

IMF Loan Programs and Pakistan:

Impact and Way Forward (2013 to 2026)

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Abstract

This study is an exploration of frequent approach of Pakistan to the International Monetary Fund (IMF) with a lens on the efficacy of its Extended Fund Facility (EFF) loans. It includes historical background (1958-2013), with the constant economic difficulties and reliance on the IMF. A particular focus is paid to the EFF 2013-16, which can be regarded as the only successful program, though it cannot guarantee its long-term stability. In the core analysis, it looks at the current EFF 202426 and its agreed conditionalities, the performance benchmarks, and how it fits international best practices. The two fundamental questions asked in the research are: Why can Pakistan go back to the IMF after initial success? And how would this affect the economy, given that the current program is carried to its full extent? The research analyzes the feasibility of sustainable expansion of the 2024-26 program based on qualitative research and secondary information. It ends with recommendations to policy to enhance the governance of the economy, address fiscal deficit, and end the chain of external financial assistance.

Keywords: IMF, Fiscal Deficit, Indicative Targets, Structural Benchmarks, Sustainable Development, Extended Fund Facility program..

1. Introduction

The International Monetary Fund (IMF) plays a central role in the global financial system by providing financial assistance to countries facing economic

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crises. Its loan programs are designed to stabilize economies, restore a macroeconomic balance, and promote sustainable growth (Mussa & Savastano, 1999). However, there are divergent views on the utility of engagement with the IMF. There exists a serious opposition in Pakistan against the IMF. Continuous years of dependence on the IMF without making substantial economic development have rather plagued Pakistan's economy with what economists' term as a 'Dutch Disease' (Ahmad & Mohammed, 2012). Consequently, successive governments are thus confronted with the challenge to engage the IMF on favorable conditions.

The last decade of Pakistan's economy has been a turbulent journey. Certain unprecedented developments on the politico-economic front deeply influenced the economic growth of the country and exposed new sets of challenges for the economic planners. There have also been certain significant geo-strategic developments in the given period that have shaped the course of Pakistan's economic development. Pakistan started the year 2013 with the newly elected government signing the EFF 2013-16 to achieve fiscal stability and increased growth. Out of 23 IMF programs in Pakistan's history, only EFF 2013-16 was successful in achieving many of the committed targets. But the stability achieved couldn't meet sustainability (IMF, 2017). Many of the required structural measures were not undertaken, leaving the development agenda inconclusive. The subsequent program EFF 2019-22 committed by the next government couldn't prove instrumental to ameliorate the plight of the destabilized economy, exposing the country's economy to many fiscal imbalances (Wizarat, 2022). To rescue the default position, the new coalition government had to request a short-term (9 months) Stand By agreement in July 2023, which was successful in supporting the distressed economy. Pakistan still needed additional support to undertake the much-needed structural measures for economic uplift. After the Feb 2024 elections, the new coalition government was confronted with a turbulent economic scenario, and hence a new EFF 2024-26 was concluded to take the country on the path of sustainable development. This study is an attempt to evaluate the two important Extended Fund Facility programs concluded in a decade's span. After the introduction part, each of the given two IMF programs shall be discussed separately, followed by a suggested way forward.

1.1. Statement of the Problem

Pakistan has engaged with the IMF consistently in 23 different programs to achieve fiscal stability in the last 36 years. From the year 2011 to 2023, the country doubled its debt, adding a great burden on the national economy (Salahuddin, 2024). The intended objectives of the IMF programs to bring economic development couldn't have been properly materialized, paving the way for seeking one economic assistance after another from the international donors. The much-needed restructuring in the economy is still awaited by the

decision-makers. Given the critical economic challenges being faced, whether the ongoing IMF EFF 2024-26 program will be able to set the pace of socio-economic progress while keeping the government's resolve in place to undertake decisive policy measures.

1.2. Research Questions

1. Despite the successful completion of EFF 2013-16, what factors led Pakistan to enter into other IMF programs in less than a decade?
2. What will be the possible impacts of the IMF EFF 2024-26 on Pakistan's economy, assuming its successful completion?

1.3. Significance and Scope of the Study

This study aims mainly to evaluate the ongoing IMF EFF 2024-26 program and its impact on the national economy. This study suggests a way forward to coming out of the debt trap for the future development of the country. To arrive at a better analysis of the ongoing EFF 2024-26, this study also discusses in detail the IMF 2013-16 Extended Fund Facility program, being rated as the only successful (despite 18 Waivers) out of the given 23 IMF programs Pakistan has availed in its history. Hence, this analyzes the factors that couldn't keep the stability gained by EFF 2013-16 sustainable and ultimately led the country to enter heavy commitments in EFF 2024-26.

1.4. Review of the Literature

The connection between Pakistan and the International Monetary Fund (IMF) has been a topic of many studies in academic and policy circles. These studies look at different aspects like the economy, politics, and the structure of Pakistan's involvement in the IMF programs. Researchers have looked into how effective these IMF programs are in keeping Pakistan's economic numbers stable, and they have also discussed whether these programs help the country grow, improve its governance, and support social welfare. This part of the discussion looks at what has already been studied, finds out what is still missing, checks the results of past programs, and sets the stage for understanding the Extended Fund Facility (EFF) from 2013 to 2016 and the current one running from 2024 to 2026.

Dr. Hafeez Pasha (2021) dilates upon the need to do away with the debt burden to make the economy self-sufficient and also to get fiscal autonomy for Pakistan. He states that due to poor performance in the economy and resultant decrease in the state's revenues, debt servicing has grown, and hence development spending has been curtailed. While the fiscal deficit stands at 7-9% of the GDP, the government Debt has touched 78% of the GDP. The charter of economic reforms, as stated by Dr. Hafeez, matches with the IMF targets in the given EFF 2024-26 (Pasha, 2021).



