PAKISTAN'S EXPERIENCE WITH THE IMF

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Abstract

From the view point of the International Monetary Fund (IMF), whenever a country faces balance of payments crisis it is because of the excessive demand prevailing in the economy. Pakistan faced a serious balance of payments crisis by the end of 2017-18. It has now decided to go to the IMF for the balance of payments support. IMF uses three key instruments to correct balance of payments crisis. These instruments include tight monetary policy, tight fiscal policy and market determined exchange rate policy. These policies are part of the Stabilization policy. Pakistan has gone to the IMF 21st time in the past and fourth time since the year 2000. It has been observed from the past experiences that IMF Program is not a stabilization program, rather it is a destabilization program in which investment and growth slowed leading to the rise in unemployment which gives birth to social unrest in the country. It also increases the country's debt and as such the country never gets out of the clutches of the IMF Program. Pakistan is now entering 22nd time into the IMF Program. Same medicine will be applied. Will the result be different this time?

Keywords: IMF Program, Stabilization Policy, Debt, Deficit, Growth, Unemployment, Poverty.

Introduction

Ever since the new government took charge of the state of affairs, the debate on whether the new government should go to the IMF or not for a bailout package began within the government and in the Economic Advisory Council of the Government. An overwhelming majority supported the idea that Pakistan has no

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alternative but to go to the IMF for a balance of payments support. However, few argued otherwise and were of the view that Pakistan should learn to live without the IMF. It is fairly clear by now that Pakistan has decided to seek financial support from the IMF. The program is most likely to be finalized by June 2019 and will be applicable from July 1, 2019 for a period of three years. The current article deals with the question: how the program is going to affect the economy, the people and the government?

Before we delve into the details of the subject matter, a few words regarding how the IMF, as an institution, has come into existence; what were the objectives of this Institution; what are the key policy instruments and so on. It is well-known that after the end of the World War-II, Europe was totally devastated and the global monetary and financial system had become dysfunctional. President Franklin D. Roosevelt, the 32nd President of the United States invited the United Nations Monetary and Financial Conference to deliberate on the issues of the reconstruction and development of Europe and to reestablish global monetary and financial stability. The Conference was held in Bretton Woods, New Hampshire during July 1-22, 1944. Forty-Four nations attended the Conference. After over three weeks of deliberation, the Conference agreed upon a series of new rules for the post WW-II International Monetary System. The two major accomplishments of the Conference were the creation of the IMF and the International Bank for Reconstruction and Development (IBRD), better known as the World Bank. The two persons that played key roles at the technical levels for the establishment of the above-stated institution were Harry Dexter White, Special Assistant to the US Secretary of the Treasury and John Maynard Keynes, an Advisor to the British Treasury. Keynes later emerged as the father of the modern macroeconomics.

The IMF was charged with the maintenance of a system of fixed exchange rates centered on the US dollar and gold. Serving as a forum for consultation and cooperation, IMF would contribute to orderly international monetary relations and the expansion of World trade. IMF would provide short term financial assistance to the countries experiencing temporary balance of payments difficulties. The IBRD was made responsible for providing financial support for the reconstruction and development of war-ravaged nations as well as for the economic development of less developed/developing countries[1]. These two institutions officially came into existence on December 27, 1945[2].

Since the establishment of the IMF, this institution performed not only the duty of a "Lender of the Last Resort" but also performed other functions. In fact, whenever a country faced serious balance of payments crisis, it went to the IMF for financial support. The IMF performed three functions. Firstly, it performed the duty of **surveillance**, involving monitoring of economic and financial developments and provides policy advice to the member countries. Secondly, it provided **financial support** to the member countries to address their balance of payments crisis. Thirdly, the IMF also provided member countries with technical assistance and training of the officers involved in policy making in Ministry of Finance and the country's Central Bank.

Policy Prescription of the IMF

From the view point of the IMF, whenever a country faces balance of payments crisis it is because of the excessive demand prevailing in the economy. In other words, aggregate demand (C+I+G+X-M)[3] exceeds aggregate supply (Y)[4]. The country, when approaches IMF for financial support, they are asked to pursue a policy prescription of the Washington Consensus or 1980s vintage of the Stabilization Policy which is also commonly known as demand management policy or austerity policy. The IMF believes that by curtailing aggregate demand through various policy instruments, the country can restore a balance with aggregate supply. It is critical to note that the IMF never advocates for raising aggregate supply or never prescribes supply side policy. Its entire policy prescription deals with the right hand side of the national income accounts (Y=C+I+G+X-M)[5] and never advocated policy for augmenting aggregate supply (Y), the left hand side of the accounting identity.

