan onto the Blacklist. The pressure from the IMF on the government to raise prices for essential goods could impede the purchasing power of the masses, making it difficult for the general public to survive. The rise in prices of basic commodities such as sugar and oil could further strain the economic situation.

Non-compliance with debt service requirements may lead to the country being labelled as a high-risk state, posing challenges for future borrowing. Consequently, Pakistan might be forced to pay higher interest rates to secure new financial resources. To address financial shortfalls, the government may have to cut spending on public services, including development projects, healthcare, and education. This, in turn, would increase the influence of the IMF on Pakistan's internal policies, as evidenced by the resignation of the former finance legislator Assad Umar Khan and the replacement of the State Bank director with Dr. Reza Baqeri, which has raised concerns about the country's integrity, as cautioned by Maryam Aurangzeb of the PML-N.

On the contrary, conditionality is often deemed ineffective in studies examining short-term program effects, as it typically occurs in the current year as a program statement and lacks sufficient time to impact growth rates. The short-term effects of IMF programs are more likely attributable to financial support or reactions in the capital market. The most commonly cited argument against the beneficial impact of IMF initiatives is moral hazard.

Moral hazard arises from the notion that when individuals or entities are shielded from the consequences of their actions, they may engage in risky behaviour without bearing the full costs. This creates a moral hazard problem. Some policymakers have called for greater restraint on the IMF, advocating for limitations on its lending activities to temporary balance of outflows loans rather than long-term programs focused on growth and structural modification. Their rationale is rooted in concerns about the moral hazard associated with shielding actors from the repercussions of their decisions.

2.6. Ways to Go

The history of IMF lending to Pakistan has been extensive, yet tangible positive outcomes remain elusive. Consequently, it is imperative for the government to undertake practical measures for a comprehensive economic overhaul at both macro and micro levels. An essential step in this direction involves the rationalization of public revenue and expenditure regimes.

The current government should explore innovative sources of revenue instead of relying solely on taxation measures. It is crucial to diversify income streams to reduce dependence on a singular method of generating funds. Additionally, there is a pressing need for optimizing the utilization of public funds. This can be achieved through the implementation of effective budgetary mechanisms and transparent systems to control expenditures. Such efficient policies would contribute to lessening the country's reliance on borrowing loans from the IMF and foster greater fiscal sustainability.

Furthermore, there is an urgent need for reforms in the import regime. A practical policy framework should be developed to stimulate imports. To achieve this, higher duties should be imposed on luxury goods. Pakistan imports significant quantities of machinery, electronics, metals, and oils, contributing to the country's annual imports of $60 billion. The imposition of substantial duties would help discourage such practices.

Prioritizing the boost of exports is essential and should be addressed immediately. To achieve this, there should be a focus on manufacturing indigenous products while adhering to the quality standards of global markets. Giving utmost attention to increasing export competitiveness is also crucial. Looking back, Pakistan's exports experienced significant growth from the early 1980s to the early 1990s. During that period, there was a recognition that capturing international markets required enhancing the export competitiveness of industries. The objective was to maintain regional competitiveness for Pakistani products with surplus production capacity and the necessary skill set to succeed in global markets. These policy measures should be reconsidered in the export domain to stabilize the economy and reduce reliance on IMF loans.

Similarly, revitalizing crucial manufacturing sectors is equally imperative to boost the economy and reduce the country's dependence on foreign financial institutions. Among the top five sectors, the share of "textile and garment" has been on a decline in recent years. It is crucial to prioritize value addition in the textile sector. For an extended period, the price of cotton was kept below the international market price, resulting in the production of low-value cotton yarn. Additionally, incorporating new technologies in the agricultural sector is essential. Farmers should receive training for proper irrigation practices, leading to increased surplus and subsequently reducing the government's reliance on foreign aid.

Likewise, it is high time to shift focus towards geo-economies rather than geo-strategy. In today's economically integrated world, a robust economy serves as a source of power and security. Nations with economic strength are less dependent on institutions like the IMF and World Bank, allowing them to freely exercise their sovereignty. Policymakers need to acknowledge this reality and emphasize the enhancement of inter-state trade relations. Leaders should explore new export destinations worldwide. Viewing the world through an economic lens would open up new avenues for economic progress and diminish the need for loans from the IMF in Pakistan.

According to a recent report by the International Monetary Fund (IMF), Pakistan's external debt has been primarily on the rise due to the government's inability to boost exports and attract foreign direct investment. The so-called 'largest' foreign currency assets have largely been constructed by acquiring expensive foreign loans, which, according to independent economists, is not a sustainable method for increasing assets. Over the past three years, the government borrowed '$3.5 billion' by issuing bonds in the international debt markets, in addition to the recent issuance of a 'Sukuk bond' valued at '$1 billion' this month. It secured credits totaling '$9.7 billion' from various multilateral banks, including the World Bank (WB), Asian Development Bank (ADB), and Islamic Development Bank (IDB), as well as '$3.6 billion' from bilateral agreements with other countries. Furthermore, an additional '$6.2 billion' from IMF borrowings contributed to the overall increase in liabilities.

The IMF has projected that public debt is expected to escalate to 64.3 percent of Gross Domestic Product by the conclusion of the 2015-2016 fiscal year. The domestic public debt of the government has also increased to 'Rs. 13.62 trillion,' marking a rise of 'Rs. 1.43 trillion' or 11.7 percent from the previous fiscal year's level. Government-owned corporations incurred a staggering increase in debt at a rate of 24%, reaching a total of 'Rs. 568 billion.'

Pakistan has heavily relied on borrowing to meet its economic objectives, given the challenge of expanding its narrow tax base. Instead of addressing the root issues, the government opted to redefine the concept of public debt through negotiations with the IMF. While the previous definition referred to "an amount of full outstanding borrowings," the new definition now considers "the obligations of the government held by the consolidated fund and accounts payable to the IMF."

Dr. Asfhaque Hasan Khan, a former director of the Ministry of Finance's General Debt Office, expressed surprise at the unexpected surge in debt. He anticipated the total debt to reach 'Rs. 20.5 trillion' by the end of the 2015-16 financial year, suggesting that such a significant increase implied covert borrowing by the government.

The new lending rules introduced by the IMF can have a significant impact on capital markets, and these rules are often influenced by political interests of the lenders. While lending in certain circumstances can mitigate the risk of a deepening crisis and reduce the risk premium demanded by market participants, political motivations behind lending decisions may undermine the credibility of reform commitments. This is because entering into an agreement with the IMF may reveal adverse information about the borrower's economy.

The so-called 'catalytic' effect on the price of private borrowing depends on whether the negative consequences outweigh the potential benefits of the loan's availability. Examining the contradictory consequences of crisis lending helps explain the varied empirical results found in the literature regarding consumer responses. A study in this context explores how IMF program announcements, loan amounts, loan terms, and measurements of the United States' geopolitical interests (a core concept for the IMF) impact sovereign bond yields (Chapman, Fang, Li & Stone, 2017).

In the contemporary world, it is widely acknowledged that many emerging powers have struggled to make significant adjustments to influence the global economy. The article examines the recent practices of the IMF and World Bank in addressing the challenges posed by the emerging multipolarity. Despite their resistance to major reform, these institutions deploy strategies to adapt to evolving realities. However, the adaptation lacks a coherent strategy and is deemed insufficient overall.

The examination begins by considering normative, operational, and competitive challenges faced by the IMF and World Bank. It then discusses three coping mechanisms employed over the last decade: 1) strengthening operations in low-income countries and small middle-income countries; 2) adopting a flexible approach toward large middle-income countries, especially emerging powers; and 3) reinforcing and refining non-lending activities. The effectiveness of these adaptive measures in addressing the challenge of multipolarity varies, with some modest gains, untested commitments, and notable failures.

Despite the uncertainties about their effectiveness, these initiatives underscore a willingness to protect institutional hegemony amid significant changes in global systems. Critically, they also influence how the perception of 'development' is shaped and exercised within the multilateralism of the Western world (Güven, 2017).

The IMF had predicted that the public debt would also increase to 64.3% of GDP by the end of the 2015-2016 fiscal year. The domestic debt of the government rose to 'Rs. 13.62 trillion,' marking an increase of 'Rs. 1.43 trillion' or 11.7% from the previous year. The debt incurred by government-owned corporations surged at a concerning rate of 24%, reaching 'Rs. 568 billion.' Pakistan has heavily relied on borrowing to meet its budgetary requirements, given its struggle to broaden its very narrow tax base.

Rather than addressing the root issues, the government chose to redefine the definition of public debt in its negotiations with the IMF. While the earlier statutory definition of debt was "a sum of total outstanding borrowings," the new definition is "the debt of the government serviced out of the consolidated fund and obligations to the IMF." Dr. Asfhaque Hasan Khan, a former director of the Ministry of Finance's General Debt Division, expressed surprise at the unexpected surge in liabilities. "I anticipated the total debt would grow to 'Rs. 20.5 trillion' by the end of the fiscal year 2015-16," he said, suggesting that such a significant rise indicated that the government was borrowing covertly (Bas & Stone, 2014).

There is a lack of consistency in the econometric support for the proposition that IMF lending programs are beneficial in the short term, as seen across a substantial body of relevant literature. It remains unclear whether IMF lending, similar to overall growth assistance, is effective in promoting medium or long-term progress. This uncertainty arises from the possibility of ineffective policy alterations, policy adjustments that initially hinder progress before yielding benefits, or the implementation of painful measures without empathy.

However, it's important to note that the primary objective of IMF funding is to provide immediate assistance. It serves as an alternative source of financing to prevent a catastrophic financial downturn caused by economic liquidity or foreign reserve deficiencies. Without such financing, a crisis is likely to occur, leading to investment crises, independent defaults, and monetary crises that are typically followed by a rapid decline in economic activities (Goldstein and Montiel, 1986).

It is emphasized that IMF conditionality has not shown any influence, positive or negative, in the year following the announcement of a program. Therefore, any short-term consequences observed are attributed to the loans rather than improvements in policy. When analyzing the data and focusing on short-term effects, it is argued that the fault lies in the financial methodology, not government actions. Scholars recognized the challenge of choice bias in assessing the benefits of IMF programs before being able to adequately address it (Steinwand and Stone, 2008).

Countries with the best prospects for successfully implementing IMF programs are least likely to utilize them. When the decision-making process is modeled to explicitly account for the possibility of adverse selection, the results show that IMF programs generally have beneficial effects on short-term economic performance. This contradicts the prevailing wisdom but is reasonably expected. IMF lending aims to prevent economic, monetary, or balance of payments crises that can abruptly reduce economic output when they occur. If the programs in place do not bring anticipated benefits, it is challenging to explain why governments willingly participate in them.

The results are both quantitatively significant and qualitatively important, suggesting that IMF programs are less detrimental on average than the counterfactual scenario where they are not implemented. These findings also have implications for an ongoing debate within and outside the Fund regarding the policy implications of the long-term use of IMF resources. Countries that frequently use IMF resources are more likely to do so repeatedly, and many of these nations have poorly managed economic policies. Based on the conventional logic of moral hazard, scholars and policy analysts have argued that prolonged use of Fund resources is detrimental to the development of these nations. They have advocated for the Fund to limit its role to providing short-term balance of payments support rather than long-term development assistance.

The logic of adverse selection presents a different perspective: repeat users of IMF programs may have had poor economic performance even without the programs, but the opportunity to engage with them repeatedly allows the Fund to overcome its information disadvantage and identify governments that are not genuinely committed to promoting reform. Consequently, long-term users of Fund resources may, on average, benefit more from program participation than short-term users. The empirical results support this notion.

The analysis suggests ways to address the adverse selection problem, which could enhance the effectiveness of IMF programs over time. Two of the proposed methods focus on efforts to distinguish between deserving and undeserving defaulters. First, to mitigate adverse selection, it is crucial to improve the credibility of Fund enforcement of conditionality. Weakly enforced parameters provide no incentives for administrations that are not committed to reforms to signal themselves by refusing to participate in IMF programs. Additionally, the Fund should reduce the incentive for reform-oriented governments to sign programs by front-loading parameters in the form of prior conditions and back-loading the stages of loan disbursements. Thirdly, the Fund should increase the incentive for well-governed countries to participate in programs by raising the signal value of a Fund program to the market. This requires the IMF to be more discerning in approving programs. An application cannot be a seal of approval if it is available to any member that wants one, and if it conveys no significant information to the market, it is likely to convey negative information.

