



IMF — Not a Panacea but a Medicina

Washington tells Islamabad to engage with the IMF and implement economic reforms. A clear message has been conveyed to the Pakistani government, emphasizing the importance of collaboration with the IMF for the necessary economic reforms to achieve stability. Pakistan has been urged to continue working with the IMF and other financial institutions to implement long-overdue macroeconomic changes for the betterment of the country. It has also been emphasized that Americans are hesitant to invest; they had planned investments of US\$1.5 billion since 2019 but could only invest US\$250 million during 2022. They seek a change in the business climate to make it more favorable for investors. Pakistan still faces enormous challenges and direly needs to execute relentless structural improvements – which are at the top of their agenda. (Dawn 8th March 2024)

The above lines depict a grim narrative of our economy and the management approach employed by our economic leaders, who have seemingly adopted an ostrich-like strategy, allowing the economy to persist in perpetual crises. We have become overly reliant on the IMF as an administrative body, expecting not only bailout packages but also guidance for our day-to-day economic activities. This has led to a complacent attitude among our executives, merely waiting for the next IMF package, with meetings becoming routine occurrences.

The recent visit of an IMF staff mission to Pakistan from March 15 to 18, 2024, to discuss the second and final review of the US\$3 billion short-term bailout package, followed the same predictable pattern. Pakistan made promises and assurances regarding macroeconomic stability, a gradual path to high economic growth, and commitment to meeting all structural benchmarks, qualitative performance criteria, and indicative targets for successful completion of IMF reviews. Discussions revolved around familiar topics such as overall macroeconomic indicators, government efforts on fiscal consolidation, structural reforms, energy sector viability, and governance of State-Owned Enterprises (SOEs)—a recurring cycle. Anyway, we expect the US\$1.1 billion tranche after

the approval of the Executive Board.

Borrowing money and spending it on unproductive endeavors leads to a debt trap, where servicing the debt becomes impossible, and yet more borrowing is required to repay previous loans. Pakistan finds itself in such a dire situation, with external advice urging corrective action, yet we remain stubbornly resistant to implementing necessary reforms to support our economic stabilization efforts. This approach has become ingrained in our normal economic activities. Once funds are received, required reforms are forgotten, resulting in further requests for support.

It would not be accurate to say that the government is not functioning as expected, or that institutions are not performing as required. Rather, it is fair to say that the individuals in positions of responsibility are not working diligently enough to keep the country afloat. Their insensitivity has led to a state of decline that is difficult to articulate but painfully evident. Our poor performance across all sectors has placed us near the bottom of international rankings.

We are not only accumulating debt but also inviting trouble because we are unwilling to change our ways. Despite claims by the government of increasing revenue collections, a rise in tax filers, and positive economic indicators, the reality is starkly different.

Increases in fuel, electricity, gas, and other utility prices, along with soaring inflation reaching up to 38% (as of May 2023), have made life increasingly unbearable for the common citizen. There is a pressing need for significant improvements in governance to build resilience, for which external counsel is also being sought.



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Items	2018	2023	% changes	Items	2018	2023	% changes
GDP	US\$ 357 B	US\$ 339 B	(--) 5%	US Dollar	Rs.140	Rs.300	114%
Per Capita income	US\$ 1700	US\$ 1474	(--) 13%	Exports	US \$ 24 B	US \$ 32 B	33%
Growth Rate	6.2%	2%	(--) 68%	Imports	US \$ 55 B	US \$ 72 B	31%
Unemployment	5.8 %	6%	3%	Foreign Debts	US \$ 95 B	US \$ 130 B	26%
Debt to GDP	64.8%	76.2%	18%	Total Debts	US \$ 215 B	US \$ 267 B	24%
Inflation	10%	30%	200%				

A comparison of our poor economy for the years 2018 and 2023 as given below is evident that instead of any improvement we sadly retarded even with IMF involvement.

With the bleak scenario described above, it's evident that we are not heeding the advice of the IMF, which is resulting in a downturn for the economy. While the IMF is not a miracle worker, its primary role is to advise struggling countries on how to alleviate poverty, promote trade, and achieve financial stability for economic growth. When a country seeks a bailout package, the IMF assesses economic weaknesses and advises on capacity building, focusing on enhancing revenue generation through good governance and institutional reforms. This is aimed at improving the financial situation of the country and ensuring its ability to repay debts.

The IMF recommends general policies such as accelerating structural reforms to enhance climate resilience, strengthening overall governance, including that of state-owned enterprises, and improving the business environment. In critical situations, it may also advise specific measures like the withdrawal of subsidies

or increasing utility charges. However, it is ultimately up to the countries to implement reforms, promote meritocracy and transparency, avoid nepotism, and enhance tax collection.

A prime example of delayed reforms is the Federal Board of Revenue (FBR), which has been undergoing restructuring since 2000 when a Task Force was appointed for tax administration reform. Despite the initiation of the Tax Administration Reform Program (TARP) in 2005 and the introduction of numerous reforms, actual improvements in tax collection remain uncertain, with collections failing to keep pace with increasing expenditures. The restructuring process of the FBR continues at a sluggish pace, with bureaucratic hurdles posing significant impediments to implementation.