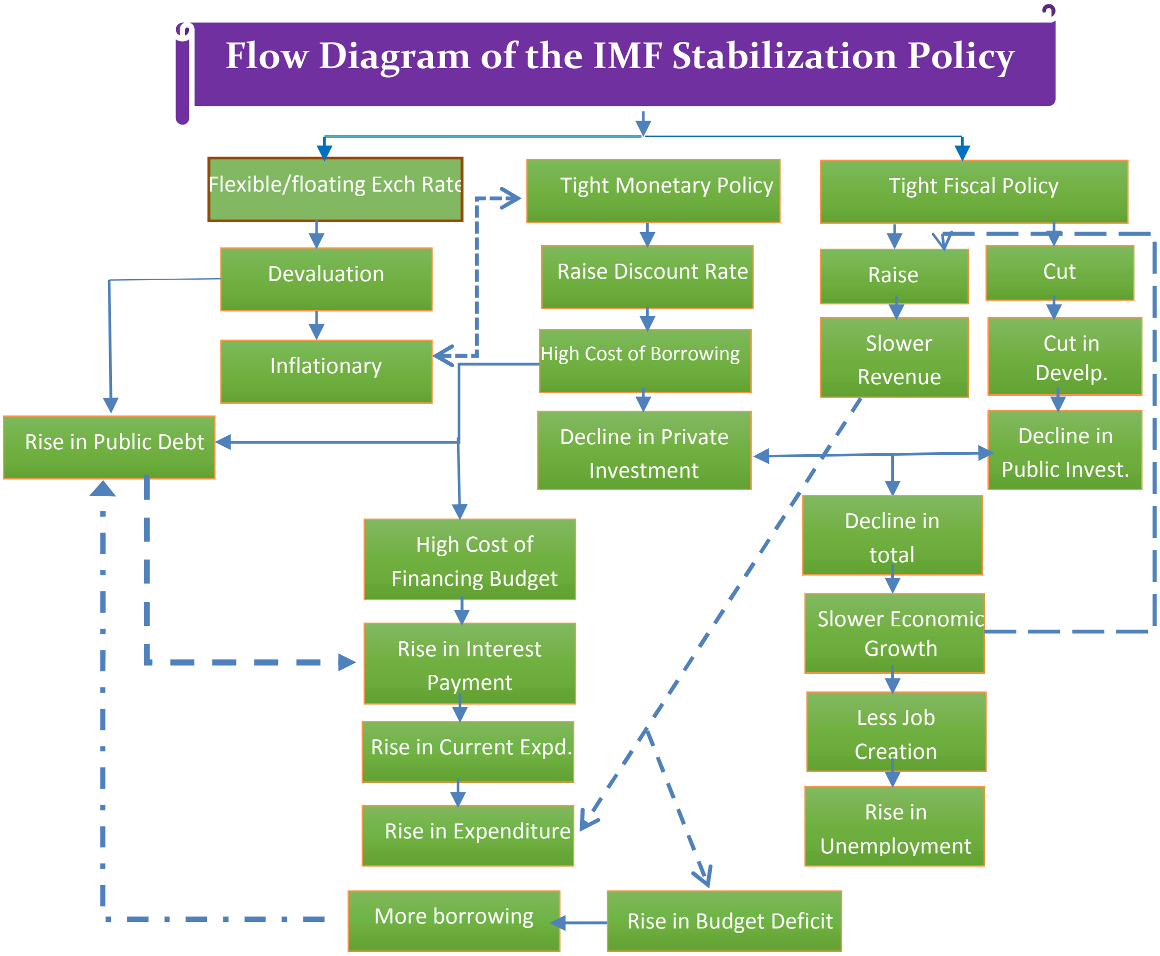
There are three key instruments of Stabilization Policy. These include:

- Floating/flexible exchange rate policy,
- Tight monetary policy and
- Tight fiscal policy.

Let me describe how these policies work in reality. The country would be asked by the IMF Staff to pursue **floating or flexible exchange** rate policy which invariably leads to devaluation (the objectives are to reduce import and increase exports – the two components of aggregate demand). Devaluation is by definition inflationary as all the landed costs of imported items in local currency increases. To counter inflationary pressure, the Central Bank immediately tightens monetary policy by increasing discount rate which, in turn, increases overall interest rates in the economy. Higher interest rate discourages private sector investment (one component of aggregate demand)

Tight fiscal policy on the other hand, prevents government to spend more (another component of aggregate demand). Given the committed nature of spending such as interest, payment, defense, running civil administration and subsidies in which there is little or no flexibility, the axe of spending cut falls invariably on development expenditure. Cut in development expenditure means that public sector investment also declines. Thus, higher interest rate discourages private sector investment and cut in development spending means decline in public sector investment, therefore total investment as percentage of GDP declines. Investment being the critical input to economic growth, lower investment slowed economic growth. Pace of job creation depends on the pace of economic growth. Slower economic growth slows the pace of job creation and hence, rise in unemployment and poverty.

Slower economic growth slows revenue generation. On the other hand, devaluation prompting tight monetary policy which leads to higher discount rate and the rise in overall interest rate. Higher interest rate as a result of the pursuance of tight monetary policy increases the cost of financing government's budget deficit, which, in turn, increases interest payment, current expenditure, and hence, total expenditure. Devaluation also increases dollar denominated public debt in rupee term which increases overall public debt. Given the rise in interest rate, high public debt increases interest payment, current expenditure and hence, total expenditure. Slower economic growth slows revenue generation and given the rise in total expenditure, it increases budget deficit which is counter to IMF policy of tight fiscal policy. Higher budget deficit forces government to borrow more to accumulate more public debt. Given the higher rate of interest, interest payment, current expenditure and total expenditure rise. The economy enters into debt trap (see the flow diagram to understand the mechanics).



IMF policy of stabilization in fact put the country into debt trap. Once the country goes to the IMF for a balance of payments support and implement, it never comes out from the crisis. In fact, the crisis perpetuates because of the nature of the policy prescriptions. The IMF Program is not a stabilization program in which investment and growth slowdown leading to the rise in unemployment which gives birth to social unrest in the country. It also increases the country's debt and as such never gets out of the clutches of the IMF Program. Hence, slower growth, rising unemployment, more inflation and more debt are the outcomes of the IMF Program. The country's macroeconomic policy remains in the hands of the IMF.

The country's Ministry of Finance loses policy making initiative. Its job remains confined to the implementation of the policy prepared by the IMF and gives compliance report to the IMF in each quarter. If the country achieves all the assigned targets for the quarter, the IMF approves the next tranche. The country lives quarter by quarter or tranche by tranche. Any quarterly target missed, the country applies to the IMF for a waiver. Depending on the country's relations with major shareholder of the IMF, the IMF would treat the country accordingly. The bottom line is that the county loses its financial sovereignty.