Dr. Ashfaq Hassan Khan (2019) argues that various IMF programs have led Pakistan to critical economic situations. Instead of making sustainable economic development, the country got plunged into a debt trap and fiscal instability. Drawing upon various IMF programs that Pakistan entered in different phases of its history, the country was unable to achieve fiscal stability. This raises serious doubts as to what any new program may contribute. Despite the one in 2016, which was considered successful, the country was again getting ready to negotiate for the other. Pakistan should plan to avoid the IMF in the future. He also cites in the given article that there certainly exists an incapacity in the country to implement these support programs to draw successful outcomes from them. (Khan, 2019).

Dr. Ishrat Hussain (2019) terms the structural problems and the hegemony of elitist groups as the prime reason to seek external inputs to steer the economy. While multiple sets of problems are responsible for seeking IMF bailouts, Dr. Ishrat shares an updated assessment of the country's economy in the light of EFF 2013-16. He reiterates that elite elite-centric economic model is the biggest hurdle to the economic development of Pakistan. The development in Pakistan requires a multi-pronged strategy to come out from the cycle of borrowing. While agriculture, industry, and increased revenue can play a crucial role in turning on the engine of growth, Pakistan needs to come up with a defining agenda for the government to follow (Hussain, 2019).

Muhammad Naeem and Zia Ur Rahman (2023) argue that the impacts of the IMF are both positive and negative. The country has experienced growth, investment, a stable balance of payment, stabilization of the foreign exchange reserves, improvement in exports, and availability of money for imports. On the other hand, the negative impacts include the devaluation of currency, debt burden, increased excise duties, slow investment, and dictating Pakistan in stock exchange matters. (Rahman, 2023)

Ahsan Zia Farooqui and Dr. Faisal Bari (2024) share their research that the primary factors contributing to increasing debt in Pakistan include mainly state-owned enterprises SOEs. The debt burden reflects the political economy of the country because, despite so many losses and failures in profitability, the governments couldn't bear the political cost of doing away with SOEs. The circular debt kept piling up, and hence, one after another, the successive governments had no option but to go for borrowing. In their understanding, poor fiscal management is the prime factor involved in the increasing debt burden in the country. The way forward lies in international cooperation and support by extending debt relief and technical assistance (Bari, 2024).

Rashid Amjad (2024) argues that one crucial factor causing hindrance in the way of reforms, apart from political inability, is the IMF itself. The organization is responsible for introducing such reforms that aggravate public hardships. The aim to provide relief to the poor sections at times works against them and

doesn't extend sufficient relief to the target class. (Amjad, 2024)

Muhammad Azfar (2024) states that knowing the that Pakistan's debt has reached 91% of its GDP, it is imperative to seek flexibility in the IMF programs as a matter of debt management strategy. It will be wishful thinking if economic managers think of coming out of the IMF trap so soon. It seems difficult. The given IMF conditionalities may be modernized. (Azfar, 2024)

Gul Ghutai and Zakaria Bahari, in their research (2023), state that the impact of the IMF loan on the economic development of Pakistan is very damaging. The authors are of the view that while following the principles of Sharia in an interest-based economy, the health, food, and quality of life are compromised. Pakistan is paying the cost of availing the IMF debt financing on interest. (Bahari, 2023)

1.5. Research Methodology

This study primarily adopts a qualitative research approach. This allows for an in-depth analysis of the unsustainability issues of different IMF programs in the last decade. Both primary and secondary sources have been amply consulted. This research design aims to investigate the IMF loans in Pakistan over a span of last decade. The study utilizes secondary data to analyze existing literature, reports, and statistical data relevant to the topic from different quarters. In addition, a few unstructured interviews were conducted with some of the leading economists and FBR senior officers.

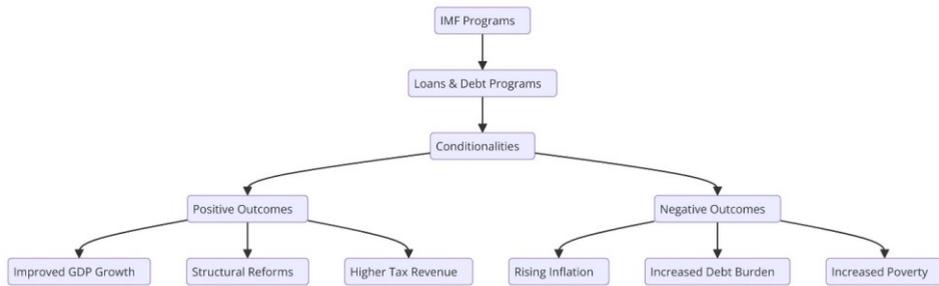
2. IMF Loan Programs and Pakistan's Economic Development

2.1. IMF-An Introduction

IMF works on three main principles and makes use of these core principles as part of its structural adjustment programs (SAPs) and loan conditionalities. These include deregulation, liberalization, and privatization. (Khalid, 2024) The IMF has been historically performing three functions. Primarily, it is focused on performing the duty of surveillance, which involves monitoring economic and financial developments and providing policy advice to the member countries. Secondly, it provides financial support to the member countries to address their balance of payments crisis. On the third level, the IMF provides member countries with technical assistance and training of the officers involved in policy making in the Ministry of Finance and the member country's Central Bank. (Khan, 2019).

Figure 1

IMF Program Outcomes



Source: SDPI (2024)

2.1.1. Parameters of a Successful IMF Program

The conditionalities laid out in any given program are the parameters of success. Meeting the given targets makes a program successful. The performance of the program determines the continuity on the basis of agreeable timeliness in the form of periodic reviews. There are Prior Conditions required to fulfil as well (IMF, 2023). Until the 1980s, the IMF conditionalities focused on macroeconomic policies of the borrowing countries. However, by now, structural reform measures are taken as a significant review standard as well. Various Quantitative performance criteria (QPCs) become the benchmark to support the review reports to ensure the continuity of any given program. (IMF, 2019). For instance, the broad parameters in case of a successful program in Pakistan include fiscal stabilization, an increase in revenue, a reduction in losses in SOEs, exchange rate stability, an increase in FDI, and a reduction in expenditures. In the ongoing EFF 2024-26 with Pakistan IMF has stressed making structural policy changes to ensure a growth-led economy. The quarterly reviews of the ongoing program aim to assess the sustainable development of the economy. It is noteworthy to mention here that the success of the program or the completion of the program is not the measure of economic stability (Bengali, 2024).

