The IMF Stabilization Program and Macroeconomic Analysis for Pakistan

Dr. Aneel Salman
Basit Ali

(2022)

Policy Paper, 2022

About the Authors

Dr. Aneel Salman is Behavioral Economist from the Rensselaer Polytechnic Institute in Troy, New York, USA. Currently he is the Chair Economic Security at Islamabad Policy Research Institute-IPRI. His areas of research expertise include climate change, behavioral, energy and development economics, institutional governance, international trade, and public policy.

Basit Ali is a Research Assistant at Islamabad Policy Research Institute (IPRI) and a Post Graduate Economist from COMSATS University Islamabad. His areas of expertise is in Macroeconomics, Economic Security, Environmental Economics, and International Economics.

Acknowledgement

We thank **Dr. Muhammad Iftikhar ul Husnain**, Associate Professor, Department of Economics, COMSATS University Islamabad and **Sheraz Ahmed Choudhary**, Economist at University of Sussex UK.

About IPRI

The Islamabad Policy Research Institute (IPRI) is one of the oldest non-partisan think tanks on all facets of National Security**,** including international relations & law fare, strategic studies, governance & public policy, and economic security in Pakistan.

Table of Contents

List of Tables

List of Figures

Abstract

In Pakistan, some issues that always have been controversial but always under discussion, IMF is one of them. The history of IMF arrangements in Pakistan is long and unfortunate one: no less than 22 programs are concluded since the start of the IMF-supported program. Most of these programs were designed to prevent monetary collapse and financial instability, which at times threatened to turn into hyperinflation. However, little progress has been made on structural adjustment. This paper evaluates the impact of IMF programs and other policy variables on key macroeconomic indicators such as current account deficit, unemployment, GDP growth and inflation rate using annual data from 1980 to 2020. The Ordinary Least Square (OLS) regression technique was applied to evaluate these relationships. Based on the results obtained, IMF programs led to the economic growth but at a slower pace. The trajectory of Pakistan's economy is not satisfactory leading to low growth rate and the unemployment and inflation rate will increase. The government has taken many measures to reduce the fiscal deficit, but it is continuously increasing, which would create more debt burden for the country. It is prudent not to go for IMF program further as Pakistan is already facing massive debt crisis due to its involvement in CPEC loans and other international commitments.

Keywords: IMF programs, Economic Growth, Macroeconomic Indicators, Current Account, Pakistan

1. Introduction

The World Bank and IMF are the two International Financial Institutions (IFIs) which are controlled by international authorities. The main goal of these institutions is to protect the integrity of their global currency system, coordinate international macroeconomic policy, and provide financial assistance to communities in disasters prone areas. The implementation of these policies are not seen but have been a part of their vision since the beginning. Countries are struggling to stabilize but fail due to lack of effective policies. So, such countries need help from these institutions in order to maintain a faster growth rate compared to other countries in the world (Lang 2021).

In its reformist and market-friendly approach, the IMF has adopted a three-pronged approach to its program. The first involves stabilizing the external finances of countries with serious balance of payment deficits. This is achieved through restoring confidence in the local currency by backing it with foreign exchange reserves and requiring high interest rates that deter capital outflows. The second uses measures to restrain demand to achieve sustainability in external debt payments. The third involves implementing structural reforms that would prevent another crisis from occurring again (Chang 2020)

Pakistan has a long history with the International Monetary Fund. Pakistan became its member on July 11, 1950. IMF advanced its first loan to Pakistan in 1958. Over time the funding patterns changed; after being hit by the debt crisis and oil prices external shock right after 1980's Pakistan went into the policy reform programs of IMF. From its first disbursement in 1958 until the most recent package in 1998, Pakistan has received 22 loans from the IMF. It all started in 1958 when General Ayub Khan signed a secured special drawing right (SDR) by signing a standby agreement. That is when Pakistan began its journey with IMF. After Ayub, the next client for the program was Zulfikar Ali Bhutto. It was in his regime that Pakistan went up to IMF most times from 1972 to 1977 (Suleri and Ahmed 2018). During Zia ul Haq regime, Pakistan signed two IMF agreements, which kept the country on edge in terms of financial stability.