Flaws in IMF Policy Prescription

It is not uncommon to see countries experiencing exogenous shocks which adversely affect their key economic fundamentals or throw an economy into aggregate imbalances which require compensatory actions. There are two sources of instability; one is exogenous shocks and the other is self-induced shocks.

Exogenous shocks include, terms of trade shocks, natural disasters, capital flight etc. Many developing countries have narrow export base. Any adverse shock to the prices of their commodities will have strong adverse impact on their export earnings. Sharp decline in oil prices since mid-2014 have severely impacted the oil revenue of the oil producing countries. Many of these countries are facing serious budgetary problems leading to the rise of their external debt. Such an adverse shock slowed their developmental activities.

Self-induced shocks are the result of the poor macroeconomic management of the country. For example, excessively loose fiscal policy increases aggregate demand which is translated into higher imports, worsening of trade and current account balances. Such developments put pressure on exchange rate leading to devaluation, rise in public debt, increase in interest payments, erosion of fiscal space, decline in investment in physical and human infrastructure.

Whenever a country faces such kind of shocks and experience balance of payments difficulties, they approach the IMF for a bailout package. The IMF applies the 1980s vintage of Stabilization Policy. In my opinion, the 1980s vintage of Stabilization Policy or Washington Consensus have lost its charm. Why has it lost its charm? The reason is that the IMF doesn't distinguish between the two types of shocks. It treats exogenous shocks and self-induced shocks one of the same. For the IMF one policy fit in all circumstances. This is a major flaw in the IMF, sponsored Stabilization Policy.

Let me explain a bit more. Consider that there are two countries – country A and country B. Country A has been managing its economy well. Economic growth has been robust, both budget and current account deficits have been low and the country had sufficient foreign exchange reserves to finance four months of imports. All of a sudden the country is hit by massive external shock like an unprecedented surge in oil and commodity prices which created serious balance of payment crisis. Country B is failing in managing its economy well. Economic growth is low, budget deficit is high, current account deficit is low because the economy is growing slowly but foreign exchange reserves is depleting fast. While Country A is hit by a sudden external shock, not of its own making, Country B is facing serious difficulties because of its inability to manage the economy properly. Both countries go to the IMF for financial support. Should the IMF prescribe the same medicine to both the countries?

In my view, the answer is no. Country A should be treated differently as compared to Country B. Country A has been pursuing prudent macroeconomic policy. External shocks have created balance of payment problems. What is required from the IMF is to provide one time financial support to build its reserve so that the country can wither the external shocks. For Country B, because it was mismanaging its economy that compounded its difficulties, it should be treated differently. Policies should be designed to bring its budget in balance, external account in comfortable zone for which, tight fiscal and tight monetary policy are the solution. The problem with the IMF is that it does not differentiate the root causes of the problems. Hence, it has standard prescription for all kinds of disease. Such standard prescription, instead of addressing the problems, in fact further compound the difficulties. In order to address one problem it gives birth to many problems and hence in the process the country and its people continue to suffer. There is an urgent need on the part of the IMF to rethink the standard prescription for all kinds of disease.

Pakistan has been one of the nine prolonged users of the IMF resources. In so doing, it appears that Pakistan has become addicted to the IMF financial support. Whenever we felt headache, we ran to the IMF for aspirin tablet. We get temporary relief but we never bothered to find out as to why do we get headache after every two/three years. (See Table 1 on next page for the history of the Accounts of various IMF Program during 1988 to 2016).

Table 1: History of the Accounts of Various Facilities/Arrangements with the IMF since 1988 (Amount in US $ Million)

S#	IMF Programme	To Run for (Coverage)	Total Amount Sanctioned	Total Amount Drawn	Completed/ Delayed/ Suspended
1.	Structural Adjustment Facility (SAF)	1988-1991 (3 years)	$ 516	$ 516	Completed after delay of one year
2.	Stand-by Arrangements (SBA)	1988-1991 (3 years)	$ 259	$ 259	Completed after delay of one year
3.	Contingency and Compensatory Financing Facility (CCFF)	1991-92 (one time)	$ 171.6	$ 171.6	One time facility in one tranche
4.	Emergency Assistance	1992-93 (one time)	$ 256	$ 256	One time drawn in one tranche
5.	Stand-by Arrangement (SBA)	1993-1994 (1-1 ½ Years)	$ 377	$ 125.5	Suspended in 1993
6.	Enhanced Structural Adjustment Facility (ESAF)	1993-1996 (3 years)	$ 849	$ 290	Suspended after about a year plus
7.	Extended Fund Facility (EFF)	1993-1996 (3 years)	$ 531	$ 177	Suspended after about a year plus
8.	Stand-by Arrangement (SBA)	1995-1997 (1 to 1 ½ years)	$ 600 $ 216 Total: $816	$ 277 $ 150 Total : $427	Program Suspended 1996 Reactivated 1996 Again suspended 1997
9.	Enhanced Structural Adjustment Facility (ESAF)	1997-2000	$ 935	$ 310	Suspended in 1997
10.	Extended Fund Facility	1997-2000	$ 623	$ 77	Suspended in 1997
11.	Enhanced Structural Adjustment Facility (ESAF) Reactivation of 1997 Program	1998-2001	$ 637	$ 53	Suspended in 1998 and reactivated in 1999.Again suspended 1999.
12.	Extended Fund Facility (EFF) Reactivation of 1997 Programme)	1998-2001	$ 557	$ 77.6	Suspended in 1998 and reactivated in 1999. Again suspended 1999.
13.	Contingency and Compensatory Financing Facility (CCFF)	1999	$ 495	$ 495	Completed in one tranche drawl
14.	Stand-by Arrangement (SBA)	2000 to 2001	$ 600	$ 600	Completed
15.	Poverty Reduction & Growth Facility (PRGF)	2001 to 2004	$ 1.322 (billion)	$ 1.186 (billion)	Completed on 2004
16.	Stand-by Arrangement	2008 to 2010	$ 11.3 billion	$ 8.7 billion	Suspended in 2010