2.1.2. Pakistan’s Engagement with the IMF: 1958–2013

From 1958 to 2013, Pakistan participated in many programs with the International Monetary Fund. The first one was a Stand-By Arrangement in 1958 for \$25 million. More SBAs came later, in 1965 for \$37.5 million, 1968 for \$75 million, 1972 for \$84 million, and 1973 for \$75 million. In 1980, Pakistan signed an Extended Fund Facility worth \$1.27 billion. Then there were more SBAs in 1981 for \$919 million and 1988 for \$273 million. During the late 1980s and 1990s, Pakistan joined programs under Structural Adjustment and Enhanced Structural Adjustment Facilities. These included an ESAF in 1988 for \$382 million and another

Source: FPCCI (2023)

ESAF/EFF in 1994 for \$1.3 billion. In 1997, Pakistan signed another SBA worth \$1.56 billion, which was later replaced by an EFF in 2001. After the events of 9/11, Pakistan joined a Poverty Reduction and Growth Facility in 2001 for \$1.3 billion, which it completed successfully in 2004. The global financial crisis led to the 2008 SBA, which started at \$7.6 billion but was later increased to \$11.3 billion. However, it was put on hold in 2011 because Pakistan didn't meet the conditions. Finally, in September 2013, Pakistan signed another Extended Fund Facility for \$6.6 billion, showing another attempt to fix the economy through reforms and better financial management.

Figure 2

Numbers of IMF Programs in Pakistan

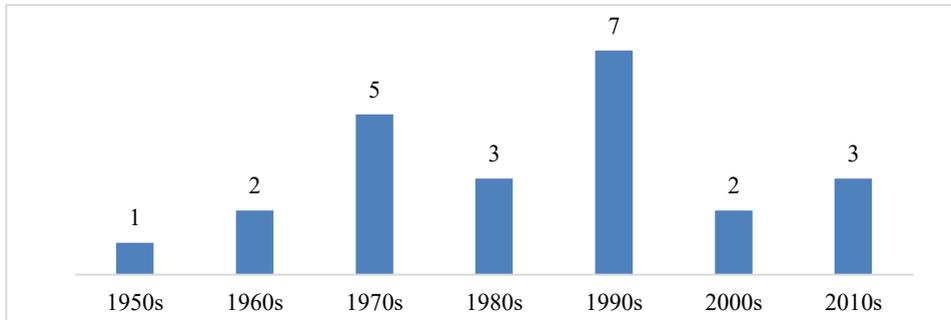
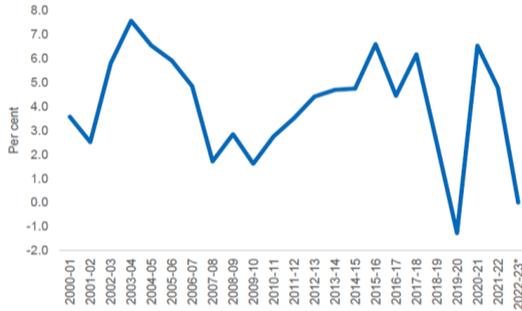


Figure 2

Real GDP Growth FY 2001-23



Source: ESCAP based on data from State Bank of Pakistan, "Gross domestic product of Pakistan", updated 7 December 2023. Available at www.sbp.org.pk/ecodata/index2.asp.

Notes: From FY 2015-16 based on GDP at market prices and at constant basic prices of 2015-16. Between FY 2000-01 based on GDP at market prices and at constant basic prices of 2005-06.

It is crucial to understand at the very outset that the aim of IMF as conceived in the famous Breton woods Conference was to extend assistance to the sinking economies. IMF is a short-term lender. This in the current context means that economies badly hit by floods, earthquakes, pandemics or any disastrous may seek the crucial support of the IMF to help sail through their economic crisis.



But the Pakistan's engagement with IMF hasn't taken place in same fashion to simply address any unexpected turbulence. Pakistan is the world's top borrower of the IMF program (Awan & Hussain 2021). The country has rather gone dependent on the IMF support. The above graph explains a sudden dip in GDP growth immediately after certain IMF programs. The trajectory of 23 IMF programs also suggests that the economy of Pakistan has developed 'addiction' for IMF. Despite taking stability out of any of the IMF program the economic indicators have been arbitrarily managed. Whereas, the success of IMF program is just not in meeting the conditionalities rather to say permanently goodbye to IMF (Isgut, 2024).

An analysis of last decade of engagement shows that four short- and medium-term plans were committed by the Pakistan with IMF. These include EFF 2013-16, EFF 2019-21, SB 2023 and EFF 2024-26. The repeated engagements suggest that Pakistan has remained addictive to 'IMF with failures' to achieve sustainable economic development. The one 2013-16 was rated successful with 18 waivers and with a crucial input in the economy by the coalition support fund from the US in view of ongoing operations against TTP hideout in the FATA area of Pakistan. The attached graph shows the GDP growth in the EFF program 2013-16. Similarly, the 9 months SB 2023 also met the conditionalities of the IMF and hence paved the way for a medium term EFF 2024-26. A detailed analysis of the EFF 2013-16 shall be made to assess the fate of the ongoing EFF 2024-26 program. The spectrum of the last decade has thus been focused on studying the ebb and flow of Pakistan's efforts to achieve economic stability.

2.1.3. An Analysis of IMF Extended Fund Facility 2013-2016

Pakistan was facing serious economic difficulties as the new government in the year 2013 took office to work on multifarious economic challenges characterized by low GDP growth, high inflation, and a widening fiscal deficit. It was the time when the GDP growth rate had stagnated at around 3% over the preceding years, while inflation reached approximately 8.3% in 2013(SBP, 2013). The fiscal deficit had widened significantly, reaching about 8.8% of GDP in FY2012/13 due to poor revenue collections, unnecessary energy sector subsidies, and increased provincial government spending. It was the time when foreign exchange reserves had dipped to critical levels, falling by nearly 45% in one year to US\$6 billion by mid-2013 (Economic Survey, 2013). Public outcry on chronic power outages averaging 8-10 hours per day had badly affected the business and industry all around. There were serious governance issues and inefficiencies in state-owned enterprises (ADB, 2013). The internal security situation was also not encouraging. These challenges severely hampered economic productivity and discouraged private investment, which had dropped from 14% of GDP in 2007/08 to around 11% by 2012/13 (IMF, 2013).