Pakistan has always been an unstable economy, especially during the democratic regimes. The instability is mainly due to frequent political changes and economic policies, which have caused economic crises as well. As shown in the figure 1 below, during the Nawaz and Bhutto regimes, Pakistan went to IMF up to eight times from 1988 to 1997, five times under Pakistan People's Party and three times under Pakistan Muslim League Nawaz. During General Pervez Musharraf, two IMF agreements were signed in nine years of tenure. Later in 2008, Pakistan People's Party targeted the highest budget program in the history of IMF and started working on the reforms. There was a tussle going between a strict fiscal and monetary policy with other structural reforms. However, with all the measures taken, the economy was still working to its potential. Then in 2013, the second-highest loan was taken under usual factors like agriculture sector not having enough support from private investors.[1]

[1] https://tribune.com.pk/article/81864/22-loans-in-61-years-pakistans-unwavering-habit-of-going-to-the-imf

Table 1 Regime wise break down of IMF loan programs

Govt.	Facility	Date	Expiration Date	Agreed Amount SDR (M)	Amount Drawn SDR (M)	Amount Outstanding
PML-N	Extended Fund Facility	Sep 04, 2013	Sep 30, 2016	4,393,000	4,393,000	4,273,000
PPP	Stand by Arrangement	Nov 24, 2008	Sep 30, 2011	7,235,900	4,936,035	0
Musharraf	Extended Credit Facility	Dec 06,2001	Dec 05, 2004	1,033,700	861,420	0
Musharraf	Stand by Arrangement	Nov 29. 2000	Sep 30, 2001	465,000	465,000	0
PML-N	Extended Fund Facility	Oct 20,1997	Oct 19, 2000	454,920	113,740	0
PML-N	Extended Fund Facility	Oct 20,1997	Oct 19, 2000	682,380	265,370	0
PPP	Stand by Arrangement	Dec 13,1995	Sep 30, 1997	562,590	294,690	0
PPP	Extended Credit Facility	Feb 22, 1994	Dec 13, 1995	606,600	172,200	0
PPP	Extended Fund Facility	Feb 22, 1994	Dec 04, 1995	379,100	123,200	0
PML-N	Stand by Arrangement	Sep 16, 1993	Feb 22, 1994	265,400	88,000	0
PPP	Structural Adjustment Facility	Dec 28, 1998	Dec 27,1991	382,410	382,410	0
PPP	Stand by Arrangement	Dec 28, 1998	Nov 30, 1990	273,150	194,480	0
Zia	Extended fund Facility	Dec 02, 1981	Nov 23, 1983	919,000	730,000	0
Zia	Extended Fund Facility	Nov 24, 1980	Dec 01, 1981	1,268,000	349,000	0
PPP	Stand by Arrangement	Mar 09, 1978	Mar 08, 1978	80,000	80,000	0
PPP	Stand by Arrangement	Nov 11, 1974	Nov 10, 1975	75,000	75,000	0
PPP	Stand by Arrangement	Aug 11, 1973	Aug 10, 1974	75,000	75,000	0
PPP	Stand by Arrangement	May 18, 1972	May 17,1973	100,000	84,000	0
Ayub	Stand by Arrangement	Oct 17, 1968	Oct 16, 1969	75,000	75,000	0
Ayub	Stand by Arrangement	Mar 16, 1965	Mar 15, 1966	37,500	37,500	0
Ayub	Stand by Arrangement	Dec 08, 1958	Sep 22, 1959	25,000	0	0
	Total	**19,388,650**	**13,795,045**	**4,273,000**	**13,795,045**	**4,273,000**

Source: www.img.org

The implications of reforms were weak adding delayed economic actions and growth. As shown below, the highest percentage 47% of loans were taken by Pakistan People's Party, then 35% by the PML Nawaz and then 18% by other military governments in Pakistan's history. The economy was fragile and COVID-19 acted as a catalyst during Imran Khan's regime. The government reluctantly started its bail-out package talks, launched bonds, and other stabilization packages. But as the last resort, in 2019 a loan of US$ 1 Billion was signed with conditionalities like removal of subsidies on fuel, restoration of taxes, ending circular debt, increase in power tariffs, balanced budget (decreasing development budget).