S#	IMF Programme	To Run for (Coverage)	Total Amount Sanctioned	Total Amount Drawn	Completed/ Delayed/ Suspended
17.	Extended Fund (Facility (EFF)	2013 to 2016	$ 6.68 billion	$ 6.68 billion	Completed with 15 waivers
Total			**$ 26.925 billion**	**$ 20.392 billion**	

Note: 75.4% ($15.4 billion) IMF loan disbursed during the last two programs (2008-11 and 2013-16).

Pakistan's Experience with the IMF

As stated earlier, Pakistan has been under the IMF Program for most part of the decade (2008-18). It has pursued the IMF dictated stabilization or demand management or austerity program all along the decade. In the words of the Managing Director, IMF (Ms. Christine Legarde) as posted on IMF direct, September 1, 2016, the longer demand weakness lasts, the more it threatens to harm long-term growth as firms reduce production capacity and unemployed workers are leaving the labour force and critical skills are eroding. Weak demand also depresses trade, which adds to disappointing productivity growth".

The statement of the Managing Director accurately depicted the current state of Pakistan's economy. After 10 years of stabilization policy, Pakistan witnessed its economic growth slowing, unemployment situation worsening, fiscal and current account deficits deteriorating, public and external debt growing astronomically and foreign exchange reserves depleting. The Managing Director has advocated the need for forceful policy action to avoid a low growth-trap. She believed that monetary policy has limited capacity to support demand. The global economy, including Pakistan has experienced a prolonged period of record-low interest rate environment and yet it has failed to bolster demand and hence economic growth. She therefore, advocated a larger role of fiscal policy through boosting public sector investment as well as undertaking wide-ranging structural reforms and reducing the cost of doing business, including trade costs, as a solution for boosting demand and economic growth. She also made a strong case for inclusive growth, that is, the benefits of growth are broadly shared by the people. Unfortunately, the IMF itself is a stumbling block in achieving the above-mentioned objectives as enunciated by its own Managing Director. The type of macroeconomic policies that it has advocated in countries who have sought financial assistance from the IMF, have suffocated their economies and damaged medium-to-long run growth prospects of these countries. What has been the experience of Pakistan in implementing IMF dictated Stabilization Policy over the last one decade? Let me begin with growth and employment first.

Growth and Employment

Pakistan pursued the Stabilization Policy during the last one decade (2008-18). Such policies, by and large, have been anti-growth which suffocated Pakistan's economies. Such a prolonged period of austerity or anti-growth policies have severely damaged the country's growth prospects, both in the short and medium-terms. Pakistan economic growth averaged 3.8 percent during the last one decade (2008-18) as against 6.3 percent during the last four years when Pakistan was not in the IMF Program. Agriculture, large-scale manufacturing and services growth decelerated sharply during the last one decade when Pakistan pursued, by and large, an IMF dictated Stabilization Policy as against the period when Pakistan was out of the Program **(see Table 2).**

Table 2: Growth and Employment (Percent)

Items	2004-05 to 2007-08	2008-09 to 2017-18
Real GDP growth	6.3	3.8
Agriculture growth	4.5	2.3
Large Scale Manufacturing	10.2	3.0
Services	7.0	3.2

Source: Pakistan Economic Survey: Statistical Supplement 2017-18 and 2010-11

The persistent of low growth during the last decade has taken the country to a deficient demand mode, as suggested by the Managing Director of the IMF, which has eventually caused deficient supply as reflected by a mere 3 percent average growth in large scale manufacturing. Why should investors or producers invest or produce more in the midst of deficient demand? The long slump, on account of the type of macroeconomic policies that Pakistan pursued during the last decade (2008-18) has hurt the economy's productive capacity and hence lowered long-run growth prospects. The 'new normal' growth for Pakistan appears to be in the range of 3.5 – 4.0 percent. If this is the case, then the governments that ruled the country during the last decade have made the people of Pakistan permanently poor. The economy may not be seen growing by 7-8 percent level unless and until Pakistan changes its policy stance from stabilization to 'job-rich' growth. Such a change in policy stance is not possible under the IMF Program.

The persistence of low economic growth (3.8% per annum) over the last one decade has failed to create enough jobs for the new entrants in the job market, as well as for those who were already in the pool of unemployed. People in general and youth in particular, found it extremely difficult to get jobs. Those remaining unemployed for a longer duration became unemployable, with all its social and economic ramifications.

Not only has the unemployment rate surged to 8.5 percent a 13-year high in 2014-15, and youth unemployment rate has increased to over 10 percent by 2017-18. The annual entrants into the labour force which averaged 1.9 million per annum during 2004/05 to 2007/08 shrank to 1.3 million and further shrank to an average of only 350,000 during the last two years of the decade under review. This reflects the worsening state of the labour market and lends support to the view that for years of pursuance of Stabilization Policy under the IMF Program, Pakistan's economy has entered into a low growth mode and failing to create sufficient jobs[6].