2.1.4. Objectives of the EFF 2013-16 Program

The objectives of the EFF program were multifaceted. The program attempted to reduce the risk of an impending economic crisis by focusing on removing structural impediments on a medium-term scale. The key focus area included Fiscal Development, Energy Sector Improvement, Monetary Policy Management, Structural Re-engineering to improve governance and ease of doing business (IMF, 2013).

2.2. Performance Evaluation

It is important to note that all twelve reviews of EFF 2013-16 were made but performance against quantitative targets was mixed. Some QPCs were missed, requiring a total of 12 waivers with the most frequent deviations occurring on the SBP lending to government and the fiscal deficit. There was also decline in rupee value with dollar appreciating 20 per cent. Certainly, it contributes to external imbalances and adds on the burden to national economy. On the energy side certain electricity tariff increases helped contain losses but electricity theft couldn't be controlled. On the other hands arrears increase reaccelerated in FY17. The EFF 2013-16 couldn't work effectively on SOE reform and restructuring agenda. Due to political opposition privatization plans for Pakistan International Airways, Pakistan Steel Mill couldn't get materialized.

In 12 periodic reviews by the IMF mixed progress was achieved in the given QPCs. Most QPCs were missed with regard to SBP lending to the government and the fiscal deficit. 13 waivers were thus used in this regard. The indicative targets in FBR revenue generation, power arrears and 'social transfer spending' were missed repeatedly. A few structural benchmarks being missed were regarding the privatization of SOEs and the energy sector reforms. In the given year public debt exceeded projections. In exchange rate realm rupee traded at 20 percent increase which certainly exerted pressure on post program repayments (IMF, 2017). Certain important revenue sharing measure vis provinces and federation were never taken up until now. The progress thus remained limited and virtual growth in the economy was not witnessed in subsequent years therefore.

Pakistan entered into EFF 2013-16 while simultaneously launching military operation against TTP in FATA area. In the ongoing scenario US government in an effort to inject strength into Pakistan's economy extended 'coalition support fund' in order to maintain the current account deficit to minimum while increasing the dollar supply in Pakistan (Lunn & Thompson, 2012). It is pertinent to mention here that the government couldn't introduce the much-needed structural reforms to reduce fiscal deficit and increase export base. Resultantly, the economy performed well but in an arbitrary fashion (IMF, 2017). Once the US crucial support was withdrawn in the subsequent



governments due to changed internal security dynamics, the fault lines started to reemerge.

At the end of the program, Pakistan had restored macroeconomic stability to a great degree. Growth increased to 4.7%, inflation fell to 2.9%, and foreign exchange reserves increased to cover 4.2 months of imports. Also, the fiscal deficit was reduced in a significant way from 8.2% in 2013 to 4.6% in 2016, and the tax-to-GDP ratio improved to 12.4%. Social safety measures like the Benazir Income Support Program (BISP) increased their coverage to 5.36 million beneficiaries. In the energy sector, power outages were reduced while eliminating some subsidies. However, the accumulation of arrears persisted, and further reforms were required to ensure full cost recovery. Despite progress, public debt remained high at 65% of GDP. There was still room for further fiscal consolidation (GOP, 2017). The government passed reforms that increased the independence of the State Bank of Pakistan (SBP), allowing it more control over monetary policy and inflation targeting. Energy subsidies were cut from 2% of GDP to 0.6%. On the critical front, reforms in PSEs like PIA and Pakistan Steel Mills were slow and faced political opposition. Likewise, the figures in circular debt remained high. The program met completion with 18 waivers.

2.3. In Between IMF's EFF 2013-16 & EFF 2024-26

The EFF 2013-16 effects couldn't remain sustainable as much of the required structural changes in the economy were not undertaken. It was for this reason that the subsequent 23rd IMF program, EFF 2019-22, started with high expectations. The IMF prescription under broad heads sought fiscal consolidation by increasing the tax base, flexible market-determined exchange rate, improving the social safety nets, increasing in Petroleum Development Levy, and tight monetary policy to contain inflation. The fiscal measures required were 1-Electricity Tariff Adjustment for Capacity Payments, 2-No Tax Amnesties, 3. Reduction of certain exemptions and preferential tax rates 4. Enhancing the sales tax on petroleum products 5. Rationalize income tax credits and incentives, 6-Increase in Petroleum Development Levy by Rs. 8, and 7-Finance Supplementary Bill (GST Reform) of Rs. 343 billion (FPCCI, 2023). Many of these targets could be realized. The populist policies of the government resorted to More borrowings and hence great pressure came on the rupee. The international increase in oil prices was reduced in the country by extending unwarranted subsidies. Similarly, the COVID-19 shock was a great blow to the engine of growth in the country. The devastating floods of 2022 caused a contraction in GDP growth. Under the given EFF, the then government couldn't manage fiscal deficit, exchange rate flexibility, and decreased FDI, consequently taking the program off track.

Table 1

In Between IMF's EFF 2013-16 & EFF 2024-26

| Fiscal Indicators (% of GDP) | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22* |
|-----------------------------------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| Overall Fiscal Deficit | 5.2 | 5.8 | 7.9 | 7.1 | 6.1 | 7.1 |
| Total Revenue | 13.9 | 13.3 | 11.2 | 13.2 | 12.4 | 11.0 |
| Tax Revenue | 10.4 | 10.8 | 9.7 | 9.3 | 9.4 | 9.0 |
| Public Debt | 60.2 | 63.7 | 74.7 | 76.6 | 71.5 | 73.5 |

Source: Pakistan Economic Survey, Federal Budget, and SBP

The 9-month SBA 2023 was a short-term arrangement. The IMF intervened at a very critical juncture of the economy. There were serious external financing pressures, increasing inflation, exchange rate vulnerabilities, a BOP crisis, and mounting budgetary deficits in view. While the elections for the next government were also on their way, it was a hard bargain to rectify different domestic policy challenges in a short period. However, the then-coalition government undertook to implement the IMF's policy conditions. The electricity tariffs were increased, a few subsidies were reduced, and revenue generation was increased through the petroleum development levy (IMF, 2024). In the short-term arrangements, all qualitative criteria, Indicative Targets, and structural benchmarks were met under the SBA.