Contrary to a significant body of work that has been critical of the IMF, the analysis finds evidence that IMF programs have improved the economic performance of the majority of countries that have participated in them. Furthermore, the findings indicate that it is possible to identify which countries have benefited and which have had their development hindered under IMF programs. The central elements influencing success and failure in IMF program design and implementation are largely unobservable in our analysis, and we can only estimate them because they have observable implications for which countries choose to apply for IMF assistance. If these elements were entirely observable, adverse selection would be unproblematic. This suggests a fourth approach to improving IMF program outcomes, which is to investigate the political factors that lead to program success and failure in order to reduce the degree of information asymmetry between the Fund and its members (Bas & Stone, 2014).

In August and September 2010, the SBA (Structural Budgeting Assistance) convened its fifth annual review in Washington, DC. A series of technical discussions took place on August 23-25, 2010, to begin laying the foundation for the 2010-11 period.

Officials at the IMF were apprised of several concerns raised by the data for the fiscal year 2009-10, including issues like income and expenditure slippages that resulted in a failure to meet the fiscal deficit target and zero net borrowing from the State Bank of Pakistan (SBP).

Regarding the Macroeconomic Framework for the fiscal year 2010-11, a consensus was reached among the IMF team, the Ministry of Finance (MOF), and the SBP. Growth projections were revised downward from 4.5 percent to 2.5 percent due to underlying challenges and the impact of flooding. Subsequently, inflation surpassed the initial range of 9.5-10%, reaching 13%. The current account deficit was anticipated to reach 3.4 percent of GDP, attributed to the effects of flooding. Alongside these agreements, there were also points of contention among the parties involved.

The Ministry of Finance proposed a fiscal deficit of 4 percent of GDP, assuming Federal Board of Revenue (FBR) tax income of Rs.1689 billion, including revenue and revenue measures totaling Rs.85 billion. Additionally, the proposal included a reduction in energy subsidies. Policy discussions focused on structural benchmarks, including the elimination of round-robin borrowing and the implementation of the Value Added Tax (VAT)/reformed Goods and Services Tax (GST). These remained key topics on the policy agenda.

The trio of the Government of Pakistan (GOP), Asian Development Bank (ADB), and World Bank were set to reach an agreement on matters pertaining to the energy industry. Discussions also revolved around aligning draft legislation with the agreement reached with the Government of Sindh in the context of progress on the Goods and Services Tax (GST) reform.

An additional agreement outlined that the first of the remaining installments would be contingent on benchmarks achieved by the end of June 2010, while the second tranche would be determined based on benchmarks by the end of September/end of December 2010. The International Monetary Fund (IMF) would actively monitor Pakistan's commitments to ensure their fulfillment between the current period and September (Hashmi, 2017).

2.7. Challenges and Failures

The delayed repayment of debts has led Pakistan to accumulate an approximate debt of $60 billion. One major factor contributing to the increasing debt is the rise in dollar rates. As the daily dollar rates increase, external debts also escalate, adding pressure to repay debts to organizations like the IMF and World Bank, as Pakistan is obligated to make these payments in dollars. The interest rate is another significant contributor to the mounting external debt of Pakistan.

Pakistan has become a favored debtor country for the World Bank. The country's external obligations have surged due to the misuse of financial loans, leading to numerous unfinished developmental projects. Political instability and frequent changes in government policies further exacerbate the economic challenges, as each new administration introduces new projects and strategies, overburdening the economy.

The economic condition of Pakistan is precarious, marked by unsustainable external debt. The country has struggled to maintain a balance between expenditures and revenue. The excessive and increasing external debt poses significant constraints to development, acting as a major impediment to macroeconomic stability, growth, and poverty reduction. It introduces risks of default and currency depreciation. The conditions imposed by international lenders, such as the IMF, include raising taxes, reducing pensions, and privatizing the industrial sector.

However, the blame cannot be solely placed on the IMF. In the case of Pakistan, successive governments have also failed to take pragmatic steps. Instead of addressing the underlying economic issues, they have heavily relied on begging for foreign donations. The unfortunate reality is that despite having 12-13 IMF programs over the past 30 years, none of these programs have proven successful. Kaiser Bengali, a former government economic adviser, views the IMF package as a temporary relief for Pakistan's economy.

Despite its potential benefits, the three-year program also comes with significant drawbacks. One notable disadvantage is the imposition of stringent IMF conditions. The reduction in social sector spending could disproportionately impact the already vulnerable poor population, exacerbating their existing economic challenges. IMF's insistence on rupee devaluation and increases in electricity and CNG prices may have adverse effects on Pakistan's economy.

Additionally, the emphasis on compliance with FATF by the IMF is a concern, as it is perceived to be exploited by rival states like India to push Pakistan onto the Blacklist. The pressure from the IMF on the government to raise prices for essential goods could impede the purchasing power of the masses, making it difficult for the general public to survive. The rise in prices of basic commodities such as sugar and oil could further strain the economic situation.

Non-compliance with debt service requirements may lead to the country being labeled as a high-risk state, posing challenges for future borrowing. Consequently, Pakistan might be forced to pay higher interest rates to secure new financial resources. To address financial shortfalls, the government may have to cut spending on public services, including development projects, healthcare, and education. This, in turn, would increase the influence of the IMF on Pakistan's internal policies, as evidenced by the resignation of the former finance legislator Assad Umar Khan and the replacement of the State Bank director with Dr. Reza Baqeri, which has raised concerns about the country's integrity, as cautioned by Maryam Aurangzeb of the PML-N.

To the contrary, conditionality is typically useless in studies of short-term program effects as it rarely takes place in the going year as a program statement and has not got enough time to have its effect on growth rates. Financial support or capital market reactions must be responsible for the short-term effects of IMF programs. Moral hazard is the most common argument for the detrimental impact of IMF initiatives. Due to the fact that agents are covered, they do not have to pay for the consequences of their acts, which create a moral hazard problem. Politicians have advocated for the Fund to be reined in and its lending activities restricted to temporary balance of outflows loans rather than long-standing growth and structural modification loan programs, citing moral hazard concerns.

On the contrary, conditionality is often deemed ineffective in studies examining short-term program effects, as it typically occurs in the current year as a program statement and lacks sufficient time to impact growth rates. The short-term effects of IMF programs are more likely attributable to financial support or reactions in the capital market. The most commonly cited argument against the beneficial impact of IMF initiatives is moral hazard.

Moral hazard arises from the notion that when individuals or entities are shielded from the consequences of their actions, they may engage in risky behavior without bearing the full costs. This creates a moral hazard problem. Some policymakers have called for greater restraint on the IMF, advocating for limitations on its lending activities to temporary balance of outflows loans rather than long-term programs focused on growth and structural modification. Their rationale is rooted in concerns about the moral hazard associated with shielding actors from the repercussions of their decisions.

The history of IMF lending to Pakistan has been extensive, yet tangible positive outcomes remain elusive. Consequently, it is imperative for the government to undertake practical measures for a comprehensive economic overhaul at both macro and micro levels. An essential step in this direction involves the rationalization of public revenue and expenditure regimes.

The current government should explore innovative sources of revenue instead of relying solely on taxation measures. It is crucial to diversify income streams to reduce dependence on a singular method of generating funds. Additionally, there is a pressing need for optimizing the utilization of public funds. This can be achieved through the implementation of effective budgetary mechanisms and transparent systems to control expenditures. Such efficient policies would contribute to lessening the country's reliance on borrowing loans from the IMF and foster greater fiscal sustainability.

Adding more to it, there is a dire need of reforms in import regime. Viable policy framework should be formulated to boost imports .in order to achieve this end, higher duties should be imposed on all luxury goods. Pakistan imports large quantities of machineries, electronics, metals and oils which together account for Pakistan's $60 billion in annual imports. The imposition of heavy duties would assist reducing such practices. Boosting export should be prioritized on immediate basis. To achieve this end, indigenous products should be manufactured while keeping in view the quality standard of global markets. Increasing export competitiveness should also be given utmost attention. Retrospectively, Pakistan's exports exponentially grew during a period of early 1980s to early 1990s. At that time, it was realized that in order to capture international markets the exporting industries export competitiveness. It was meant to keep those Pakistani products regionally competitive which had the surplus production capacity and the skill set to capture the global markets. Such policies measure should be reviewed in export domain to stabilize economy and avoid IMF loans.

In addition, urgent reforms are needed in the import regime. A viable policy framework should be devised to stimulate imports. To achieve this objective, higher duties should be imposed on luxury goods. Pakistan currently imports significant quantities of machinery, electronics, metals, and oils, accounting for approximately $60 billion in annual imports. The imposition of substantial duties would help curb such practices. Prioritizing the enhancement of exports is crucial. To achieve this goal, there should be a focus on manufacturing indigenous products while aligning with the quality standards of global markets. Increasing export competitiveness should be a top priority. Looking back, Pakistan's exports experienced exponential growth during the period from the early 1980s to the early 1990s. At that time, there was a realization that capturing international markets required enhancing the export competitiveness of industries. This involved ensuring that Pakistani products with surplus production capacity and the necessary skill set remained regionally competitive to seize global market opportunities. Such policy measures should be revisited in the export domain to stabilize the economy and reduce dependence on IMF loans.

Furthermore, there is an urgent need for reforms in the import regime. A practical policy framework should be developed to stimulate imports. To achieve this, higher duties should be imposed on luxury goods. Pakistan imports significant quantities of machinery, electronics, metals, and oils, contributing to the country's annual imports of $60 billion. The imposition of substantial duties would help discourage such practices.

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Likewise, it is high time to shift focus towards geo-economies rather than geo-strategy. In today's economically integrated world, a robust economy serves as a source of power and security. Nations with economic strength are less dependent on institutions like the IMF and World Bank, allowing them to freely exercise their sovereignty. Policymakers need to acknowledge this reality and emphasize the enhancement of inter-state trade relations. Leaders should explore new export destinations worldwide. Viewing the world through an economic lens would open up new avenues for economic progress and diminish the need for loans from the IMF in Pakistan.

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The new lending rules introduced by the IMF can have a significant impact on capital markets, and these rules are often influenced by political interests of the lenders. While lending in certain circumstances can mitigate the risk of a deepening crisis and reduce the risk premium demanded by market participants, political motivations behind lending decisions may undermine the credibility of reform commitments. This is because entering into an agreement with the IMF may reveal adverse information about the borrower's economy.

The so-called 'catalytic' effect on the price of private borrowing depends on whether the negative consequences outweigh the potential benefits of the loan's availability. Examining the contradictory consequences of crisis lending helps explain the varied empirical results found in the literature regarding consumer responses. A study in this context explores how IMF program announcements, loan amounts, loan terms, and measurements of the United States' geopolitical interests (a core concept for the IMF) impact sovereign bond yields (Chapman, Fang, Li & Stone, 2017).

In the contemporary world, it is widely acknowledged that many emerging powers have struggled to make significant adjustments to influence the global economy. The article examines the recent practices of the IMF and World Bank in addressing the challenges posed by the emerging multipolarity. Despite their resistance to major reform, these institutions deploy strategies to adapt to evolving realities. However, the adaptation lacks a coherent strategy and is deemed insufficient overall.

The examination begins by considering normative, operational, and competitive challenges faced by the IMF and World Bank. It then discusses three coping mechanisms employed over the last decade: 1) strengthening operations in low-income countries and small middle-income countries; 2) adopting a flexible approach toward large middle-income countries, especially emerging powers; and 3) reinforcing and refining non-lending activities. The effectiveness of these adaptive measures in addressing the challenge of multipolarity varies, with some modest gains, untested commitments, and notable failures.

Despite the uncertainties about their effectiveness, these initiatives underscore a willingness to protect institutional hegemony amid significant changes in global systems. Critically, they also influence how the perception of 'development' is shaped and exercised within the multilateralism of the Western world (Güven, 2017).