In essence, the IMF acts as a rescuer for countries in critical condition, providing essential support and prescribing guiding measures for recovery. However, the success of these measures ultimately depends on the willingness of the countries to reform themselves, particularly in terms of governance practices.

Countries	Per Capita Income 2018 \$	Debts 2023 Trillion \$	% of GDP	Per Capita Income 2023 \$
USA	64,800	32.9	122	81,400
UK	43,300	3.2	96	45,544
Japan	39,700	4.3	98	48,900
Netherland	53,000	4.0	381	63,300
Germany	48,000	2.8	65	52,800
Canada	46,550	2.7	127	53,250

Countries that could not show improvements with IMF loan packages:

Countries	IMF Loans \$ Billions 2023	Per Capita income 2018 \$	Per Capita income 2023 \$
Argentina	46.0	11,000	13,603
Egypt	18.0	3,000	3,200
Ukraine	12.0	3,000	2,470
Pakistan	7.4	1,700	1,474
Columbia	5.0	6,800	6,660

Debts, in absolute terms, are neither inherently good nor bad. It is their utilization that determines whether they become a blessing or a curse. Unfortunately, for us, debts have largely been a curse, as they are often used to cover budget deficits rather than being invested in productive endeavors where the returns could bring relief.

It is commonly believed that the borrower appreciates the value of money the most through its usage. Countries progressed in spite of high debt.

The above comparison between two sets of countries serves as an eye-opener. One set of countries learns from their mistakes, implements reforms, and steadily improves. Their GDP consistently grows over the years, reflecting their development. On the other hand, the second set of countries merely use loans as a lifeline without embracing any reforms, remaining trapped in a vicious cycle of stagnation. They persist stubbornly, refusing to learn from their errors.

The IMF, however, does not possess a magical solution to propel a country forward. It can provide guidance and support, but ultimately, it is up to the country's leadership to chart a course of action towards progress and overcome financial setbacks. This includes addressing issues such as stagnant GDP growth, low employment rates, inadequate healthcare and education facilities, widening trade deficits, high inflation, and mounting debts. Such circumstances require decisive actions.

Even though the IMF conveys its advice using soft language and adhering to protocols, its recommendations carry weight due to its high reputation worldwide. However, the country is often left to proceed at its own pace, which may be slow. It is crucial for countries to heed the advice provided by the IMF and take necessary actions to address their economic challenges effectively.

Unfortunately, Pakistan has shown a reluctance to earnestly embrace the guidelines proposed for its improvement, as evidenced by the observations of the Country Director of the World Bank in December 2023. The Director highlighted the urgent need for policy changes to address development issues that have only benefited a select few and resulted in volatile and stagnant growth. Pakistan's current economic model has fallen behind its peers, leading to a reversal in poverty reduction efforts. The country is facing sharply increased inflation and significant depletion of internal and external buffers, which have hindered economic progress.

While some steps taken by the government have been acknowledged, tangible results are yet to be seen. It is imperative for Pakistan to heed the advice of international organizations and implement necessary reforms to address its economic challenges effectively.

Over the years, the IMF has extended assistance to Pakistan, preventing its economy from defaulting. However, the sustainability of such arrangements remains uncertain. Despite receiving significant financial support from the IMF and other lenders, Pakistan still struggles to find a way forward due to a lack of will, sincerity, and determination among those in positions of authority.

Currently, Pakistan finds itself at a critical juncture, where the decisions made will determine its fate. The failure to heed the positive economic advice from the IMF has brought the country to the brink of collapse. While directives for economic reforms have been issued repeatedly, they have not been implemented earnestly, resulting in a stagnation rather than progress. Political challenges have further exacerbated the economic downturn, compounding the existing issues faced by the country.

Way Forward

The IMF provides broad outlines and specific measures in some cases, leaving it up to the government to work out the details and achieve the desired outcomes. However, it is often the common people who bear the brunt of government actions, such as raising taxes and increasing prices of essential utilities, particularly in the face of high inflation and unemployment.

Two cancerous evils plague our society and economy. First, nepotism, which is a criminal offense, has infiltrated our government machinery, resulting in appointments based on personal connections rather than merit. Similarly, contract appointments or post-retirement appointments with exorbitant salaries further exacerbate the issue. Without sincere implementation by competent individuals, reforms cannot succeed—it is the human element behind the reforms that ultimately determines their effectiveness.

Secondly, delays in decision-making, often driven by corruption, have led to cost overruns and inefficiencies in public sector projects. Major projects, such as the Diamer-Bhasha Dam, have experienced significant delays and cost increases, placing a heavy burden on taxpayers. It is crucial to remember that "time is money," and such delays only serve to exacerbate financial strain.

In summary, Pakistan has failed to derive full benefits from IMF support and continues to be classified among poor countries, with a poverty rate of 39.4% in 2023—a significant increase from 21.9% in 2018—and a meager per capita income of US\$1474.

About the Author: The writer is a senior Chartered Management Accountant having Fellow membership of ICMA. He retired as General Manager Finance from the Karachi Port Trust (KPT) where he served for around 22 years in different positions. He was also a member of the Karachi Dock Labour Board for 7 years. After doing his MBA from IBA Karachi, he started his initial career with Citibank and then served in Awami Autos (now Pak Suzuki).