3. An Analysis of the IMF Extended Fund Facility 2024-26

Pakistan signed the IMF's 37-month extended fund facility program in 2024 to avert the impending economic turbulence in the country. The new coalition government resolved to undertake crucial economic measures to bring stability and sustainability. The conditionalities of the IMF for the given program require essential structural reforms, which were long overdue. This time, visibly, the challenge to stabilize the economy of the country has to be faced without any 'coalition support program by the US' and without getting any favorable rollovers from the nations supporting Pakistan's war against the internal insurgencies. Apart, the government faces serious internal security challenges disturbing the inflow of FDI, particularly CPEC-centric projects, a serious law and order situation with a very hostile opposition in the parliament, the Russian-Ukraine stand-off creating regional turbulence, Instability in Afghanistan, and Middle East tensions engulfing Iran as well.

3.1. From Fiscal Strain to Emergency Assistance: IMF's 25th Program with Pakistan

It is the 25th resolution which is an old settler. This dismal performance in the final program of 2019 triggered the already existent economic crisis and compounded the problems of the clueless economy. Fiscal deficit continued to rise with the poor collection of taxes. The revenues were just 12 percent of GDP,

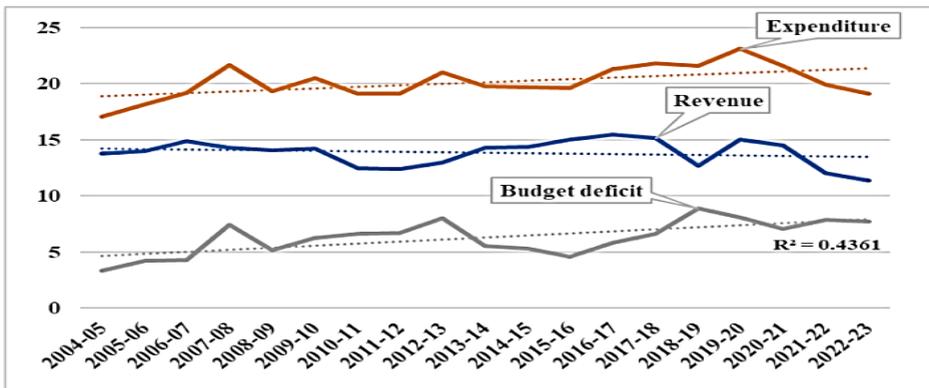


and the expenditures were about 20 percent. The last year has been a 2.6 per cent growth in population, and the growth in the economy was 2.4 per cent. The state-owned enterprises and energy industries were still a thorn in the side of the economy. Critically, the external account had to fall to levels mainly due to reduced exports and reduced foreign direct investment in maintaining the coupled high levels of imports (IMF, 2024). The issue got worse to the level of a default in 2023. In the above critical situation, the IMF intervened with its short-term emergency bailout plan, which is the SBA 2023. In modalities of the program, it is a 37-month Extended Arrangement under the Extended Fund Facility (EFF) for SDR 5,320 million (261.9 percent of quota, or about US\$7 billion). The installment releases will be conditioned on periodic reviews and the fulfillment of the IMF conditionalities.

The graph mentioned is suggestive of the existing gap between revenue, expenditures, and budgetary deficit. It explains the whole dilemma of the economy.

Figure 3

Consolidated Federal and Provincial Expenditure, Revenue and Budget Deficit, Fiscal Years 2004-05 to 2022-23



Source: ESCAP based on Pakistan, Finance Division, “Fiscal Operations” (Various Years)

3.2. Agreed Conditionalities (Key Features of EFF 2024-26)

The agreed conditionalities with IMF in the given program include increasing government revenues and broadening tax base, reducing expenditures, social protection measures and reducing poverty, developing a tight monetary policy and exchange rate stability, reforms in energy sector policies, privatization of SOEs, improved Governance with enhanced focus on Anti-Corruption efforts, climate protection policies, uncertainty and global political economy and Improvement in human capital Investment.

3.3. Performance Evaluation

It remains a fact that SBA 2023 became a prelude to entering EFF 2024-26. Pakistan was successful in meeting all the conditionalities for the IMF's new program. The growth of the economy progressed from -0.2 per cent to 2.4 per cent, largely due to agricultural bumper crops. Similarly, inflation reduced to 11.7 per cent from 38 per cent. In the same period current account deficit got reduced while witnessing simultaneously the increased remittances inflows and controlled FX rate. The government took some much-needed measures to control smuggling and dollar hoarding. Although the economy overall didn't fully recover from the slowdown effect yet the much-needed baseline was created to take a more ambitious road with EFF 2024-26. The future direction and progress of the given program shall essentially determine the success of the given program. It is very important to understand that this EFF 2024-26 shall be used to make loan payments without adding a single dollar to the economy. The program amount shall be used to pay various set of instalments to different lending organizations. (Bengali, 2024).

Reducing the current account deficit and promoting exports through industrialization and IT is the right direction that Pakistan has not taken so far. Similarly, broad-scale measures to reduce state expenditures are a far cry. The latest review conducted by the IMF team visiting Pakistan was encouraging. IMF appreciated Pakistan's efforts in making serious endeavors in the light of the agreed policy framework with the IMF. Both sides reaffirmed to explore and revitalize the revenue base while transferring greater responsibilities to provinces. Energy sector reforms are crucial to bring down the fiscal deficit (MoF, 2024). IMF also stressed that Pakistan take meaningful steps to reduce the government's intervention in the economy. The private sector should be encouraged to enhance competition. The first review took place at a very early stage. The privatization efforts of the government, security situation in the country, inflow of foreign remittances, increase in FDI, and expenditure cuts by the government will be the measures of economic development and the successful direction of the country. It is important to document here that in an apex committee meeting held on November 18, 2024, it was unanimously decided to start military operations in Baluchistan (DAWN, 2024). Similarly decisive action against TTP in FATA KP is on the cards. The improved security situation shall work a great deal to increase the confidence of the investors in exploring the immense economic potential in Pakistan.