The IMF had predicted that the public debt would also increase to 64.3% of GDP by the end of the 2015-2016 fiscal year. The domestic debt of the government rose to 'Rs. 13.62 trillion,' marking an increase of 'Rs. 1.43 trillion' or 11.7% from the previous year. The debt incurred by government-owned corporations surged at a concerning rate of 24%, reaching 'Rs. 568 billion.' Pakistan has heavily relied on borrowing to meet its budgetary requirements, given its struggle to broaden its very narrow tax base.

Rather than addressing the root issues, the government chose to redefine the definition of public debt in its negotiations with the IMF. While the earlier statutory definition of debt was "a sum of total outstanding borrowings," the new definition is "the debt of the government serviced out of the consolidated fund and obligations to the IMF." Dr. Asfhaque Hasan Khan, a former director of the Ministry of Finance's General Debt Division, expressed surprise at the unexpected surge in liabilities. "I anticipated the total debt would grow to 'Rs. 20.5 trillion' by the end of the fiscal year 2015-16," he said, suggesting that such a significant rise indicated that the government was borrowing covertly (Bas & Stone, 2014).

There is a lack of consistency in the econometric support for the proposition that IMF lending programs are beneficial in the short term, as seen across a substantial body of relevant literature. It remains unclear whether IMF lending, similar to overall growth assistance, is effective in promoting medium- or long-term progress. This uncertainty arises from the possibility of ineffective policy alterations, policy adjustments that initially hinder progress before yielding benefits, or the implementation of painful measures without empathy.

However, it's important to note that the primary objective of IMF funding is to provide immediate assistance. It serves as an alternative source of financing to prevent a catastrophic financial downturn caused by economic liquidity or foreign reserve deficiencies. Without such financing, a crisis is likely to occur, leading to investment crises, independent defaults, and monetary crises that are typically followed by a rapid decline in economic activities (Goldstein and Montiel, 1986).

It is emphasized that IMF conditionality has not shown any influence, positive or negative, in the year following the announcement of a program. Therefore, any short-term consequences observed are attributed to the loans rather than improvements in policy. When analyzing the data and focusing on short-term effects, it is argued that the fault lies in the financial methodology, not government actions. Scholars recognized the challenge of choice bias in assessing the benefits of IMF programs before being able to adequately address it (Steinwand and Stone, 2008).

Countries with the best prospects for successfully implementing IMF programs are least likely to utilize them. When the decision-making process is modeled to explicitly account for the possibility of adverse selection, the results show that IMF programs generally have beneficial effects on short-term economic performance. This contradicts the prevailing wisdom but is reasonably expected. IMF lending aims to prevent economic, monetary, or balance of payments crises that can abruptly reduce economic output when they occur. If the programs in place do not bring anticipated benefits, it is challenging to explain why governments willingly participate in them.

The results are both quantitatively significant and qualitatively important, suggesting that IMF programs are less detrimental on average than the counterfactual scenario where they are not implemented. These findings also have implications for an ongoing debate within and outside the Fund regarding the policy implications of the long-term use of IMF resources. Countries that frequently use IMF resources are more likely to do so repeatedly, and many of these nations have poorly managed economic policies. Based on the conventional logic of moral hazard, scholars and policy analysts have argued that prolonged use of Fund resources is detrimental to the development of these nations. They have advocated for the Fund to limit its role to providing short-term balance of payments support rather than long-term development assistance.

The logic of adverse selection presents a different perspective: repeat users of IMF programs may have had poor economic performance even without the programs, but the opportunity to engage with them repeatedly allows the Fund to overcome its information disadvantage and identify governments that are not genuinely committed to promoting reform. Consequently, long-term users of Fund resources may, on average, benefit more from program participation than short-term users. The empirical results support this notion.

The analysis suggests ways to address the adverse selection problem, which could enhance the effectiveness of IMF programs over time. Two of the proposed methods focus on efforts to distinguish between deserving and undeserving defaulters. First, to mitigate adverse selection, it is crucial to improve the credibility of Fund enforcement of conditionality. Weakly enforced parameters provide no incentives for administrations that are not committed to reforms to signal themselves by refusing to participate in IMF programs. Additionally, the Fund should reduce the incentive for reform-oriented governments to sign programs by front-loading parameters in the form of prior conditions and back-loading the stages of loan disbursements. Thirdly, the Fund should increase the incentive for well-governed countries to participate in programs by raising the signal value of a Fund program to the market. This requires the IMF to be more discerning in approving programs. An application cannot be a seal of approval if it is available to any member that wants one, and if it conveys no significant information to the market, it is likely to convey negative information.

Contrary to a significant body of work that has been critical of the IMF, the analysis finds evidence that IMF programs have improved the economic performance of the majority of countries that have participated in them. Furthermore, the findings indicate that it is possible to identify which countries have benefited and which have had their development hindered under IMF programs. The central elements influencing success and failure in IMF program design and implementation are largely unobservable in our analysis, and we can only estimate them because they have observable implications for which countries choose to apply for IMF assistance. If these elements were entirely observable, adverse selection would be unproblematic. This suggests a fourth approach to improving IMF program outcomes, which is to investigate the political factors that lead to program success and failure in order to reduce the degree of information asymmetry between the Fund and its members (Bas & Stone, 2014).

In August and September 2010, the SBA (Structural Budgeting Assistance) convened its fifth annual review in Washington, DC. A series of technical discussions took place on August 23-25, 2010, to begin laying the foundation for the 2010-11 period. Officials at the IMF were apprised of several concerns raised by the data for the fiscal year 2009-10, including issues like income and expenditure slippages that resulted in a failure to meet the fiscal deficit target and zero net borrowing from the State Bank of Pakistan (SBP).

Regarding the Macroeconomic Framework for the fiscal year 2010-11, a consensus was reached among the IMF team, the Ministry of Finance (MOF), and the SBP. Growth projections were revised downward from 4.5 percent to 2.5 percent due to underlying challenges and the impact of flooding. Subsequently, inflation surpassed the initial range of 9.5-10%, reaching 13%. The current account deficit was anticipated to reach 3.4 percent of GDP, attributed to the effects of flooding. Alongside these agreements, there were also points of contention among the parties involved.

The Ministry of Finance proposed a fiscal deficit of 4 percent of GDP, assuming Federal Board of Revenue (FBR) tax income of Rs.1689 billion, including revenue and revenue measures totaling Rs.85 billion. Additionally, the proposal included a reduction in energy subsidies.

Policy discussions focused on structural benchmarks, including the elimination of round-robin borrowing and the implementation of the Value Added Tax (VAT)/reformed Goods and Services Tax (GST). These remained key topics on the policy agenda.

The trio of the Government of Pakistan (GOP), Asian Development Bank (ADB), and World Bank were set to reach an agreement on matters pertaining to the energy industry. Discussions also revolved around aligning draft legislation with the agreement reached with the Government of Sindh in the context of progress on the Goods and Services Tax (GST) reform.

An additional agreement outlined that the first of the remaining installments would be contingent on benchmarks achieved by the end of June 2010, while the second tranche would be determined based on benchmarks by the end of September/end of December 2010. The International Monetary Fund (IMF) would actively monitor Pakistan's commitments to ensure their fulfillment between the current period and September (Hashmi, 2017).

The delayed repayment of debts has led Pakistan to accumulate an approximate debt of $60 billion. One major factor contributing to the increasing debt is the rise in dollar rates. As the daily dollar rates increase, external debts also escalate, adding pressure to repay debts to organizations like the IMF and World Bank, as Pakistan is obligated to make these payments in dollars. The interest rate is another significant contributor to the mounting external debt of Pakistan.

Pakistan has become a favored debtor country for the World Bank. The country's external obligations have surged due to the misuse of financial loans, leading to numerous unfinished developmental projects. Political instability and frequent changes in government policies further exacerbate the economic challenges, as each new administration introduces new projects and strategies, overburdening the economy.

The economic condition of Pakistan is precarious, marked by unsustainable external debt. The country has struggled to maintain a balance between expenditures and revenue. The excessive and increasing external debt poses significant constraints to development, acting as a major impediment to macroeconomic stability, growth, and poverty reduction. It introduces risks of default and currency depreciation. The conditions imposed by international lenders, such as the IMF, include raising taxes, reducing pensions, and privatizing the industrial sector.

However, the blame cannot be solely placed on the IMF. In the case of Pakistan, successive governments have also failed to take pragmatic steps. Instead of addressing the underlying economic issues, they have heavily relied on begging for foreign donations. The unfortunate reality is that despite having 12-13 IMF programs over the past 30 years, none of these programs have proven successful. Kaiser Bengali, a former government economic adviser, views the IMF package as a temporary relief for Pakistan's economy.

While conditionality is intended to promote progress, it can still have deleterious effects. One significant issue is the frequent non-implementation of conditionality measures, potentially contributing to weak economic growth. Research funded by the IMF has indicated that around 70 percent of IMF projects face interruptions at some point due to the non-implementation of the program. Another study revealed that over a decade, 93 percent of nations participating in IMF programs experienced program suspensions (Stone, 2011).

This high rate of non-implementation raises challenges in attributing poor outcomes to either harmful constraints or the absence of effective conditionality when implementation rates are low (Vreeland, 2006). Conditions are rarely fully applied in the same year as a program statement, and even when they are, they may not have had sufficient time to exert their impact on growth rates in studies focusing on short-term program effects. Consequently, the short-term effects of IMF programs on growth are likely influenced more by financial support and capital market reactions than by the immediate implementation of conditions.

According to a recent report by the International Monetary Fund (IMF), Pakistan's external debt has been consistently increasing due to the government's inability to boost exports and attract foreign direct investment. The major portion of the foreign exchange reserves has been built by acquiring expensive foreign loans, a strategy deemed unsustainable by independent economists. Over the last three years, the government raised $3.5 billion by issuing bonds in the international debt markets, excluding the latest Sukuk bond worth $1 billion issued this fiscal month. Furthermore, Pakistan received $9.7 billion in credits from various banks, including the World

Bank, Asian Development Bank (ADB), and Islamic Development Bank (IDB), and $3.6 billion from friendly countries. A significant portion of the $6.2 billion from the IMF loans also contributed to the growing debt burden.

On the domestic front, the situation is equally challenging. Over the past three years, the government acquired Rs. 3.114 trillion in fresh credits. As of June, in the current fiscal year, Pakistan's total liability stood at Rs. 22.4 trillion, according to the State Bank of Pakistan (SBP). The Economics Department argues that the near-term maturity of domestic debt in local currencies does not pose a default risk, and the total interest cost on domestic debt as a percentage of GDP is around 4%. However, the absolute debt servicing cost over the past 36 months was high, standing at Rs. 3.43 trillion, exceeding the amount borrowed from domestic sources in the same period. The debt-to-GDP ratio was reported as 66.5% in June.

To address criticism and concerns regarding the rising government debt, the authorities made strategic moves. In June, they amended the Fiscal Responsibility and Debt Limitation Act of 2005 through the Economics Act, modifying the parameters to accommodate their needs. The government not only diluted the law but also relaxed the constitutional limits restricting the overall public debt to 60% of Gross Domestic Product (GDP). Both the Pakistan Peoples Party and the Pakistan Muslim League–Nawaz administrations violated these limits. The government has now set a new constitutional deadline of June 2018 to bring the liability to 60% of GDP, as opposed to the earlier deadline of June 2013.

Addressing these economic challenges requires a forward-looking approach with focus and political determination. Encouraging the public to contribute to the national coffers by setting positive examples is crucial. To secure additional foreign assistance, the government must first implement tough economic reforms. While there were no issues with the conditions/parameters set by the IMF, shortcomings were evident in terms of the government's sense of responsibility and commitment (Hashmi, 2017).

Furthermore, the IMF report highlighted that the increase in Pakistan's external debt was exacerbated by a lack of progress in enhancing exports and attracting foreign direct investment. The country's reliance on expensive foreign loans has strained its financial stability and raised concerns among independent economists about the sustainability of this approach.

In the past three years, the government's reliance on external borrowing, both through international bonds and loans from various financial institutions, has led to a significant accumulation of debt. The country's debt servicing costs have surged, surpassing the amount borrowed from domestic sources during the same period. This has contributed to a higher debt-to-GDP ratio, reaching 66.5% in June.