Table 3: Key Labour Force Statistics (Percent)

	2007-08	2008-09	2010-11	2012-13	2013-14	2014-15	2017-18
Literacy Rate (Overall)	56.2	57.4	58.5	60	58	60.7	62.3
Below Matric	36.5	37.1	38.0	37.9	38.1	37.5	36.9
LFPR	32.2	32.8	32.8	32.9	32.3	32.3	31.7
Rural	33.8	34.3	34.3	34.2	33.8	34.0	32.7
Urban	28.9	29.9	30.0	30.2	29.4	29.0	30.0
(15-19 Years)	36.9	37.0	36.4	35.8	35.3	33.5	32.6
Male	53.9	52.7	51.6	51.2	49.7	47.6	47.6
(20-24 Years)	52.4	53.8	53.8	53.1	52.3	52.6	52.5
Male	85.1	85.4	84.3	82.4	81.7	82.3	84.5
Unemployment	5.2	5.5	6.0	6.2	6.0	5.9	5.8
(15-19 Years)	8.7	9.5	10.6	11.3	11.7	10.1	10.4
(20-24 Years)	6.8	7.3	10.0	9.9	9.2	11.0	11.6

Note: LFPR is Labour Force Participation Rate
Source: Pakistan Labour Force Survey 2008-09, 2012-13 and 2013-14, 2017-18.

Even more serious development is the fact that the Labour Force Participation Rates (LFPR) among youth (15-19 years) and prime age (20-24) workers have declined during the last decade (2008-18). Almost 2.0 million workers belonging to these two age groups have moved out of the labour market. The LFPRs for the urban youth and prime age workforce declined from 53.9 percent in 2007-08 to 47.6 percent in 2017-18 and from 85.1 percent to 84.5 percent respectively during the decade under review. This developments point to growing 'discouraged worker phenomenon' in the country. Since the country remained by and large, under the IMF Program during most period of the decade, the economic growth remained subdued which failed to create enough jobs for the new entrants. When the people fail to get job for so long a period, they don't apply and get out of the job market – a 'discouraged worker phenomenon'.

More so, the unemployment rate for graduate and post graduate degree holders has increased to a dangerous level of over 20 percent[7]. There are 2.4 million educated workers with poor job prospects. These developments are the direct consequence of the type of macroeconomic policies pursued under the IMF Program.

Fiscal Side

Tight fiscal policy as an instrument of the IMF dictated Stabilization Policy meant to reduce fiscal deficit. This is because a sound fiscal position is vital for achieving macroeconomic stability, which is increasingly recognized as being critical for sustained higher economic growth and poverty reduction. Pakistan remained under the IMF Program for most part of the last decade (2008-18) but failed in reducing fiscal deficit. During 2008/09 to 2012/13, Pakistan sustained a very large budget deficit averaging 7.0 percent of the GDP. Massive manipulation of statistics took place during 2013/14 to 2016/17 (4 years) ranging from holding back refunds and forcing commercial entities to pay taxes in advance to jack up revenue, privatization proceeds and foreign grants were treated as non-tax revenue to inflate overall revenue rather than treating them as financing items, engaging in qasi-fiscal operations outside the budget, allowing for large statistical discrepancy each year (cumulatively Rs. 600 billion in three years) to show lower expenditures, exaggerating the size of the Provincial cash balance surplus, retaining earmarked revenues in the Federal consolidated Fund and building up large contingent liabilities (over Rs. 1400 billion of power sector circular debt, accumulation of over Rs. 800 billion debt under commodity financing and pending tax refunds). The IMF staff either been blissfully unaware of or has condoned this creative accounting. After all, IMF Program is a political program. Adjusting for these practices implies a fiscal deficit each year in the range of 7.0 to 8.0 percent of the GDP[8].

The IMF Programs over the last one decade have failed miserably in reducing Pakistan's fiscal deficit. They kept their eyes and ears closed and allowed the authorities to damage statistics. IMF was so generous that during the last

Program (2013-16) they extended fifteen waivers. Perhaps never in the history of the IMF that a country received such a large number of waivers[9].

Public and External Debt

Fiscal indiscipline remained the hallmark of the previous two regimes that ruled Pakistan during the last decade (2008-18), mostly under the IMF Program. How can IMF allowed member country, Pakistan, to remain fiscally indisciplined and maintain an average fiscal deficit of over 7.0 percent of GDP; and yet continued to doll out financial resources amounting over $15 billion during the program periods? As stated earlier, IMF Program has been in a political program. They kept their eyes and ears closed and continued to pour dollars and drowned the country under debt. Pakistan's public and external debt surged during the last one decade (2008-18) under the IMF Program. These facts are well-documented in Table 4.

Table 4: Trends in Public and External Debt

Year	Public Debt (Billion Rs)	External Debt and Liabilities (Billion $)
2007-08	6040	46.2
2008-09	7631	52.3
2009-10	8890	61.6
2010-11	10680	66.4
2011-12	12652	65.5
2012-13	14321	60.9
2013-14	16389	65.4
2014-15	17819	65.2
2015-16	20054	73.1
2016-17	21783	83.4
2017-18	25574	95.3

Source: State Bank of Pakistan; and Debt Policy and Coordination Office, Ministry of Finance.

A cursory look at Table 4 is sufficient to see that Pakistan's public and external debt have grown at a threatening pace during 2008/09 to 2017/18 (10 years) owing to fiscal profligacy on the one hand and substantial decline in non-debt creating inflows on the other. Public debt grew at an average rate of 19 percent per annum during 2008/09 to 2012/13 when Pakistan was under the IMF Program for most of the time. Public debt grew at an average rate of 12.3 percent per annum during 2013/14 to 2017/18. The reason for a relative slow growth of public debt during this period was a near fixed exchange rate policy that the then government implemented. Pakistan remained under the IMF Program for the first three years of the period. For decade as a whole, public debt grew at an average rate 15.6 percent per annum.