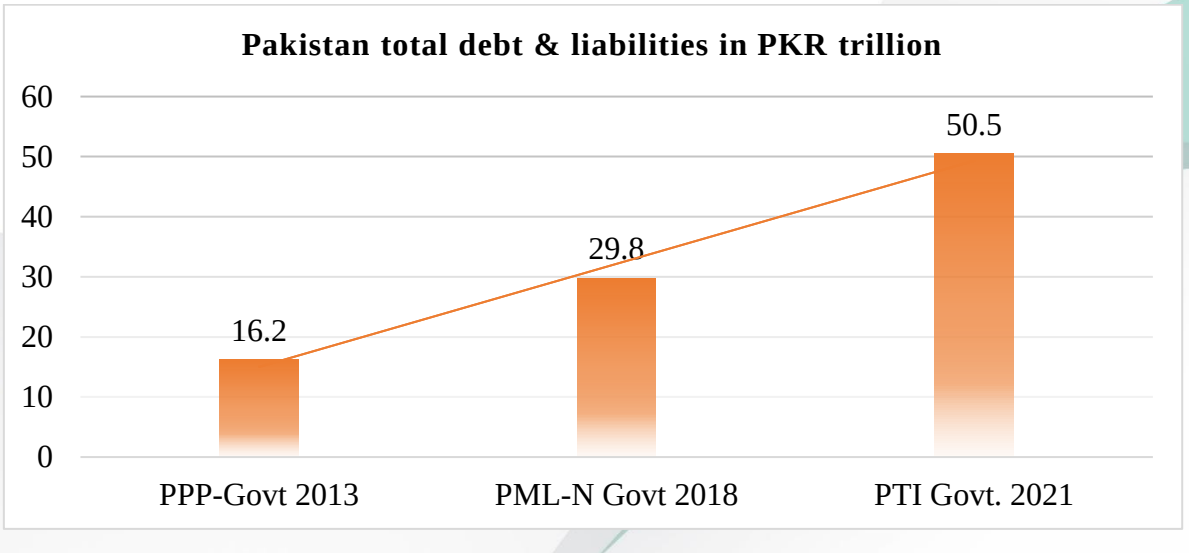

Figure 1: Share of loan borrowed under each regime

The current government (PDM) planned to honor all the commitments of previous government (Imran Khan) made with the IMF. The International Monetary Fund's executive board approved nearly $1.2 billion for Pakistan on August 2022, providing much-needed relief as the nation struggled with economic crisis further worsen by enormous floods. Extended Fund Facility major objective was to improve the primary balance in order to guarantee fiscal sustainability, firmly establish macroeconomic stability, and increase resilience. In order to accomplish this, an effective, efficient, and equitable tax policy and administrative reforms to be implemented, with the medium-term objective of increasing tax revenue by 3–4 percentage points of GDP. Despite a tighter fiscal policy, inflation has reduced the purchasing power of local currency, public debt is expected to decrease by almost 7 percentage points of GDP to 72.1 per cent of GDP at the end of FY23. This comes after the debt-to-GDP ratio increased from 77.9% at the end of FY21 to 78.9% at the end of FY22 because of the significant fiscal deficit and a declining exchange rate despite low real effective interest rates[2].

The deficit condition of Pakistan is severely burdened, as shown in figure 2 below.