Despite the government's efforts to amend fiscal regulations and relax constitutional limits on public debt, the need for economic reforms remains paramount. The IMF has emphasized the importance of implementing stringent measures to address the economic challenges and improve fiscal responsibility. The success of such reforms hinges not only on meeting the conditions set by the IMF but also on the government's commitment to responsible financial management.

It is imperative for Pakistan to navigate its economic challenges by adopting a proactive approach that includes promoting exports, attracting foreign investments, and implementing effective policies to reduce reliance on external borrowing. A concerted effort to address underlying economic issues and promote sustainable growth will be essential for the country to achieve long-term fiscal stability and reduce dependence on foreign assistance.

2.8. IMF Programs: Year by Year

- Commencing in late 2007 and early 2008, Pakistan faced severe economic crises that progressively worsened, ultimately pushing the country perilously close to bankruptcy by August 2008 due to unsustainable policy-induced imbalances.
- Against this backdrop, Pakistan entered into a Stand-By Arrangement (SBA) for SDR 7.6 billion (equivalent to US $9.7 billion) with the International Monetary Fund (IMF) on November 24th. During the board session held on August 7, 2009, attended by the IMF, a vote was cast to extend the SBA by 7.2359 billion dollars (US $10.66 billion).

Lists of top priorities of the SBA's November 2008 meeting with the IMF are as follows:

- An agreement for SBA funding, totaling $7.6 billion (SDR 5.169 billion), was formally executed.
- In August 2009, a substantial increase of 200 percent in SBA funding brought the overall amount to $10.66 billion (SDR 7.236 billion).
- The program is scheduled to stay operational until the end of December 2010.As of now, a cumulative sum of $8.7 billion has been disbursed under the program, with $1.46 billion designated for budget financing.

The successful completion of the IMF SBA required undergoing five reviews.

1. Strategic adjustments and corrective measures were implemented to enforce the program, focusing on critical areas such as strengthening the tax enforcement regime. The Federal Board of Revenue (FBR) was mandated to submit a summary of revisions to the national government to align changes with the Income Tax and GST regulations.

2. Additional funds are earmarked for social welfare programs, accompanied by a plan to eliminate inter-corporate circular debt.
3. The budget financing for the State Bank of Pakistan (SBP) will be restricted.
4. The Federal Board of Revenue (FBR) will establish and monitor an optimal level of VAT immunity throughout the program duration.
5. The fiscal deficit is projected to decline from 7.6% of GDP in 2007-2008 to 4.9% by 2009-2010, further reducing to 2.5% by 2012-2013.It has been analyzed in many studies on political economy and the IMF loans that no loan program can ever alter the course of our economic destinations unless we manage our economic affairs in professional manners, proper fiscal measures and with commitment.

Fidrmuc and Kostagianni (2015) conducted an extensive analysis of a broad array of countries to investigate the impact of IMF aid on economic growth. Their study encompassed 213 countries and utilized 38 years' worth of data (1971 to 2009). Empirical findings revealed that IMF programs had no discernible effect on growth and investment rates. Similarly, Dreher (2004) explored various sources to empirically assess the perceived impact of IMF-funded programs on economic growth from 1970 to 2000, using panel data for 98 nations. His research failed to provide statistically significant evidence supporting the hypothesis, suggesting that IMF stabilization measures were ineffective.

Umer et al. (2015) examined the implications of the IMF on Pakistan's economy in a descriptive study. They concluded that the IMF's lending to Pakistan came with numerous demands and conditions, ultimately deeming the IMF more of a curse than a blessing. Drawing attention to the negative consequences of IMF/World Bank structural adjustment programs, the study highlighted Kenya as an example of the detrimental effects on developing countries, relying on data primarily derived from both primary and secondary sources.

In the context of Pakistan, Ahmed and Bengali (2000) scrutinized stabilization efforts, revealing that short-term-focused stabilization measures had a detrimental impact on long-term growth, causing a decline in the GDP growth rate. They emphasized the necessity for economic policy adjustments to balance both stabilizing the economy and fostering growth.

Haque and Khan (1998) conducted a cross-country survey over an extensive time period, utilizing diverse research methods, and concluded that reforms implemented by borrowing countries, along with efforts to stabilize domestic economies, contributed to overall economic stability. In contrast, Butkiewicz and Yanikkaya (2004) suggested that IMF aid was either ineffective or detrimental to economic growth. They observed that loan conditions imposed by the IMF had adverse effects on both governmental and private investment.

Amjad and Kemal (1997) estimated poverty rates in rural and urban areas and found that structural adjustment policies led to increased poverty levels due to declines in growth, employment, and government spending on social services. Building on these findings, the debate over the effectiveness of IMF interventions extends beyond Pakistan. Various studies have highlighted the nuanced impacts of IMF programs on economic growth and development.

For instance, some scholars argue that while the IMF may not always directly contribute to economic growth, its programs can play a crucial role in stabilizing economies during times of crisis. This stabilization effect is seen as essential for creating a conducive environment for long-term growth. Researchers such as Haque and Khan (1998) emphasize the importance of considering both short-term stabilization and long-term growth objectives in economic policy.

However, critics, as illustrated by Butkiewicz and Yanikkaya (2004), express concerns about the conditions attached to IMF loans. They contend that stringent conditions and policy prescriptions imposed by the IMF may hinder a country's ability to pursue its unique developmental path and can lead to negative consequences for investment, both public and private.

The debate also extends to the social impact of IMF programs. Amjad and Kemal (1997) underscored how structural adjustment policies could exacerbate poverty by affecting key factors such as employment and government spending on social services. This adds another layer to the discussion, highlighting the need to consider not only economic indicators but also the well-being of the population.

It's crucial to note that the effectiveness of IMF programs can vary depending on the specific circumstances of each country. Factors such as governance, institutional capacity, and the nature of economic challenges faced by a country all contribute to the diverse outcomes observed in different contexts.

The literature reflects a complex and multifaceted relationship between IMF interventions and economic outcomes. While some studies point to positive stabilization effects, others highlight concerns about the conditions attached to IMF assistance and their potential negative impact on long-term development and social well-being. The ongoing discourse emphasizes the need for a nuanced understanding of the role of the IMF in shaping the economic trajectories of nations.

The study conducted by Gera (2007) focused on Pakistan's social welfare from 1988 to 1999, using national household surveys. The findings indicated that the impact of structural adjustment reforms on the working class and the poor was below expectations, suggesting limitations in the positive outcomes for these groups.

Przeworski and Vreeland (2000) observed that countries persistently influenced by the IMF experience a slowdown in their growth rates. Exiting the program allows for faster growth compared to remaining in it, but the growth is not as rapid as it would have been without IMF involvement. The IMF's policies and conditionalities were primarily oriented towards expanding economies.

Barro and Lee (2003) characterized the IMF as a bureaucratic and political organization where those with greater influence are more likely to secure loans, emphasizing the importance of political dynamics in loan allocation.

Ivanova's 2003 study delved into the role of IMF-stabilization programs, finding that their success depended significantly on a country's unique political and economic context. Factors such as political stability, cooperation, governance, and socioeconomic equality played crucial roles in determining program outcomes.

Zaidi (2000), a Pakistani economist, argued against the necessity of IMF-supported programs for Pakistan. Instead, he emphasized the need for competent and ethical political leadership as a fundamental requirement for the country's progress.

Awan and Mukhtar (2019) noted disappointing economic performance during the implementation of IMF programs in Pakistan, despite reductions in the budget deficit. Conditionalities were associated with economic decline and increased poverty.

Awan and Anwar (2016) attributed economic problems in Pakistan to excessive government spending and insufficient tax collection, leading to repeated reliance on IMF bailouts. They advocated for a shift towards enhancing government revenue by cutting wasteful expenditures and broadening the tax base.

Stiglitz (2006) contended that, in South-to-East Asia, significant debt repayments in recent years have resulted in money from the IMF and World Bank flowing in the reverse direction. This highlights the complex and often contentious dynamics surrounding financial assistance from international institutions.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Nature of the study

This research utilizes a qualitative method within the context of a broader quantitative study. The investigation focuses on key economic variables crucial for determining the financial stability of Pakistan. This chapter aims to provide a comprehensive understanding of the data, outlining the procedures employed for data collection, the sampling methodology, and the analytical tools and techniques applied in the study.

The qualitative aspect of the research involves a nuanced exploration of economic variables, delving into their contextual significance and potential implications for Pakistan's financial stability. This qualitative inquiry is embedded within the larger quantitative framework, which incorporates numerical data and statistical analyses to draw meaningful conclusions.

The data elucidation process involves a detailed description of the selected economic variables under examination. These variables are pivotal in assessing and understanding the financial dynamics of Pakistan. The qualitative approach employed seeks to uncover the underlying factors and interconnections among these variables.

Procedures for data collection are systematically outlined, emphasizing the sources tapped into for acquiring relevant information. Whether through official reports, databases, or other channels, this chapter delineates the methods employed to gather data, ensuring transparency and reliability in the research process.

Sampling is a crucial aspect addressed in this chapter, elucidating the rationale behind the selection of specific samples. The sampling techniques are explicated, highlighting the representativeness of the chosen samples and their significance in extrapolating findings to the broader population.

Analytical tools and techniques are systematically presented, showcasing the methods used to interpret the collected data. Whether employing statistical analyses, econometric models, or other quantitative approaches, this chapter outlines the methodologies applied to draw meaningful insights and conclusions.

In summary, this chapter serves as a bridge between the qualitative and quantitative aspects of the research. It provides a comprehensive guide to the data, its collection, the sampling strategies, and the analytical methodologies, offering readers a clear roadmap for understanding the multifaceted approach taken in this study.

3.2. Data Type

The study relies on secondary data collected from diverse sources, encompassing both online and offline repositories. The information is drawn from reputable institutions, providing a robust foundation for the research. Key sources include the International Monetary Fund (IMF), Economic Survey of Pakistan, State Bank of Pakistan, Asian Development Bank, and World Bank.

Online sources play a significant role in data collection, leveraging the accessibility and abundance of information available on the internet. The websites of these organizations serve as valuable platforms for retrieving up-to-date statistics, reports, and analyses relevant to the study's focus on the financial stability of Pakistan.

Offline sources, such as printed publications and official reports, contribute to the depth and comprehensiveness of the data. The Economic Survey of Pakistan, publications from the State Bank of Pakistan, and other tangible sources provide a historical and contextual perspective that enriches the study's analytical framework.

The International Monetary Fund (IMF) serves as a key repository for global economic data and policy recommendations. The Economic Survey of Pakistan offers insights into the country's economic performance, policies, and challenges. The State Bank of Pakistan provides authoritative information on monetary and financial aspects. The Asian Development Bank and World Bank contribute valuable perspectives and data on regional and global economic trends.

By utilizing a diverse range of sources, both online and offline, the study ensures a comprehensive and well-rounded approach to data collection. The credibility and authority of these institutions further enhance the reliability of the secondary data, contributing to the robustness of the research findings and conclusions.

3.3. Sample of the study

The research has selected the time frame spanning fiscal years 2008 to 2013 as the sample period for its investigation. This particular time stint has been chosen to capture a defined and significant period within the economic landscape, providing a focused lens through which to analyze the financial stability of Pakistan. The inclusion of these specific fiscal years suggests an intention to examine a critical juncture that likely corresponds to noteworthy economic events, policy changes, or trends during that period. By delimiting the sample to the years 2008-2013, the study aims to offer a concentrated and in-depth analysis of the chosen timeframe, allowing for a nuanced understanding of the factors influencing financial stability within that specific duration.

3.4. Variables

Based on the literature reviewed, the study has identified a set of variables to assess and analyze the results. The selected variables for the study encompass key economic indicators and factors that are pertinent to evaluating the financial stability of Pakistan over the period 2008-2013. These variables include Inflation Rate, GDP Growth, Budget Deficit, Trade Deficit, External Debts of Pakistan, Unemployment Rate, and Inflation Rate.

These selected variables collectively provide a comprehensive framework for assessing various dimensions of Pakistan's financial stability during the specified period. The study aims to analyze and interpret the interplay of these variables to draw meaningful conclusions about the economic landscape of Pakistan from 2008 to 2013.