As percentage of the GDP, the public debt surged from 58.4 percent to 74.4 percent during the decade under review. It is important to note that Pakistan's fiscal situation remained precarious and public debt as percentage of GDP surged, during the IMF Program which speaks volume about the efficacy of the IMF Program in restoring fiscal balance.

External debt and liabilities also jumped from $ 46.2 billion to $ 95.3 billion during the decade under the IMF Program. The readers would recall that Pakistan also remained under the IMF Program during the decade of the 1990s. This decade was termed as "lost decade for Pakistan" by independent economist[10]. Table 5 reports the amount of external debt and liabilities added during the two 'lost decade for Pakistan' – 1990s and 2008-18.

Table 5: Addition to Debt

Period	No. of Years	Debt Added
1990s (1990-2000)	10 years	$ 17.4 billion
2008/09 – 2012/13	5 years	$ 14.7 billion
2013/14 – 2017/18	5 years	$ 34.4 billion
2008/09 – 2017/18	10 years	$ 49.1 billion
1990s and 2008/18	20 years	$ 66.5 billion

A cursory look at Table 5 is sufficient to see that Pakistan accumulated $49.1 billion of external debt during the decade of 2008/18 and it added $17.4 billion in the decade of the 1990s. Altogether, Pakistan added $66.5 billion external debt and liabilities during the two last decades for Pakistan. In other words, Pakistan added 70 percent of total outstanding external debt and liabilities during the two 'last decades'.

What was common in these two 'last decades', that is, in the 1990s and in 2008-18, was that Pakistan remained under the IMF Program and implemented IMF dictated Stabilization Policy. Pakistan is now entering into another IMF Program from July 1, 2019 for three years. In so doing, it will be implementing the same 1980s vintage of Stabilization Policy. Should we expect a different result this time? Can Pakistan afford to lose yet another decade of 'lost opportunities'?

Summing Up

Decade of pursuance of IMF dictated Stabilization policy has caused economic growth to slow down, less job creation and hence rising unemployment which is a sure recipe of social unrest in the country. Such policy has caused budget deficit to rise owing to the combination of hike in discount rate and devaluation of Pakistani rupee. Higher interest rate increases the cost of financing fiscal deficit which, in turn, increases interest payment. Devaluation on the other hand, increases the size of the public debt. Hence, these two policies increases the size of the public debt and cost of financing deficit; which raises interest payment, current expenditure and total expenditure. Revenue, on the other hand, failed to increase because of the slower economic growth owing to the pursuance of anti-growth policies.

Higher expenditure and slower growth in revenue lead to the rise in fiscal deficit. Higher fiscal deficit means more borrowing to finance deficit and more borrowing means more accumulation of debt. More accumulation of debt means more interest payment, higher current expenditure, and hence rise in expenditure. With revenue growing at a slower pace owing to slower growth in economic activity, budget deficit would be rising and the country is stuck in the vicious cycle. Hence, IMF Program will cause more harm than good to the economy and to the country. Low economic growth, higher unemployment, particularly for educated youth, rising poverty, growing debt are the outcomes of the IMF Program. It is a sure recipe of social unrest in the country. Recent study has found that the IMF Program has failed miserably in stabilizing economies of many developing countries, including Pakistan with one or two exceptions.[11]

Was there any Alternative to IMF Program?

Fiscal year 2017-18 has been one of the most challenging and difficult years in Pakistan's economic history. Within one year, there were three finance ministers (Ishaq Dar, Miftah Ismail and Dr. Shamshad Akhtar) managed the economy. Economy was never on the radar of these ministers. Fiscal profligacy was on the rise which was translated into higher imports. As a result, the current account deficit ballooned to $19 billion or over 6 percent of GDP in 2017-18. Budget deficit surged to 6.6 percent of GDP but this number was grossly understated for a variety of reasons.

The present government inherited an economy which was in a very bad shape. From day one, the newly elected government was in favour of going to the IMF for a balance of payments support. Overwhelming members of the Economic Advisory Council also supported the government stance of going to the IMF. Few economists, however, advocated against seeking assistance from the IMF for three reasons. Firstly, Pakistan has been a prolonged user of the IMF resources. It has already been in the IMF Program for 21 times. Unlike in the 1990s when almost all of the IMF Programs either stalled, interrupted or completed with delays but during 2000 onward, 3 out of the 4 IMF Programs were fully completed. With a relatively high rate of completion of the IMF Programs since 2000, as well as within 2 years since the "successful completion" of the last IMF Program in September 2016, one wonders why Pakistan has left with no option but to go to the IMF once again? If a patient suffers a relapse soon after remission, then it is quite reasonable to question the authenticity of the clean bill of health given to Pakistan by the IMF after the completion of the Program in the first place. Furthermore, prolonged treatment for a curable disease casts doubts about the efficacy of the medicine[12]. Secondly, the changing Geo-Strategic environment would force IMF to go strictly by their books. They would not be a benign IMF as was the case during 2013-16 IMF Program when they accorded fifteen waivers in a three-years Program. Here politics played an important role and the attitude of the IMF was influenced by the borrower country's 'relationship' with the major shareholders of the IMF.

Thirdly, Pakistan could not afford yet another era of low growth. As stated earlier, the average economic growth during the decade of 2008-18 has been merely 3.8 percent per annum. Going to the IMF again and pursuing the same 1980s vintage of Stabilization Policy would keep the pace of economic growth in the range of 3.5 – 4.0 percent with serious implications for job creation. Pakistan needed 'job-rich' growth which cannot be achieved through stabilization policy. The group of economists who advocated for Pakistan not seeking financial support from the IMF argued that it should pursue aggressive import compression policy including banning imports of certain non-essential goods for a year and a half to reduce current account deficit. Some actions on exports side were needed which included review of taxation policy in the organized sector with a view to relieving burden of taxation on private sector, aligning input prices with major competitors like India and Bangladesh to boost exports, releasing refunds to exporters to improve their liquidity position, and gradual adjustment of exchange rate, it needed, to make exporter competitive in international market. Some actions on improving the flow of remittances were required. Beside these policies the government should have gone to the international debt capital market to float Eurobonds, Islamic Bonds (Sukuk), Chinese bonds, non-resident Pakistani Bonds, exchangeable bonds etc. to mobilized foreign exchange to boost reserves. The government did not take this rout and decided to get the same aspirin tablet 22nd times from the IMF.