Table 2*Pakistan Selected Economic Indicators, FY 2022-29*

| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|-------------------------------------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| | | Est. | | | Proj. | | |
| Real GDP growth (%) | -0.2 | 2.4 | 3.2 | 4.0 | 4.1 | 4.5 | 4.5 |
| Consumer prices (period average, % change) | 29.2 | 23.4 | 9.5 | 7.8 | 6.5 | 6.5 | 6.5 |
| Gen. gov. overall balance (incl. grants, % of GDP) | -7.7 | -6.7 | -6.0 | -4.7 | -3.6 | -3.0 | -2.8 |
| Gen. gov. primary balance (underlying, excl. grants, % of GDP) 2/ | -0.7 | 0.9 | 1.0 | 1.7 | 2.0 | 2.0 | 2.0 |
| Gen. gov. debt (incl. IMF obligations, % of GDP) | 77.3 | 69.2 | 71.4 | 69.8 | 67.4 | 64.0 | 60.7 |
| Current account balance (% of GDP) | -1.0 | -0.2 | -0.9 | -0.9 | -0.8 | -1.0 | -0.9 |
| Gross official reserves (billions of US\$) | 4.5 | 9.4 | 12.8 | 15.5 | 20.2 | 22.5 | 25.4 |
| Gross official reserves (months of next year's G&S imports) | 0.8 | 1.6 | 2.1 | 2.4 | 3.0 | 3.1 | 3.3 |
| Gross official reserves (% of IMF ARA metric) 3/ | 17.9 | 35.9 | 47.2 | 55.1 | 66.9 | 72.1 | 77.8 |

Source: IMF, 2024

It is all the more necessary to shape the economic policies in the light of the agreed conditionalities with the IMF and keeping in view the sustainability of the economy. The prime challenge in this regard for the government shall be to reduce the current account deficit. The projections by the economic experts suggest that it shall continue to remain 1% of the GDP by 2028, as both imports and exports are projected to increase. IMF assessment reports projects to see the gross reserves reaching US\$22.5 billion by the end of FY-28 from US\$9.4 billion in June 2024. This largely depends on the running of the program with commitment and sustainability.

3.3.1. Significant Challenges

Excessive tax concessions, 57% informal economy mocking the narrow tax base, and continuous fiscal deficit due to increased expenditure and loss-making SOEs are the serious impediments in the way of sustainable economic development. If not attended to firmly and with due consideration, these challenges can cause serious harm to the optimal performance output of the IMF's ongoing EFF 2024-26. It is also important to maintain the sovereignty of the country in devising economic policies. Consistent borrowing episodes have somewhat compromised it. A review of the last decade of the incumbent position of financial advisors, all were recommended by the IMF. The policymakers were not from within the country. (Shad, 2024)

One very significant challenge for the success of the EFF 2024-26 is to increase the quantum of revenues. But it is equally important to take into consideration the small base of the economy. The number of the rich in the economy is also very small. Hence, if we take all the taxes from the larger income groups, it won't even lessen the fiscal deficit. Heavy taxation hampers industrial growth, thereby affecting the export outflow from the country. The development in the economy requires facilitation of the industry to help promote exports (Shad, 2024).

Reduction in imports is another key area that seeks the attention of policymakers. One of its special sides is the huge import bill. The future policies should be made to discourage reliance on fossil fuels. 15-17% of the import bills are for Diesel imports. Reliance on the use of Diesel can be curtailed by opting for economic measures like promoting rail transportation, etc. Similarly, a key challenge to anchor the EFF 2024-26 is the reduction in imports.

It is equally pertinent to mention here that the latest National Security Strategy document issued by the US makes no mention of alignment with Pakistan for pursuing its future designs (House, 2022).

Now, once the government has agreed to the privatization of SOEs, the process must be taken to its logical end at the earliest. Only PIA is adding a loss of Rs 360 billion annually. The privatization shall have to be completed despite all kinds of political adversities to lessen the burden on the expenditures side.

3.4. International Practices

An evaluation of the GDP growth of a few international economies is crucial to understanding the success of their policies. The attached graph is indicative of Pakistan's poor performance in a decline in GDP growth. The country started in 1980 with a little below Indonesia and above India, Bangladesh, Vietnam, but now is falling behind all these countries for the last four years.

In the year 1991, India was fraught with a serious economic crisis to take a bailout from the IMF. It was the last time since then that India hasn't asked for any IMF intervention. Under the leadership of the then Finance Minister Manmohan Singh, India ventured to introduce structural reforms in their country on multiple fronts. Trade liberalization, attracting FDI, and shifting towards a market-driven economy paid its dividends.

Among the other international best examples are South Korea, which took an IMF loan to steer through the economic crisis that affected South Korea in the Asian Financial Crisis of 1997. Subsequent to the restructuring of the economy, all loans were paid off, and ever since, no bailout has been sought from the IMF. Similarly, Brazil in 2000 and Turkey in 2002 took heavy loans to manage their economic crisis. Through austerity-driven policies, structural reforms, and a banking system overhaul, Turkey was able to stabilize its economy. By 2008, Turkey had repaid its IMF debt and opted for domestic reforms to maintain sustainable growth, focusing on increasing foreign direct investment and infrastructure development to get liberated from external creditors (FPCCI, 2024).