3.5. Hypotheses

H1: The economy of Pakistan has not experienced a positive impact from IMF loans.

H2: There is a positively significant impact on the economy of Pakistan from IMF loans.

3.6. Data Analysis

Theoretical analysis is conducted through the lens of the below-mentioned theory.

3.7. Theoretical Framework

Attention has been given to the case of Pakistan, particularly during the period from 2008 to 2013. The focus is on one of the major international organizations, the IMF. The theoretical analysis in this study aims to investigate whether these institutions genuinely assist developing countries or potentially contribute to increased poverty in those nations. The IMF's financial lending program places emphasis on two primary policy variables: domestic credit and nominal exchange rate. These priorities are derived from the outcomes of three distinct models of analysis.

3.7.1. Dependency Theory

The theoretical framework adopted in this study aligns with the Neo-Colonial Dependence Model, rooted in Neo-Marxist thought. Hans Singer and Raul Prebisch laid the foundation for this model through two seminal papers published in 1949, introducing what became known as the dependency theory. Derived from Marxian principles, this theory posits that the underdevelopment of certain nations is a consequence of a historically unequal capitalist relationship between advanced and third-world states.

The central argument within the Neo-Colonial Dependence Model is that a free-market economy fosters exploitation, resulting in the concentration of wealth in the hands of a few, while large segments of the population are deprived of basic necessities due to their dependence on more advanced nations. According to Paul Baran (1957), various interest groups in underdeveloped countries, including landlords, entrepreneurs, businessmen, government officials, and union leaders with high salaries and social and political influence, are motivated to sustain an international capitalist system characterized by inequality, potentially benefiting themselves.

Echoing these sentiments, Dos Santos (1971) emphasizes that underdevelopment is a consequence of a specific form of dependent capitalism, representing a unique pattern of capitalist growth. In this perspective, the study explores the dynamics of the IMF and World Bank interventions within the context of the Neo-Colonial Dependence Model, seeking to understand how these institutions may contribute to or alleviate the economic challenges faced by developing countries, with a specific focus on the case of Pakistan between 2008 and 2013.

This arrangement gives rise to a combination of backwardness and exploitation. Dominant nations enjoy technological, commercial, and socio-political superiority over their dependent counterparts, which is perceived as advantageous. The international division of labor promotes industrial development in certain countries while restricting progress in others, subjecting their advancement to the influence of global power centers worldwide.

According to the Neo-Colonial Theory, the responsibility for the poverty experienced by underdeveloped countries lies with the policies of wealthy nations and their advocates, particularly in the form of small yet influential "comprador" groups within these nations. Ehrhart (1970) observes that dependent capitalism is a manifestation of capitalist growth and a consequence of underdevelopment. These countries, experiencing both impoverishment and exploitation, find themselves caught in a cycle of enduring poverty and exploitation.

Being in a dominant global position affords countries access to technological, commercial, and socio-political capital, along with influence over their dependent counterparts. Due to the international division of labor, industrial growth is fostered in certain nations, while others face limited growth due to the positioning of their economy, rendering them susceptible to control by global power centers. The Neo-Colonial theory asserts that poverty in emerging countries is a result of powerful "comprador" organizations within those nations collaborating with influential international investors.

The responsibility for the poverty and underdevelopment of third-world countries is often attributed to the ideas put forth by external experts and advisers from nations and global financial organizations such as the World Bank, the IMF, UNICEF, and the UNDP. These experts propose well-known concepts, tried-and-tested approaches, and cutting-edge methodologies in fields like econometrics and other technical disciplines, contributing to the formulation of ineffective policies. Issues at both regional and global institutional levels, including population growth, high unemployment, inadequate education and skills, and unequal asset distribution, are exploited by wealthy, political, and influential groups to manipulate economic policies to their advantage.

The concepts embedded in the "International Structuralist Model" underscore that global poverty has emerged due to laissez-faire policies, their extensions, and the support they receive. Consequently, proponents of this view reject the idea of measuring progress through GNP and instead advocate for regional and global reforms. According to structuralists, these reforms hold the potential to alleviate hunger, poverty, and economic inequality, while simultaneously improving job prospects and living standards. In the eyes of structuralists, the growth process itself takes precedence over the size of the population in third-world countries, emphasizing that the rise of these nations does not necessarily lead to an increase in population.

The Neo-Classical Counter-Revolutionary Theory, developed in response to modern developments in both economies and governments, advocates for private ownership and a free-market economy. In the 1980s, conventional political leadership in the USA, England, Canada, and Germany saw the resurgence of neo-classical free-market doctrine. This theory, in contrast to dependence models, takes a more classical approach, disputing the dependency theory's assertion that international poverty is a result of victimization of third-world countries by developed nations.

To counter this narrative, a considerable emphasis was placed on supply-side macroeconomics and the privatization of state-owned companies in developed and developing nations that rejected state ownership, control, and regulations. While this notion has been discredited, it gained popularity at the IMF Headquarters and with global financial organizations aiming to stabilize the world economy and facilitate structural reforms, including programs such as the United Nations Development Program (UNDP) and the IMF.

Neo-classical non-interventionist advocates argue that all issues faced by developing nations due to government intervention in the economy can be explained through their approach. In essence, neoclassical economists recommend prioritizing the tenets of 'Open Markets' and 'Laissez-Faire' economic systems as developing nations seek to rebuild their economies. Policies fostering the "magic of the market place" and the "invisible hand" of free market economics are believed to assist countries in efficiently distributing economic resources and improving their economic systems. To achieve this, neo-classical non-interventionists advocate for the privatization of the private sector under the banner of "capitalism."

While economic success stories like the Asian Tigers showcase the positive impact of "free markets and price mechanism" on their economies, the situations in Africa and Latin America have deteriorated despite their utilization of "interventionist strategies." The counter-revolutionary neo-classical philosophy argues that free markets can empower both local and foreign investors, simulating the positive effects of economic expansion in the third world.

However, skepticism arises regarding the relevance of the Neo-Classical Counter-Revolution Theory in underdeveloped countries for several reasons. The differences in economic, political, social, and structural variables make it challenging to apply free market theories universally in emerging nations. The lack of competitive markets is a notable issue in underdeveloped countries, where oligopolies, where several firms control a market for amounts purchased and sold, are prevalent. Various supply constraints, such as population growth, unemployment, environmental pollution, agricultural stagnation, high capital output ratio, inadequate industrial growth, and structural rigidity, pose challenges to the application of free market principles.

Critics argue that free market economies in developing nations, such as Pakistan, may not necessarily benefit the majority of the population, as they tend to favor the already wealthy. This skepticism arises from the belief that these economies primarily serve the interests of the affluent while not effectively addressing the needs of the impoverished majority.

CHAPTER FOUR

RESULTS/FINDINGS

4.1 The IMF Package

In late 2007, Pakistan faced severe financial challenges that escalated in July-August 2008. This escalation was attributed to policy decisions causing imbalances in the economic landscape, leading to a macroeconomic crisis. The situation worsened with the impact of external factors such as exchange rate fluctuations and a significant surge in food and electricity prices in 2008, exacerbated by the global financial crisis. The adverse effects of these economic shocks were felt not only on a global scale but also specifically within Pakistan's economy. Furthermore, the detrimental repercussions of the conflict on terror in Pakistan further contributed to the overall economic downturn. Analyzing Pakistan's circumstances through the lens of Dependency Theory provides a comprehensive understanding of the situation.

For context, it's important to note that on November 24, 2008, Pakistan entered into a Stand-By Agreement (SBA) with the International Monetary Fund (IMF) for a financial injection of SDR 5.1685 billion (Yaqub and Muhammad, May 2003). This marked a continuation of the deepening chain of dependency that had been established. An illustrative example is the SBA of 2007. A pivotal development occurred during the meeting on August 7, 2009, when the IMF approved an extension of the SBA to SDR 7.2359 billion. Key highlights of the SBA arrangement with the IMF in November 2008 are as follows:

- A Stand-By Agreement for $7.6 billion (SDR 5.169 billion) was finalized.
- Databases were to be maintained until the end of December 2010.

- Repayments under this program amounted to $8.7 billion, including $1.46 billion allocated for the budget.
- Five successful evaluations of the IMF SBA were conducted.

Several critical areas were identified for implementation under this program through progressive and corrective measures:

- Strengthening the implementation of tax orders.
- The Federal Board of Revenue (FBR) was mandated to present a summary of administrative improvements to Parliament for the amendment of income-tax and GST legislation.
- Formulating a strategy for the elimination of inter-company circular debt.
- Restraining State Bank of Pakistan (SBP) financing of the budget.
- Implementation of a Value Added Tax (VAT) with reduced exemptions overseen by FBR during the program duration.
- Maintaining a Flexible Exchange Rate system.
- Reducing the investment shortfall from 7.6% of GDP in 2007-08 to 4.9% by 2009-10 and further down to 2.5% of GDP by 2012-13.

As a crucial benchmark in the major technical measurement, the government VAT charge became applicable to the national framework, and the provincial payments were directed to the provincial assemblies (Ahmed and Meekal, 2010).

4.1.1. Synopsis of Growth on Stand-By Arrangement

In its policy papers, the IMF asserted that the loans granted to Pakistan would contribute to reducing its dependency on foreign loans. However, this assumption proved unfounded as it led Pakistan to seek more loans in the near future. Since November 2008, Pakistan has implemented a servicing plan amidst an extremely challenging external and domestic environment. The execution of plans for the primary areas of their program (January 2009 to March 2010) has been commendable. Pakistan has effectively provided quarterly updates on the Stand-By Agreement (SBA) during intensely scrutinized periods. All measurable performance criteria and technical benchmarks have been met. The government has undertaken several challenging and administratively complex decisions to enhance fiscal discipline and overcome various challenges.

Despite determined improvements and the acquisition of offshore loans through the IMF during a critical phase, there was a significant impact on the overall situation. This move reassured stability, provided a cushion for exchange rate adjustments, and maintained the international financial standing of Pakistan, which remained strong until March 2011 (Yaqub and Muhammad, 2012).

The exchange rate, which experienced a surge between March 2008 and October 2008, remained relatively robust. Noteworthy is the relevance of the fifth review, as documented in the SBA utilized in Washington from August 23 to September 2, 2010. Methodological discussions transpired during August 23-25, 2010, focusing on a comprehensive examination of the situation and challenges concerning the conclusion of the summer 2010 reports and prospects for 2010-11. Combatting issues arose primarily from the 2009-10 assessments, including setbacks in revenue and expenditure targets, leading to the failure of financial scarcity objectives. Additionally, the utilization of funds from the State Bank of Pakistan (SBP) drew the attention of IMF officials (Ahmed and Meekal, 2011).

There was a notable agreement among the IMF group, the Ministry of Finance (MOF), and the State Bank of Pakistan (SBP) regarding the Macroeconomic plan for the financial year 2010-11. The critical areas and implementation of this plan were reassessed due to the impact of floods, resulting in a downward revision of the growth projection from 4.5% to 2.5%. Inflation also escalated, surpassing the earlier forecast of 9.5-10% to reach 13%. The increased expenditures arising from the floods were expected to exert pressure on the current account balance, likely resulting in a deficit of 3.4% of GDP. Despite these agreements, there were notable differences as well.

4.1.2. Steps to Recover Tax Management and Assemblage

The outflow and outsourcing of resources further exacerbated the challenges in tax collection. During the economic crisis of 2008, Pakistan heavily relied on these resources as they contributed significantly to the country's foreign reserves. Attempting to include them in the tax collection list posed a dilemma for the government, as it risked losing a substantial portion of foreign reserves. Consequently, the dependence on these resources hindered the effectiveness of tax collection schemes. Strategies implemented to reform tax administration and enhance tax collection include reducing the workforce from 8 to 12 individuals following the outcome of the downsizing. Inland Revenue has realigned the responsibilities of these two users, streamlining operational processes and the distribution of tasks (Cheema and Ali, 2004).