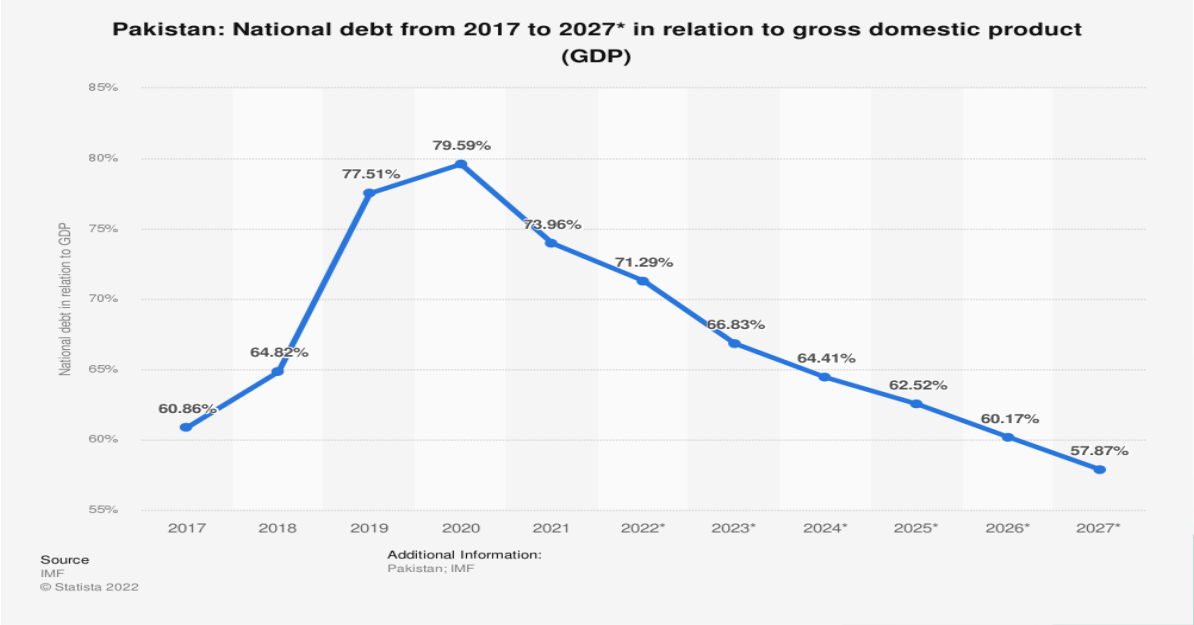

Figure 2: Debt to GDP Ratio

Source: TradingEconomics.com

[2] 2022,https://www.imf.org/en/Publications/CR/Issues/2022/09/01/Pakistan-Seventh-and-Eighth-Reviews-of-the-Extended-Arrangement-under-the-Extended-Fund-522800.

The average rate of debt to GDP in the case of Pakistan on average remained at 70.71 percent since 1994. Since 2000 the debt has risen to 87.90 percent. During the period (2007), it remained low, which was 56.40 percent. The graph shows an increasing trend in debt to GDP ratio from 2015 onwards, which means that the debt has been soaring so far, which is alarming for the economic growth in Pakistan.

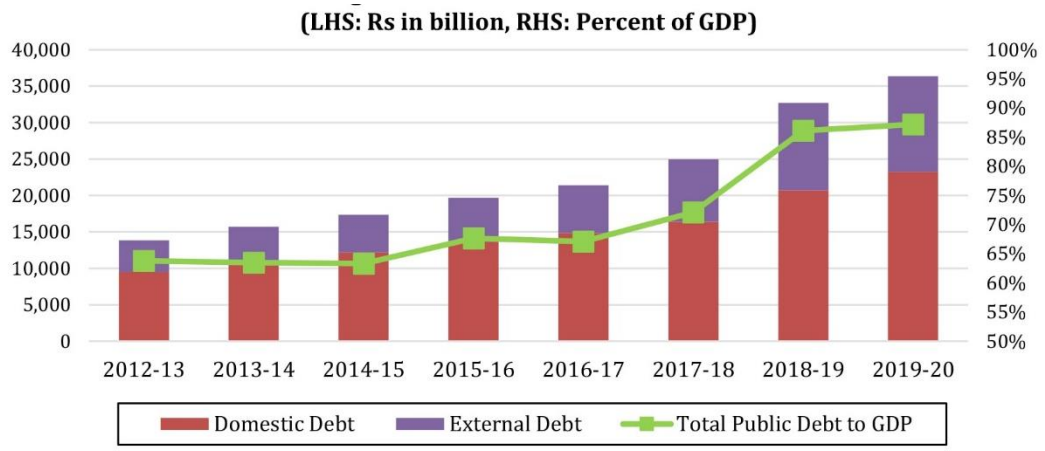

Figure 3: Total Debt

Source: Ministry of Finance

Figure 3 shows the total external debt for Pakistan from the year 2012 to 2020. The total external debt for Pakistan has been increasing over the period. It has never shown a decreasing trend because of inappropriate policy measures. One reason behind the never-ending debt is inflation. Inflation has been two digits for so long, it has decreased the savings and reduced the real value of income. These inflationary pressures have opened for higher interest rate increases and even capital controls, which hurt global credit conditions further.