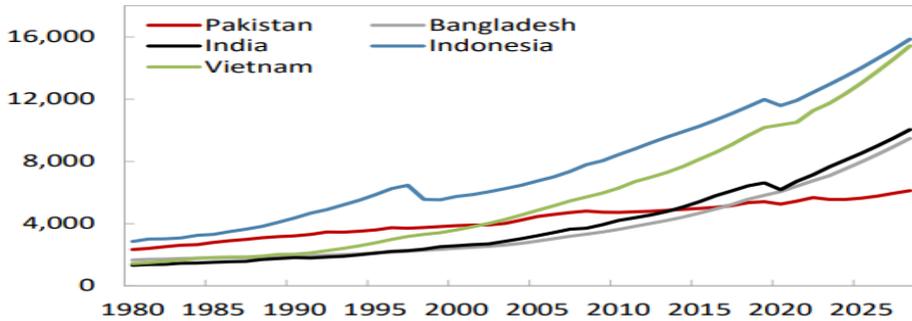
Malaysia in the 1997 Asian financial crisis famously rejected IMF assistance and chose to develop its recovery plan. To bring sustenance to the economy, Malaysia introduced capital controls, fixed its currency, and pursued domestic



policies to stabilize the economy. This approach allowed Malaysia to avoid the IMF and successfully recover (White, 2002). It serves as a unique example of an IMF-free path to economic stability.

Figure 4

Pakistan: Real GDP (2017 PPP Terms Per Capita)



Source: PBS, IMF Staff Calculations

The above-stated few examples suggest that countries becoming IMF-free economies went for Economic Diversification, Fiscal Discipline, Domestic Reforms, including Structural changes in the banking sector, labor markets, and governance, and attracting Investment.

3.5. Towards a Sustainable Economy

A study conducted by the Federation of Pakistan Chamber of Commerce and Industry (FPCCI) reveals that years without IMF economic assistance were quite successful in multiple significant areas. Hence, questions arise. Can we say a permanent goodbye to the IMF? Can Pakistan transform its economy into a sustainable one? The answers require identifying fault lines of economic development. The rare instances of good well-performing economy can't be the panacea for decades-long long deep-seated faults. For instance, the recent success statement of the finance minister, highlighting the development of the economy on strong lines, is a case in point. He shared the progress in October this year, marking increased remittances, healthy exports, and a reduction in inflation from a 38 percent high of last year to a 44-month low of 6.9 percent in September last month (MoF, 2024). The increasing FDI, efforts to broaden tax base, initiation of the privatization process of SOEs, reforms in the energy sector, and removal of subsidies may sound like a good omen for the quarterly reviews by the IMF, but it is essentially important to see the significant challenges which narrate the decade long story of failure on the economic front. Certainly, it is legitimate to ask if the given indicators and reviews of the IMF sound a success signal why didn't the progress remain sustainable? Based on the success and unsustainability of EFF 2013-16, doubts keep emerging on the

fate of the ongoing EFF 2024-26. The ongoing program thus also seems to be weaker. Statistically, we may satisfy the IMF, but on the ground, nothing significant seems to be changing. Hence, the possibility of the 26th, 27th IMF program can't be ruled out (Bengali, 2024).

Table 3

Economic Indicators with or Without IMF Program

| Indicators | Average for years while undergoing IMF Programs | Average for years without IMF Programs |
|-------------------------------------------|-------------------------------------------------|----------------------------------------|
| Industrial Growth (Real) | 4.41 | 6.68 |
| Real Gross Domestic Product Growth | 4.09 | 5.53 |
| Revenue Balance (% of GDP) | -1.71 | -0.71 |
| Fiscal Balance (% of GDP) | -5.91 | -6.34 |
| Primary Balance (% of GDP) | -1.13 | -2.95 |
| Tax Revenue (% of GDP) | 11.35 | 11.37 |
| Total Revenue (% of GDP) | 14.53 | 14.53 |
| Development Expenditure (% of GDP) | 4.42 | 6.07 |
| Total Expenditure (% of GDP) | 20.63 | 21.26 |
| Interest rate (Discount Rate) | 10.94 | 9.38 |
| Debt (% of GDP) | 69.89 | 61.48 |
| USD/PKR (% change) | 6.68 | 6.08 |
| Current account balance (% of GDP) | -1.91 | -3.95 |
| Trade (% of GDP) | 30.81 | 30.70 |
| Inflation Rate | 8.33 | 7.26 |
| Total reserves (% of total external debt) | 15.19 | 15.52 |
| Unemployment Rate | 5.50 | 4.61 |

Source: FPCCI, 2024

In the indicative targets and QPC benchmarks, a few improvements surfaced as of the November 2024 report of the economic situation by the MoF. It highlights developments in the energy sector and agriculture, with imports of agricultural machinery showing an increase by 70.9 percent to \$39.6 million. During Rabi 2024-25, DAP turnover was 309 thousand tons, significantly increasing by 92.2 percent due to the availability of loans to the farmers. The LSM sector registered a modest growth of 0.5 percent in September 2024, indicating a slight recovery. During Jul-Oct FY2024-25, CPI Inflation stood at 8.7 percent against 28.5 percent recorded in the same period last year. Along with the tight monetary policy, a sharp decline in food inflation, affordable



global oil prices, and maintained gas tariffs with low PDL rates have receded inflationary pressures in recent months. During the same period, the net federal revenues grew by 186 percent to Rs 4,019 billion from Rs 1,406 billion in the same period last year. In contrast, total expenditures increased slightly by 1.8 percent to Rs 2,483 billion (Rs 2,438 billion last year). According to the Pakistan Bureau of Statistics, a notable increase in exports and remittances is observed (GoP, 2024).

The indicative targets may render a satisfactory account, but the objective of seeking an IMF program remains unfulfilled without meeting the structural benchmarks. This is a sure recipe for sustainability and growth in the economy.

4. Conclusion

Owing to unprecedented external shocks (floods, Pandemic) and inherent structural weaknesses, Pakistan had three EFF and one SBA to counter the vulnerabilities of its fragile economy. It is significant to find out that the indicative targets achieved were not sustainable. The EFF 2013-16, rated as successful, was not successful in the real sense of the improvement in the economy. The completion of the program was dependent on introducing structural reforms in the economy, which were not taken up. There was crucial input in projects with Chinese companies, the addition of 7000-8000 MW of energy in the system, and an improved security situation due to the National Action Plan. The SOEs' privatization, electricity tariffs increase and control of losses, increased exports, and an increased revenue base remained as unfulfilled tasks.