In concluding the analysis, the implementation of software and relevant applications is crucial to the extent of the overseeing authority. Within the Internal Revenue Service, which reports to the administration, as of December 2010, 10% of identified non-applicants who had not filed tax returns have submitted returns, while 18% of identified non-applicants for national excise and business income tax have also filed returns. A short-term implementation plan was established with the following objectives: completion of the desk review of all corporate tax returns for the 2010 fiscal year by March 15, followed by the initiation of compliance measures for non-submitters. Individualized attention and auditing were directed towards tax-withholding entities, particularly banks, citation agents, and technical car companies, as data indicated that the financial statements submitted for the fiscal year 2011 in these three sectors were not aligning with the assessed profits (Rogoff and Kenneth, 2003). Special courts were established to expedite the adjudication of cases involving the recovery of deposits.

4.1.3. Projects Used by FBR

A restricted Value Added Tax (VAT) pre-tax adjustment exceeding Rs. 24 billion, with disbursements of Rs. 16.5 billion, was identified, and entities in the blacklist were flagged for industry improvements and assessment/verification. The cases are currently in progress, and it is anticipated that a substantial amount will be recovered (Hasan and Pervez, 2011). Specifically, the Large Taxpayer Unit (LTU) in Karachi alone unearthed approximately Rs. 7 billion, with around Rs. 4 billion already recovered in four cases to date. Additionally, the LTU in Lahore has identified a total of Rs. 11 trillion across 40 cases, with Rs. 3 billion successfully recovered.

4.1.4. Learning from IMF Databases

Literature available on the IMF website indicates that Pakistan exhibited improved performance under the guidance of the IMF. However, some analysts have characterized this growth and dependency relationship as a manipulation of figures that only existed on paper. The IMF's stand-by financial arrangement was designed to assist Pakistan in implementing a servicing plan that witnessed a significant reduction in fiscal and monetary policies to mitigate inflationary pressures and decrease the external current account deficit. The deficit declined from 7.4% of GDP in 2007/08 to a more sustainable 4.2% in 2008/09 and further to 3.3% in 2009/2010 (Cheema, 2004). In recognition of these efforts, the IMF commended Pakistan in April 2011 for its exemplary planning.

The external situation has strengthened, and the exchange rate remained stable until August 2011. The current account deficit at present levels indicated its support from reduced imports, increased exports, and a significant rise in international prices. The foreign exchange reserves also grew from $3.3 billion in November 2008 (prior to assistance from the Stand-By Arrangement) to approximately $18 billion in July 2011, considering factors such as a stable exchange rate and forex trading reserves. Peripheral conditions improved with a substantial reduction in the current account deficit (CAD) as the financial and capital profile enhanced. Official gross capital inflows rose to around $11 billion, and loans in the financial system began to rebound.

Inflation saw a decline due to tighter and more stable prices, dropping from 25% to 13.7% in January 2010. The budget deficit persisted within the predetermined limits in 2011. The government introduced a social safety net program for lower-income communities, making crucial modifications to the Benazir Income Support Program. However, the intended goals could not be fully achieved.

Considering the dependency theory, one can analyze that the more loans Pakistan received, the more it deviated from its intended path. The necessary funds for development were not generated through internal resources, and the required strategies for this were inadequately discussed. As a result, Pakistan resorted to borrowing from the central bank and other external sources, leading to substantial growth, an expanding budget deficit, and low revenues. This complex issue persists and is currently afflicting the country, not only impacting its economic foundations but also adversely affecting the manufacturing sector, resulting in low GDP growth. Consequently, the fundamental issues identified by the IMF and economic administrators remain unresolved (Yaqub and Muhammad, 2012).

The devastating floods in 2010, coupled with extensive rainfall in Sindh in the following year, and the volatility in global oil prices have further exacerbated the challenges, significantly impacting our fragile economy. This situation resulted in a reduced GDP growth of 2.4% and a tax rate reaching a record level. If it were not for the increase in exports and international remittances, which acted as a lifeline for the economy, we would likely be witnessing another crisis similar to that of 2008.

4.2. Consequences

The case of Pakistan can be succinctly summarized by examining its daily affairs through the lens of Dependency Theory. The researcher has endeavored to highlight the repercussions of IMF loans using Dependency Theory. There is a considerable consensus expressed and asserted regarding the IMF's engagement with Pakistan, and much of it is unfavorable, described in rather stark terms, and at times, quite daunting. Given the intensely personal and impassioned nature of this relationship, with its own context of evolving dynamics and complex structures, the anxiety is understandable. While much has changed in recent years, with the narrative becoming more apparent, thanks in part to the unique and high-pressure scrutiny from the International Monetary Fund, concerns and issues still run deep (Rogoff and Kenneth, July 2002).

A nation does not engage with the International Monetary Fund (IMF) unless there is a need, typically arising during economic challenges. When the economy is performing well, the involvement is minimal, and the IMF only oversees the policies of member countries through an annual discussion prior to the submission of the Article IV of the agreement (IMF Survey, 2012). During a mission, an IMF staff member visits a member country, assesses the economic and financial situation, and formulates policy recommendations.

However, these assessments may not be binding for the member countries, and they are not the recommendations of the IMF executive directors. The executive directors deliberately discuss the report in a board meeting and express their views. In the absence of a financial arrangement, the IMF can only provide advice and promote ethical principles.

4.2.1. IMF Program Together With 2008 Situation

During the global economic crisis of 2008, the IMF assured Pakistan that it could weather the storm, but the condition imposed was that Pakistan had to follow the directives of the IMF. Unfortunately, the outcomes were disastrous. The decision of the existing authorities to seek IMF assistance in 2008 serves as a prime example. The finances were in dire straits and descended into an economic breakdown and insolvency (Sherani, 2011). Inflation in Pakistan reached unprecedented levels, and internal and external disparities widened significantly. There was a free fall in the stock market, asset values plummeted in regular markets, and speculation, driven by ample liquidity and a high threshold for hypothetical risk, soared. Within a month, it became a glaring indicator of a distressed budget.

In 2008, a combination of external and internal challenges pushed the state into a crisis. Internally, the excessively expansive policies of the previous government led to a sharp increase in both external and internal imbalances and accelerated inflation. These factors exerted immense pressure on Pakistan's balance of payments (Naqvi and Natalya, 2012). This was followed by the global financial crisis of 2008, often referred to as "the Great Recession" in the United States, with its adverse effects on trade and financial flows felt worldwide. While these external shocks worsened Pakistan's economic situation in 2008, they did not solely cause it. Pakistan's economy was already under severe strain.

In a period of robust growth when it should have played a countercyclical role to dampen excessive demands, the fiscal position became dangerously pro-cyclical, and monetary policy remained excessively loose and accommodating. The warnings from as early as 2005 about an overheated economy and the risks of accelerated growth were disregarded, as were other cautionary signals questioning the sustainability of Pakistan's much-touted economic success.

The internal political situation in Pakistan at that time was tumultuous, and the newly elected democratic government felt the need to prove its relevance. This compelled Pakistan to seek IMF loans under strict conditions. Unfortunately, the newly elected government placed misguided hopes on these IMF loans, exacerbating Pakistan's dependency. Instead of taking immediate corrective action to prevent a distressing economic downturn, the new authorities looked to secure external funding from bilateral partners and optimistic announcements, such as commitments for a new infusion dubbed the "Company of the World." Moreover, the authorities were envisioning an easy alternative, but it turned out not to be the case (Iqbal and Zubair, 2007).

The leadership believed they had a "Strategy A," a "Strategy B," and a "Strategy C," assuming that if none of these worked, they could resort to the "Strategy F" - the IMF - as no one else would provide funds. In reality, all of Pakistan's two-pronged supporters (including the World Bank and the Asian Development Bank) had recommended that the government reach an agreement with the IMF as a prerequisite for financial support, but the "friends" disagreed.

These reasons and hesitations in the air are not unique to Pakistan but are common in many nations. Countries often hesitate, hoping that the economic situation will naturally improve, and some even take counteractive measures. Seeking a bailout from the IMF in Washington DC is viewed as a sign of presumed failure and a loss of control over financial resources. However, reaching that point becomes the task of halting the downward spiral and returning to a state of macroeconomic stability (Naqvi and Natalya, 2012).

The Pakistani media often refers to it as the "IMF program," but it is not just an IMF program; it is the Pakistan program, and it should be acknowledged as such. Effective program implementation relies on strong governance. Without the commitment to sustain the program, it is prone to derailment. Pakistan has historically faced weak governance, particularly at the bureaucratic level, resulting in inconsistent implementation, missed targets, and, at times, a complete failure to achieve objectives. An illustrative example is the elimination of exemptions and concessions under program conditionality. However, once the program loses control, these concessions and exemptions are quietly reinstated, and inevitably, new ones are added, further eroding the tax base and causing a revenue crisis.

4.2.2. Stiff, Unbending and Inflexible

However, the IMF's generosity has not always worked in our favor. In one glaring instance, it once again pressed for the approval of the "reforms" of the bodies. "Foreign money accounts, 64 percent of which were held by locals (the rest by non-residents and well-known stockholders). Achieving the liberalization of the foreign market's financial accounts (even though companies did the opposite as they struggled to maintain current account restrictions)" (Iqbal and Zubair, 2007). The IMF also knew well (although we did not realize) that the plan was a ticking bomb. The foreign exchange deposits grew, and they recognized that in the event of a shock, this could make the budget increasingly vulnerable, with potentially devastating consequences as there was virtually no contingency plan. The focus on increasing the money supply exacerbated balance of payments deficits instead of focusing on a long-term external sector adjustment through top-ups.

The IMF has faced accusations of naivety, incompetence, and complicity in perpetuating trade deficits. This criticism stems from the IMF's generosity during the Musharraf regime and after Pakistan successfully implemented the first multi-year program in its history. The IMF produced post-IV annual reports that, by its standards, were unusually optimistic about the government's management of the economy (Yaqub and Muhammad, May 2003).

Either the IMF staff members were not adequately aware of the growing risks and vulnerabilities, or they succumbed to a notably favorable stance from the institutions that did not want the IMF to spoil the party by taking away the punch bowl and voicing their concerns. In hindsight, after the 2008 crisis in Pakistan, it must be hoped that the IMF's surveillance and research were sharper, more unbiased, and more robust since they faltered in their primary tasks: alerting the state's government to the emerging economic pressures and signaling serious issues.

4.2.3. Anti-Growth and Anti-Poor

The IMF has faced criticism for being perceived as anti-growth and anti-poverty. The anti-growth stance is attributed to the alleged fixation on size (Naqvi and Natalya, 2012). It is argued that the IMF's policy is recommended consistently and universally, irrespective of country-specific circumstances, leading to the common "cookie-cutter" criticism of the nation's issues. This critique often includes common features such as internal deficits, excessive external borrowing, lag in development, high inflation rates, and a rapid decline in foreign exchange reserves.

To support the economy initially, the IMF suggests measures to reduce fiscal deficits and better align with the collective resource hidden in the economy, even at the cost of some short-term rising losses. Additionally, for the first time under IMF-funded agreements, low-income countries have accumulated "fiscal buffers" and, notably, a currency standby buffer, providing room for maneuver and the implementation of countercyclical fiscal policies (IMF Study, 2012).

To mitigate the impact of recessionary forces stemming from global sources, Pakistan was neither fortunate nor sufficiently resilient, grappling with very little leeway. The "twin deficits" had reached record levels and needed to be curtailed. It would be disingenuous to assert that Pakistan should have pursued the same expansionary fiscal stance.

Moreover, the 2008 reform under the funded program worked well: the economy stabilized rapidly, inflation decreased, there were indications of investment rebound, the exchange rate stabilized, and reserves accumulated. More significantly, the economy was poised for growth. Unfortunately, the mother of all floods followed, leaving an outstanding trail of both real and physical devastation (Yaqub and Muhammad, May 2003).

The IMF has not only "absorbed" the increased spending necessary to rebuild the devastated capital by reducing the allowable fiscal deficit, but it has also provided around $500 million to Pakistan under the normal disaster procedure. This occurred amidst a series of leadership disruptions and political turmoil, including repeated changes at the top of the financial sector and the central bank, indicating a loss of political continuity. What led to the deal's collapse was the inability to eliminate the VAT/RGST (the centerpiece of the package) in the face of a "tight" fiscal stance.