Pakistan has pursued stabilization policy with an exclusive focus on budget deficit reduction during the last one decade and hence paid a heavy price of slower economic growth, less job creation and human suffering. Going forward, Pakistan needed to pursue a forward looking macroeconomic policy which is not directed exclusively on budget deficit reduction. Rather, it needed to strike a balance between stabilization and developmental roles of macroeconomic policies instead of pursuing the same 1980s vintage of Stabilization Policy.

Pakistan has been in a low growth mode (3.8% p.a) during the last one decade which has taken the country into deficient demand mode which eventually caused deficient supply. Why should investors or producers invest or produce more when there is deficient demand? The long slump, on account of the type of macroeconomic policies that Pakistan pursued during the IMF Program period, has hurt the economy's productive capacity and hence lowered long-run growth prospects. What is required is a larger role of fiscal policy by boosting public investment as well as undertaking wide-ranging structural reforms and reducing cost of doing business, including trade costs, as a solution for boosting demand and economic growth.

As an alternative to going to the IMF for a balance of payments support, Pakistan should have pursued homegrown policy of curbing imports, promoting exports and remittances, floating sovereign bonds, attracting foreign direct investment and introducing wide-ranging structural reforms. Beside, Pakistan should have pursued forward looking macroeconomic policies with a larger role of fiscal policy which, in no way, advocates a lax fiscal policy or encourage fiscal indiscipline. Rather, it advocates for changing spending priorities. It is possible that in the short-run, budget deficit and public debt may increase but they will be sustainable. On the expenditure side, greater budgetary allocation should be made towards building human capital, that is, higher allocation to education, health, skill developments and social safety nets as well as higher allocation be made towards strengthening the country's physical infrastructure, that is, roads and highways, communication, energy, water, and port development etc. Such spending will enhance productivity of workforce and infrastructural developments will create jobs besides improving the country's investment climate. For the purpose of development, what matters is where and how fiscal deficit is being spent. Is it spent on building human capital that would improve productivity and hence growth? Is it spent on building or strengthening physical infrastructure that could contribute to promoting growth and employment generation? Is it spent to support the poorer segments of the society? If the answer is *yes*, Public debt, even though it is high and rising in the short-run, would be sustainable[13].

As long as fiscal deficit is being used to enhance debt carrying capacity of the country, higher and rising debt is not a burden to the economy. It is important to note that public debt does not contribute positively to growth contemporaneously, its contribution to growth comes with a lag, therefore, public debt-to-GDP ratio may rise in the short-run. What is important here is to give greater emphasis on quality and composition of expenditure, rather than on aggregate budget deficit and public debt. Pakistan needs to change its expenditure priorities to achieve the developmental goals of macroeconomic policy. Franklin D. Roosevelt, the US President, noted in his 1936 budget message that "the deficit of today…is making possible the surplus of tomorrow"[14].

Prioritization of expenditure is one element of the fiscal policy. The other element is the mobilization of domestic resources for which Pakistan needs to undertake tax system and tax administration reform, broaden the tax base, tighten regulation on tax heavens and improve efficiency of tax administration through training and retraining of its staff. Monetary policy – the other component of macroeconomic policy is already overstretched, as the central bank of the country has already raised the discount rate into double digit. What is required is easing of monetary policy with decline in inflation. The private sector can take advantage of low interest rate environment, provided auxiliary policies are in place. Such auxiliary policies include growth—critical reform where Pakistan has not done enough. China – Pakistan Economic Corridor (CPEC) is a great initiative. It has enormous potential to revive economic activity in Pakistan. Within CPEC, launching of nine Special Economic Zones (SEZs), have the potential for industrialization and export promotion. Four years have passed and Pakistan has not come out from the slogans of 'game changer' and 'fate changer'. Little efforts have thus far been made by Pakistan to take advantage of CPEC. Lethargic and non-serious attitude of the officers and bureaucracy have stalled this great initiative. Pakistan must get out of the power point presentation to policy making. Wasting of time is not an option for the country.

Let me conclude by saying that excessive focus on stabilization for a fairly long period of time has led to the neglect of the developmental role of macroeconomic policies. Accordingly, it has exacerbated the negative output and employment effects of external shocks. Thus, the macroeconomic policy of 1980s vintage as dictated by the IMF has caused undesirable consequences for Pakistan, that is, "stabilization traps" of low inflation with low growth or excessive growth volatility with serious implications for poverty, unemployment and economic security of the people. Pakistan is currently experiencing 'stabilization fatigue' and urgently needs breathing space for which prudent fiscal and monetary policy along with wide-ranging structural reforms is absolutely vital. Since we have decided to go to the IMF 22md time, prolongation of "Stabilization Trap" or "Stabilization Fatigue" will be the fate of the people of Pakistan.

Conclusion

By the time this book is printed, Pakistan must have gone back to the IMF for the 22nd times for a bailout package. How this Program is going to affect the economy and the people of Pakistan? Should the results of the 22nd Program will be different from the previous ones? What are the instruments that the IMF dictated 1980s vintage of stabilization policy would be implemented? How these instruments stabilize or destabilize the economy? What has been the performance of the last two programs during the period 2008-18? Was there any alternative to the IMF Program should Pakistan decided not to take this route again? These were the subject matter of this paper.