It is pertinent to mention that the recent drives under EFF 2024-26, other than removing unnecessary subsidies, opening up the process of the privatization of SOEs, increasing revenues without increasing the tax base, and reducing expenditures to some degree, have still not made a decisive turn to sustainable growth measures. Increasing of export base and diversifying agricultural output were direly needed. Most important is ensuring internal security to lead the way for a safer CPEC development and improved governance measures. It is also required to make concentrated efforts to document the informal economy and invest in social sector development.

The IMF program EFF 2024-26 has nothing substantial to add to the economy. It is a facilitative measure to reduce dollar shortage due to an increased quantum of debt servicing. The conditionalities in the given program are a matter of the hours. While a quarterly review by the IMF is approaching at the time this writing is being penned, certain revenue targets are yet to be met. This may be filled up by adding PDL (Petroleum Development Levy) or some other smart, arbitrary moves without making a durable solution. It is essentially required to reduce the current account deficit. The increased number of exports in a given economy is indicative of a strong industrial base and stabilization of

foreign exchange reserves. Similarly, a reduction in unnecessary expenses is crucial for bringing fiscal discipline.

5. Way Forward

The government had already shown commitment in EFF 2013-16 and in SBA 2023 to meet much of the required targets by the IMF. The team of economists is left with no option other than making crucial policy decisions to put the country on the right path.

It should also be kept in view that after the US exit from Afghanistan in 2021, there is a diminishing probability of any aid or military assistance to help support security or economic challenges to Pakistan. Under the circumstances, the best possible way is to make inbuilt structures that should carry the capability to capitalize on economic opportunities like CPEC or BRICS.

To achieve sustainable economic development, it is also important to evolve an Integrated National Finance Framework (Isgut, 2024). Such a framework based on the key SDGs offers sound prospects to put the economy on the path of progress.

An overview of the economic history of Pakistan suggests that the country has not journeyed with any 'Development Agenda'. Since Zia's Marshal Law, we have not had a functioning economy. To make a consistent and sustainable economic development pattern, there needs to be a consensus economic development agenda. (Pasha, 2021)

Much desired and a mature management is the curtailment of expenditures. There are now 42 Divisions in the federal capital, out of which half should be abolished. Similarly, curtailment of expenditures in various government departments is the need of the hour. The most significant head is the Defense expenditure. In the non-combat head, much reduction is required. Under the combat head, a few items should be abolished. Since the pattern of conventional warfare has changed (Bengali, 2024).

In order to give life to the turbulent economy, Debt reprofiling is required. Provisions of a few roll-overs will provide sufficient fiscal space to the economy to attend to socio-economic development. After 9/11, the country was offered debt rescheduling to counter the menace of terrorism. This helped Pakistan to raise the capacity of its LEAs. Now that the state is planning to take decisive action against the TTP in FATA and Baluchistan areas, the cost of the operation may become forbidding. Already, Rs 60 billion committed to the operation Azam e Istehkam is a tough road to meet the security needs. In the given scenario, if the EFF 2024-26 is supported sincerely by the lending organizations with a few roll-overs, the country can work effectively to work out the hiccups in the economy (Atteeq, 2024).

A reduction in the cost of Production is necessary to help support the domestic



industry. There needs to be a stable exchange rate policy supported by lower interest rates and electricity rates to reduce the cost of production for the industry. Such crucial steps shall help support the success of the ongoing EFF (Butt, 2024).

Targeted and direct subsidies should be preferred over subsidies to non-productive sectors. An unnecessary range of subsidies has damaged economic growth.

Decentralization of revenue generation and administration to local and provincial governments shall yield more productivity and progress in the economy. The success of this model in Indonesia is a clear example of making a difference and saying goodbye to the IMF forever (Ahmed, 2013).

Table 3

Economic Indicators

| Measures | Pakistan's Rank | Pakistan | Bangladesh | India | Sri Lanka |
|-----------------------------------------------|------------------------|-----------------|-------------------|--------------|------------------|
| Rank in Global Health Security Index (of 195) | 4th | 130 | 95 | 66 | 105 |
| Malnourished Children | 4th | 36.7% | 30.2% | 30.9% | 16% |
| Life Expectancy (yrs) | 4th | 67.4 | 72.9 | 69.9 | 77.1 |
| Primary School Attendance | 4th | 62% | 86% | 95% | 90% |
| Upper Secondary School Attendance | 4th | 33% | 48% | 64% | 73% |
| Adult Literacy | 4th | 58% | 74.9% | 74.4% | 92.4% |
| Human Development Index (of 188) | 4th | 154 | 133 | 131 | 72 |

Source: The World Bank/ UNICEF

Table 4

World Governance Indicators (2010 vs. 2020)

| World Governance Indicators (WBG) | 2010 | 2020 |
|------------------------------------------|-------------|-------------|
| Voice & Accountability | 27.49 | 23.19 |
| Government Effectiveness | 25.36 | 31.73 |
| Regulatory Quality | 29.67 | 24.04 |
| Rule of Law | 27.49 | 25.48 |
| Control of Corruption | 13.81 | 22.12 |

Source: The World Bank/ UNICEF

The above-stated Facts expect government favorable policies and investments in these significant areas. Unless multipronged administrative measures are put in place, the growth and development of the economy face serious pitfalls.

We need to invest in universities. The future is a knowledge-based economy. I.T., Science, and Electronics are the important areas in which we need to produce world-class scientists. The economic programs we receive are not supported by the intelligentsia base. Hence, several consultants and policy makers are engaged from abroad.

A concentrated effort from a wide range of stakeholders can help in achieving sustainable economic growth and overcoming the debt crisis in Pakistan. This collaborative effort must be led by the government, and the policymakers, development partners, and civil society must contribute to achieving sustainable economic growth. Privatization and deregulation should spearhead these efforts. The interdependencies between economic policies, political stability, and social development (Farooqui & Bari, 2022).

It is extremely important to fix the productivity of the agriculture sector and create an outward-looking industrial sector; the industry-driven exports should increase from 10% of GDP to 20%. This should be followed by aligning incentives to raise investment away from non-productive sectors (Najeeb, 2023).

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