Reducing government (or more broadly, public sector) debt and easing inflationary pressures, while allowing the central bank the flexibility to relax monetary and credit restrictions, enables a focus on promoting growth in the external market. The economy becomes a growth engine while staying within the "safe limits" of economic expansion, aligned with low inflation and the stability of the balance of payments.

On the contrary, there is no instance of an economy that has achieved higher and sustainable growth rates with "flexible" policies (Naqvi and Natalya, 2012). Certainly, loosening policies may spur some growth, especially when the economy contracts and there is a negative output gap resulting in idle labor and capital resources. However, this growth is likely to be temporary as the allocation of production factors shifts towards efficient inflation and modest real increases once the economic downturn recovers and the production gap is closed. Higher demand (relative to potential supply) will be distributed outward and lead to a faster increase in imports compared to exports, potentially causing balance of payment issues if not fully financed by domestic and private investment inflows.

Resistance to austerity measures often involves pushing through supposedly draconian cuts in development spending, especially in the "soft" social sectors, known as "pro-poor spending." The rationale is that the value of economic adjustment is significantly more crucial to them than the nominal one that determines the extent (Hasan and Pervez, 2011). The advantage of reducing expenditures, which is generally considered a better and more sustainable approach to economic adjustment than raising taxes, lies with the nation. The authorities have control, not the IMF. The IMF may provide advice and often advocates for interest-free continuous spending, which may be perceived as lavish or excessive (such as an 80-member cabinet of ministers and advisors and their staff). In Pakistan's current security environment, the IMF has likely refrained from proposing cuts in defense expenditure or responding to suggestions made by the authorities. Defense expenditure surpasses development expenditure, which has not always been the case and may elicit significant criticism from various stakeholders questioning the priorities of a policy with such skewed objectives.

The IMF is not inherently opposed to funds and often acknowledges their importance, provided they are targeted and can be supported within a reasonably robust economic framework. Like any prudent fiscal economist, they are uncomfortable with untargeted subsidies that deplete resources (especially for petroleum) and primarily benefit the wealthy, unless compensatory spending cuts are made elsewhere and are justified.

However, the IMF will generally defer to the views of the international financial community (including the World Bank and the Asian Development Bank, which are involved in program negotiations) regarding the scope and sectoral priorities of the annual development program. Cuts in development spending or delays in the release of funds for projects aimed at achieving economic objectives, which seem to have become the norm in Pakistan, are largely a domestic phenomenon. If cuts in development spending are necessary due to "resource constraints," they should be done judiciously and selectively, while fully preserving initiatives and programs essential to enhancing public infrastructure, improving economic development prospects, and attracting private investment.

4.2.4. Dashing Headlong Towards another Cliff

In the beginning, what economic analysts predicted proved to be true. After receiving the first loan, Pakistan repeatedly turned to the IMF. The cycle of dependency continued. The IMF is neither user-friendly nor almighty and has caused problems, particularly in Asia [but see Rogoff's (2003) vigorous defense]. In our case, we need to consider why we are a "long-term borrower" of the IMF's assistance and why we have failed to break free from its clutches. We also need to examine how other countries on the sidelines are managing to stay in active development, whether it's in Latin America, the USA, the Middle and Eastern Asia, or even sub-Saharan Africa, which was once considered an economic resource.

As of late 2012, the Pakistani economy is under renewed pressure and is at risk of another balance of payments crisis. Issues include rising debts, a slump in national private investments reaching a 50-year low, a decline in foreign direct investment, an ongoing energy crisis, and challenges in the SME sector, which is the backbone of the economy. Despite these challenges, Pakistan's economy may have potential for growth. The resumption of CSF distributions, the prospects from the 3G auction launch, and the hope that balances due from the PTCL detachment will be settled create a temporary sense of relief. However, employing a "beg and borrow" strategy [Yaqoob (2012)] and an evidently "no-change" approach can only delay the inevitable. As someone colorfully puts it, it might simply "prolong the death throes of the economy." The ultimate question is not if, but when, the economy will face a full-blown crisis. Without remedial action, the funding of growing imbalances, especially from the external side, will simply not be available. The mounting pressure of starkly growing debtor repayments to the IMF will lead to an effective exhaustion of foreign exchange reserves. These troubling developments seem inevitable.

Certainly, there are limits to viewing such a "strategy" as a viable solution to "adapt" to excessive external demands. Eventually, it becomes impossible to predict, even under various carefully calibrated scenarios and assumptions, when the vulnerabilities will trigger panic and turmoil. As our numerous past experiences with economic crises demonstrate, the economy can deteriorate at an alarming rate.

The IMF, in accordance with its mandate, is positioned to aid Pakistan, a member country in "close standing," with the resources to help prevent another chaotic financial collapse. However, at this point, it has refrained from offering the government a "letter of comfort," urgently appealing for the release of funds and disbursement of resources promptly (IMF Survey, 2012). The IMF's stance on Pakistan reflects the worsening relations between Pakistan and the US, and all that is required is a US lobbying effort among other G7 executive directors.

However, persuasively, even a seasoned Pakistani economist, or the IMF for that matter, would be under pressure to assert that Pakistan's macroeconomic condition is nearly "satisfactory and sustainable." Extremely challenging economies not only require a willing suspension of disbelief but would not support any dependency. This analysis of Pakistan's situation under Dependency Theory provides a perspective for future researchers to delve into this matter.

CHAPTER FIVE

CONCLUSION

After its inception, Pakistan's elite became accustomed to relying on foreign aid to support their expenditures. There has been a sense of entitlement that when faced with economic challenges, the international community would come to their rescue. The luxuries enjoyed by Pakistan's elite required foreign exchange reserves, leading to an early dependence on foreign assistance. This aspect of Pakistan's history aligns with the Dependency Theory, which suggests that external factors and aid play a significant role in shaping a nation's economic trajectory.

From the beginning, Pakistan's Original Purchases Proposal (USP), emphasizing its status as a nuclear-armed nation and utilizing Islamism and Jihadism as both a matter of faith and a global security instrument, has made it "too risky to fail." Fearing the consequences of a failed Pakistan, especially in terms of security, the Western countries, notably the United States, have consistently provided support whenever Pakistan faced crises. However, instead of acting as a catalyst for positive change and improving the living standards of its 210 million people, the bailouts to Pakistan have arguably emboldened and incentivized the country to view external assistance as disposable income. Even when faced with repayment obligations, Pakistan tends to seek further handouts rather than addressing underlying economic issues.

This pattern of dependency on foreign aid has not only persisted but has, in some ways, intensified over the years. The recurring cycle of economic challenges followed by international bailouts has created a situation where Pakistan, instead of developing sustainable economic strategies, often relies on external assistance to navigate through financial crises.

The Dependency Theory lens allows us to understand how this reliance on foreign aid has influenced Pakistan's economic policies and decision-making. The country has at times prioritized short-term fixes over long-term structural reforms, knowing that external assistance would likely be available to alleviate immediate crises. This has, in turn, hindered the development of a self-reliant and resilient economy.

Moreover, the geopolitical significance of Pakistan, particularly in the context of regional security and counterterrorism efforts, has further contributed to its status as a recipient of foreign aid. The fear of instability in the region and the potential spillover effects on global security have often prompted Western powers to extend financial support to Pakistan.

As a result, the Dependency Theory perspective highlights not just economic dependencies but also the intricate web of geopolitical considerations that shape Pakistan's relationship with international financial institutions. Moving forward, addressing the root causes of economic challenges and fostering self-sufficiency will be crucial for Pakistan to break free from this cycle of dependency and chart a more sustainable economic path.

The impending release of the Staff-level agreement between Pakistan and the IMF signals the end of certain privileges, and the nation must prepare to fulfill its financial obligations. Unlike a bailout, an IMF program imposes stringent and challenging reforms on Pakistan, presenting a "do or die" scenario. The era of "free lunches" is coming to an end, and Pakistanis must now face the reality of repaying their debts.

While the IMF program may seem forceful, it is crucial for Pakistan to address its economic challenges proactively and with a sense of commitment. The success of any program depends not only on external factors but also on the internal dedication to implementing necessary reforms. The key to transforming the country's economic future lies in responsible governance, efficient policies, and a commitment to contributing to the national exchequer.

External support, whether from international organizations or the business community, can play a role, but it is essential for Pakistanis to take charge of their future through disciplined financial practices. The conditions set by the IMF, though challenging, can serve as a framework for addressing economic issues, provided there is a genuine commitment and responsible governance in place. It is not the conditions themselves but the commitment and sense of responsibility that can bridge the gap between requirements and achievements.

The government's budget for the fiscal year 2008-09 aimed to address several economic challenges in Pakistan. The government sought to stabilize the economy and restore macroeconomic and financial balances, considering the economic growth rate was anticipated to be around 2%. Efforts were likely made to address inflationary concerns, as inflation had peaked at 2.5% in August 2008. Measures were implemented to reduce the growing fiscal deficit, which had reached 7.6% and 8.5% in the previous fiscal year (2007-08). Strategies were devised to tackle the trade imbalance, as the current account deficit had reached 7.6% in the previous fiscal year. The government aimed to stabilize the exchange rate, which had depreciated by 22% in the preceding six months. Overall, the budget for 2008-09 focused on stabilizing and strengthening Pakistan's economy in the face of various economic challenges. The success of these measures would be interesting to analyze, especially in the context of the global economic downturn in 2008.

5.1. The Investment's Inscription, Suppleness and Changes:

The perception in Pakistan that the International Monetary Fund (IMF) has had a limited and short-lived impact on the country's economic policies is a viewpoint held by many. The skepticism is rooted in Pakistan's history of not fully implementing and abandoning Fund-funded programs. The belief is that the Fund's influence on policy formulation in Pakistan has been transitory at best.

There is a view that despite Pakistan's disappointing track record in implementing economic reforms, the IMF has not been forceful enough in pushing for substantial changes. Critics argue that the Fund has been lenient, possibly due to its alignment with influential sectors in the Pakistani elite. This includes concerns about the reluctance to address issues related to agriculture, the stock market, land, and undertaxed or tax-free sectors.

The criticism suggests that the IMF's engagement with Pakistan may not have resulted in the desired level of reform and that the Fund may have missed opportunities to leverage its influence during times of economic crisis. The debate underscores the challenges and complexities involved in implementing economic reforms and the role of external institutions like the IMF in influencing domestic policies.

The taxation system in Pakistan is viewed as a weak point despite the various tools and assistance provided by the IMF and other technical support programs. Critics argue that the tax system is impaired, biased, regressive, inflationary, and prone to corruption. There are concerns about the existence of numerous exemptions, loopholes, tax credits, non-compliance, and a lack of a fair tax administration system. The tax base in Pakistan is considered narrow, with only around ten percent of GDP being generated through taxation, which is among the lowest globally and faces the risk of further decline. Efforts to broaden the tax base have not been successful, and there are challenges associated with implementing effective tax reforms.

While there have been some changes in Pakistan's economic landscape, such as the nationalization of banks and reforms in the financial sector, critics argue that more comprehensive and impactful reforms are needed. Suggestions include stricter supervision of the financial sector, central bank autonomy, liberalization of external interest rates, increased flexibility in exchange rates, and improvements in institutional capacities. The discussion reflects the ongoing debate on the need for deeper and more effective economic reforms in Pakistan.

The analysis suggests that Pakistan's economy has become more exposed and flexible compared to three decades ago. However, this increased flexibility also makes it more vulnerable to both internal and external shocks, emphasizing the need for robust macroeconomic governance. The economy has demonstrated its ability to respond to well-coordinated adaptation measures and recover relatively quickly from crises.

While the adjustment measures, particularly those implemented in 2008, have proven effective, there are concerns about the sustainability of these reforms. The analysis points out that there is a risk of adjustment fatigue and complacency, where the momentum for reforms wanes, and the focus shifts away from maintaining a self-sufficient growth path. The cyclical pattern of loosening policy impulsively, taking risks, and deviating from the reform agenda is highlighted.

Additionally, the mention of restoring "economic sovereignty" and getting rid of "monetary rule" suggests a growing sentiment for more autonomy and less dependence on external institutions like the IMF. This desire for economic sovereignty could potentially lead to a shift in policy direction and a reluctance to adhere to strict reform measures.