It goes without saying that the present government had inherited an economy which was truly in bad shape. Pakistan faced a serious balance of payments challenges by June 2018 when the current account deficit stood at all-time high of $19 billion or over 6.0 percent of GDP. With over $11.0 billion of debt servicing, Pakistan needed $30 billion in foreign exchange to stave of difficulties. Pakistan had two options – one going to the lender of the last resort (the IMF) for a balance of payment support and second, pursue a homegrown agenda of reforms and policies, that is, pursuing an aggressive import compression policy, undertake policies to promote exports and remittances, float several sovereign bonds in international debt capital market, float an exchangeable bonds – a form of privatization, take concrete steps to make CPEC an instrument of economic revival and lunch wide-ranging reforms in various sectors of the economy.

After months of debate within the Cabinet and in the Economic Advisory Committee of the Government, the government opted for an IMF bailout package which will be 22nd Program altogether and fifth since 2000. The IMF Program has always been a political program. The Program's approval, design and implementation are, by and large, influenced by the borrower country's relationship with the major shareholder of the IMF. If the relationship is cordial, the IMF would keep its eyes and ears closed and would be generous in giving waivers in case of failure to achieve quantitative targets. If the relationship is not cordial or tense, the design of the program would be painful and the implementation would be ruthless.

There are three key instruments of the 1980s vintage of the IMF Program – flexible/floating exchange rate policy, tight monetary and tight fiscal policy. These three instruments are designed to aggressively curtail aggregate demand as the IMF Stabilization Policy is nothing but demand management or austerity or anti-growth program. Pakistan has pursued such policies for over last one decade (2008-18). Such a prolonged use of demand destruction policy has suffocated the economy of Pakistan. The average real GDP growth during the last one decade has been merely 3.8 percent per annum. It has given rise to unemployment and most importantly youth and educated unemployment touched at dangerously high levels with serious consequences for national security.

Neither budget nor current account deficit reduced under the IMF Program. As such, Pakistan witnessed astronomical increase in public and external debt. Interest payment ballooned during the Program period and has consumed more than one-third of tax revenue. The outcomes of the two programs that were pursued during 2008-18 include low growth, higher unemployment; rise in poverty, budget and current account deficits; surge in public and external debt. In the case of Pakistan, IMF Stabilization program in fact, turned out to be a destabilization program.

Pakistan is now entering into the 22nd Program with IMF and 5th one since 2000. Three out of the four programs with IMF were fully completed since 2000. The last program (2013-16) was completed in September 2016 and was termed as "successful" indeed. Infact, the IMF launched its Report for the Year 2018 in Davos and was very upbeat on Pakistan. The Report said that "Pakistan can manage without the IMF support". It has all the praise for the then economic mangers of Pakistan.

Surprisingly, within two years of the "successful completion" of IMF Program in September 2016, we were told that Pakistan has no option but to go to the IMF once again. If a patient suffers a relapse so soon after remission, we have every right to question the authenticity of the clean bill of health given by the IMF in the first place. Since Pakistan is once again going to the fold of the IMF, it is legitimate to question the efficacy of the medicine given to the patient thus far. Will the same medicine prove to be effective 22nd time or will history repeat itself? As far as the so-called reform program under the IMF was concerned, it was again political. Whether a country implements the reform agenda or not, IMF in its quarterly review of the Program would use political language such as "Reform program is broadly on track".

Given the changed geo-strategic environment, Pakistan should have avoided going to the IMF. Few economists had suggested to the Government to avoid going to the IMF. Pakistan should learn to live without the IMF. These economists suggested an alternative to the IMF which include aggressive import compression policy for a year and half, take measures to promote exports and remittances, float sovereign bonds in the debt capital market to raise foreign exchange, float exchangeable bonds, pursue a forward looking macroeconomic policies, and implement wide-ranging structural reforms.

What is in store for Pakistan under the 22nd IMF Program? Slower economic growth in the range of 3.0-4.0 percent in the next three years will continue. The economy would fail to create enough jobs for the new entrants and hence the pool of unemployed, particularly youth and educated youth will keep on rising with all its social consequences. Both budget and current account deficits will widen, resulting in the rise of both public and external debt. Ill-conceived additional tax measures and policies pertaining to power and gas sector will put tremendous burden to poor and fixed income group. Prime Minister's 10 million jobs and 5 million low cost housing initiatives may not succeed under the high interest rate environment. The new IMF Program will create enormous challenges for the economy and given the lack of capacity to implement the program, it is feared that the new program may not see its successful completion.

NOTES

[1] US Treasury (1944).
[2] See Sandra (2013) and Iqwe (2018) for historical development of Bretton Woods System.
[3] The Components of US GDP identified as "Y" in equation form, include Consumption (C), Investment (I), Government Spending (G), and Net Exports (X-M). Y = C+I+G+(X-M) is the standard equational (expenditure) representation of GDP.
[4] *Ibid.*
[5] *Ibid.*
[6] See Pasha (2018) for a detailed discussion on Employment.
[7] *Ibid.*
[8] See Khan (2016).
[9] *Ibid.*
[10] Ishrat Hussain termed the decade of the 1990s as lost decade for Pakistan (see Khan (2016).
[11] (See Siddiqui et. al (2019) for a detailed discussion.
[12] I am thankful to Asif Qureshi for sharing his thoughts timely. For a detailed discussion on IMF Program, see Qureshi (2019).
[13] See ESCAP (2013) for a detailed discussion on this issue.
[14] *Ibid.*