The term "nation with a tight suit" in relation to the IMF indicates a perception that Pakistan often finds itself in a constricted position when dealing with the IMF's conditions and guidelines, reflecting the challenges and complexities in managing economic policies and reforms.

5.2. Rebuking Conditionality

Conditionality in IMF programs refers to the set of policy measures and actions that a country agrees to undertake in exchange for financial assistance from the IMF. Historically, conditionality has been a subject of both praise and criticism. While it aims to ensure that countries implement necessary reforms for economic stability, critics argue that it can be intrusive and may not always align with the specific needs and circumstances of the borrowing country.

In the past, conditionality was sometimes seen as imposing a one-size-fits-all approach, and there were instances of stringent measures that faced resistance from borrowing countries. There has also been criticism regarding cross-conditionality, where policies not directly related to the crisis at hand were included in the conditions.

However, in recent years, efforts have been made to make conditionality more effective and flexible. The IMF's Independent Evaluation Office (IEO) plays a crucial role in critically assessing the outcomes of IMF programs and providing insights into how conditionality can be improved. The IEO conducts evaluations of past programs, examining their design, implementation, and effectiveness, and provides recommendations for enhancing the impact of conditionality. The idea is to tailor conditionality to the specific circumstances of each country, ensuring that the policy measures are realistic, achievable, and address the root causes of economic challenges. The IMF has recognized the need for better communication and transparency in explaining the rationale behind conditionality and its expected outcomes.

While conditionality has faced criticism in the past, ongoing efforts, guided by evaluations and recommendations, aim to make it more responsive to the unique needs of borrowing countries, promoting a more effective and collaborative approach to economic stabilization and reform.

The analysis underscores the inherent flexibility in IMF programs, illustrating their capacity for adaptation in response to changing economic conditions and unforeseen challenges faced by borrowing countries. Quarterly reviews stand out as crucial mechanisms, offering opportunities to reassess goals and modify programs to better align with the evolving needs of the borrowing country.

Within this flexible framework, adjustments can be made to project errors or unforeseen economic developments, allowing for the back-loading or extension of timeframes for the implementation of specific measures. The emphasis is on tailoring the program to the economic realities on the ground.

Performance criteria, if breached, can lead to a reference to the IMF Executive Board for the non-observance of program targets. The Executive Board holds the authority to grant a waiver for non-compliance, particularly when the failure to meet targets is attributed to factors beyond the control of the borrowing country.

The analysis notes that Pakistan has frequently sought waivers for non-compliance with program targets. While no instance has been recorded where a waiver was denied, there is a palpable sense of skepticism and reluctance among members of the Executive Board regarding Pakistan's repeated requests for waivers.

This observed flexibility, while accommodating necessary adjustments, raises concerns about the potential for misuse and the creation of incentives for countries to deviate from agreed-upon targets. Striking a balance between allowing necessary adjustments and preserving the credibility and accountability of IMF programs emerges as a key consideration in the ongoing discourse about the effectiveness of these economic arrangements.

5.3. Additional Preparation

The potential inclusion of Pakistan in a new IMF program is a matter of speculation, especially in the context of the upcoming election process and the transitional authority. The urgency of addressing the balance of payments situation may impact the decision-making process. However, historical cases, such as during the first Bhutto government, indicate that specific conditions must be met for IMF support.

For Pakistan to secure IMF funding, it is imperative to present a credible and well-articulated domestic reform and improvement plan that enjoys broad-based support. The question arises: What directives or conditions might the IMF impose on Pakistan in a future arrangement? Conversely, what significant policy changes will Pakistan propose that would warrant the IMF's support?

A crucial aspect that any proposed program would need to address is the pre-implementation and "Before actions" related to the RGST/IVA, as it represents a commitment that was not fulfilled in the previous agreement, despite the promise of significant IMF funds. The perspectives of the

IMF's leadership and executives will play a pivotal role, and the initiation of these essential steps would likely be a prerequisite for serious consideration of a new deal, irrespective of external pressures applied by the United States on the IMF.

The resistance and organized opposition to the RGST/VAT notwithstanding, it could potentially serve as a more effective national tax compared to the existing chaotic, consistently suboptimal GST and its associated fees. Under the current tax regime, characterized by "false and flying invoices" and numerous exemptions and concessions, the tax gap (the difference between the potential revenue and actual collections) is estimated to be a staggering 70%, a significant increase from the 50% reported in the past. This stark revelation underscores the corruption, inefficiency, and dysfunction within the existing tax system.

For a more comprehensive modernization of the tax system in Pakistan, it might be prudent to advocate for the elimination of all regressive taxes imposed by previous governments. This step could contribute to creating a more streamlined and equitable taxation framework, aligning with international best practices and fostering a healthier economic environment.

The ongoing reform program in Pakistan's economic sector has been a subject of considerable discussion, with many expressing concerns about its incompleteness. However, it is crucial to emphasize that the current approach—characterized by a start-stop pattern, reliance on one-tranche disbursements, frequent relinquishments, resetting of goals, recklessness, and a lack of consistency—cannot lead to sustained economic development. This erratic and unclear strategy hampers the country's ability to develop steadily, generate employment, reduce deficits, and uplift its economically vulnerable population.

Without a shift in this approach, Pakistan risks perpetuating a cycle of crises, falling behind its neighbors and other developing nations that have successfully navigated similar challenges. The key lies in learning from the experiences of those countries, many of which utilized IMF tools, implemented comprehensive measures to reorganize and transform their economies, fulfilled their IMF debt obligations, and subsequently achieved sustained growth without looking back. A more coherent and committed approach to economic reform is essential for Pakistan to break free from its historical cycle of crises and pursue a path of stability and development.

Pakistan's political leadership and policymakers need to take decisive action. If they are unable to convince previous administrations of the looming dangers and the necessary steps to address them, they must acknowledge their failure in fulfilling their duties as policymakers and technocrats. Relying on the IMF as a shield to deflect blame is not a sustainable solution. The IMF cannot be held responsible for the numerous instances of ineptitude, mishandling, non-implementation, policy disruptions, and deviations that have plagued successive governments.

The current predicament is a result of a recurring pattern of deception by successive governments, who have misled the people they claim to serve. The challenges faced today are not solely due to IMF-endorsed regulations; rather, they are a consequence of our own policy failures and deviations from sound governance. To truly address the economic ills of Pakistan, a more responsible and accountable approach is needed, one that transcends political expediency and charts a course for genuine reform and development.

Today, Pakistan faces a critical situation where political considerations seem to outweigh the country's economic interests. The severity of the issues at hand surpasses those faced before the common elections in March 2008. The Finance Minister of Pakistan declared the cessation of the

$11.3 billion IMF program on September 30, 2011. This decision resulted in a surge in public debt by Rs 60 billion, accentuated by concerns about inflation. The exchange rate in June 2011 was Rs 86 to 1 US dollar, rising to Rs 90 within a few weeks. The State Bank of Pakistan intervened, stabilizing the situation, but the rupee depreciated again to Rs 88.45 on December 2, 2011, further increasing public debt by Rs 130 billion.

The current state of affairs has escalated public debt by Rs 180 billion as the rupee continues to devalue against the dollar. The fluctuating exchange rates and mounting debt underscore the economic challenges facing Pakistan. The historical perspective on Pakistan's engagement with the IMF reveals three distinct phases: Phase 1 (1970-1988) involved one-year Stand-By Arrangements (SBAs) followed by a three-year Extended Fund Facility (EFF). Phase 2 (1988-1999) witnessed both short-term and multi-year agreements with the IMF. Phase 3 (2000-2004) saw Pakistan utilizing Stand-By Arrangements (SBA) and Poverty Reduction and Growth Facility (PRGF) separately. This historical context sheds light on the cyclical nature of Pakistan's relationship with the IMF, marked by periods of engagement and disengagement.

Pakistan's history of engagement with the International Monetary Fund (IMF) dates back to the 1960s, with various loan agreements signed over the years. In 1965, Pakistan secured its second IMF program, receiving a loan of 37 million Special Drawing Rights (SDRs). Subsequent programs, including the third under the Stand-By Arrangement (SBA) in 1972, were signed during Prime Minister Z.A. Bhutto's tenure. During General Zia-ul-Haq's regime, Pakistan and the IMF engaged in loan agreements, with a notable one in 1980 amounting to 1.268 billion SDRs. However, Pakistan received only 1.079 billion SDRs until 1983, highlighting the challenges in implementing the agreed-upon economic measures.

In 2000, under the leadership of General Pervez Musharraf, Pakistan faced economic challenges and sought assistance from the IMF. The loan amount, initially set at $3 billion, later increased to $7.6 billion. Musharraf's administration implemented the necessary reforms, successfully eliminating the entire funding amount.

This historical pattern underscores Pakistan's reliance on the IMF, with various governments seeking financial support and implementing economic measures as part of loan agreements. The dependency on IMF assistance has been a recurring theme in Pakistan's economic history.

5.4. Final Words

The period from 2008 to 2013 marked a challenging economic phase for Pakistan, prompting the country to seek financial assistance from the International Monetary Fund (IMF). Analyzing the implications of IMF loans during this time reveals a range of economic, social, and political impacts.

IMF loans played a significant role in addressing macroeconomic instability in Pakistan. Conditions attached to the loans aimed to stabilize the economy by tackling issues such as fiscal deficits, inflation, and exchange rate stability. While these measures positively contributed to macroeconomic stability, the stringent conditions often led to austerity measures, impacting public spending and social programs, particularly affecting vulnerable populations.

Structural reforms, a common requirement in IMF programs, were implemented to address systemic issues in Pakistan. These reforms, although contributing to long-term economic stability and improved governance, faced challenges in implementation and resistance from various stakeholders. The pace of reforms also raised concerns, leading to social unrest and political challenges.

IMF programs emphasized fiscal discipline to manage public debt effectively. While this contributed to a more sustainable fiscal policy and reduced the risk of debt crises, austerity measures led to reduced public spending on essential services, affecting education, healthcare, and infrastructure development.

Socially and politically, IMF support aimed to enhance investor confidence, attract foreign investment, and contribute to economic growth, positively influencing social development. However, the social costs of austerity measures and reforms led to public dissatisfaction, protests, and political instability, disproportionately affecting low-income segments of the population.

Critics argue that IMF conditions may compromise a country's policy autonomy and sovereignty, as economic policies are influenced by external actors. While IMF assistance provides a framework for economic reforms and policy discipline, finding a balance between the long-term benefits of reforms and the immediate social and political impacts is crucial for navigating the complexities of IMF-supported programs.

Beyond the immediate economic implications, the impact of IMF loans on Pakistan's economy had multifaceted consequences. The structural reforms mandated by the IMF often faced challenges in implementation due to bureaucratic inefficiencies, institutional weaknesses, and resistance from powerful interest groups. This hindered the transformative potential of these reforms, limiting their effectiveness in addressing deep-rooted issues.

The focus on fiscal consolidation led to a reduction in public investment, affecting critical sectors such as education and healthcare. Austerity measures, including cuts in social spending, exacerbated inequality and hindered progress toward achieving sustainable development goals. The social costs of these measures disproportionately affected the most vulnerable populations, widening the economic disparity in the country.

Moreover, the conditionalities attached to IMF loans sometimes led to policy measures that prioritized short-term stability over long-term economic development. For instance, emphasis on quick fixes for fiscal deficits might have neglected investments in human capital, innovation, and infrastructure that are essential for sustained economic growth. Political implications were significant, as well. The public's discontent with the austerity measures and perceived external interference in policymaking fueled political instability. Governments faced challenges in maintaining public support while implementing unpopular reforms, leading to frequent changes in leadership and policy reversals.

While IMF loans provided a temporary reprieve and stability to Pakistan's economy during the 2008-2013 period, the long-term impacts were marred by social inequality, political instability, and insufficient transformative reforms. The conditions attached to the loans often prioritized short-term fixes over comprehensive, sustainable development strategies. The experience highlights the importance of carefully balancing economic stabilization with social and political considerations to ensure that the outcomes of international financial assistance are genuinely beneficial for the country and its people.

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