During global pandemic COVID-19, Pakistan's administration was able to gather extra external funding to facilitate the weak and vulnerable segments, securing the fiscal capacity of the state through a couple of measures. Through the economic reform program supported by the IMF in March 2020 many health-related decisions were taken, a wide amount of temporary fiscal stimulus was gathered, and support for the monetary policy and financial initiatives targets were achieved. The government has been able to target growth and sustain it through Ehsaas Emergency Cash Program, while the State Bank of Pakistan was able to enhance the liquidity and credit conditions and safeguard the financial stability of the people (Khan and Hassan 2021).

1.1 Pakistan's Main Macro-Critical Imbalances

- Ballooning public deficits and losses in state owned companies, in a context of perennial low tax revenues and base.
- Increasing government borrowing—both domestic and international, a high and unsustainable debt level and interest payments (25 percent of the government revenue).
- Increase in trade deficit, reflecting high deficit, and keeping the exchange rate constant.

- Loose monetary policy, decline in SBP's reserves to finance increasing imports, and despite extra funding.
- Inflation increase, growth skewed toward consumption, competitive loss, low investment and job creation.

1.2 Challenges for the Present Government

- Political uncertainty is overlapping with economic uncertainty without the reform agenda.
- Time and space for policy interventions is very limited with high expectations.
- Negotiations with IMF when the political cycle is about to complete.
- The continuous increase in prices which government is subsidizing at the cost of future prices, which will be much higher.
- The conditionalities imposed by IMF, removal of subsidies on fuel, restoration of taxes, ending circular debt, increase in power tariffs, balanced budget (decreasing development budget).

2. Literature Review

Pakistan has a long history with IMF, gives a detailed analysis on these funding programs and their effects on macroeconomic indicators. There is limited literature available to assess the IMF impact, especially policy wise.

There are divergent views available on the stabilization policies of IMF. Bagci and Perraudin (1997), Schadler et al (1993) and Khan and Knight (1981) (1985) concluded that these programs improve the balance of payment of the country, while Loxeley (1984), Connors (1979) and Moran (1989) stated that there is no effect on the balance of payment from these programs.

As balance of payment is a crucial variable, many studies focused on it. Iqbal (1994) explored that fund programs had negative effect on the output, insignificant exports, and increased inflation, also exports remained low. Kiguel and Livation (1992) focused on two different approaches adopted by the programs. One that uses exchange rate as fixing tool and load to a trough and crust of the economic wave while second demand in the money supply side where with less inflation there is a sign of recession in the economy. For the countries like Hungary, Romania, Poland and Bulgaria by implementing the IMF program they faced a decline in their output. Moreover, Cukierman and Liviation (1992) pointed out that credibility can be affected by the productivity of the policy makers. Better and strong policy makers tend to tackle inflation in a better way that has different effects rather weak one that may lead to different outcome. Uribe (1999) also found that exchange rate related approach leads to expansionary policy and money supply-based approach leads to demand contraction policy. Khan and Knight (1981) suggest that in the short run the results are undesirable for the output and employment if strategy deals with balance of payments with deflation. Ball and Sheridan (2003) showed that growth is not guaranteed while working over the inflation. Regional factors, political and monetary factors, and global factors are beyond the control of any government and these factors cripple a country's economic progress (Hutchison 2001)

Baqir et al (2003) worked on the programed growth and actual growth deviation, found negative relationship between current account and growth. Stiglitz (2000) states that policies adopted by the IMF usually turn into recessions, depressions, and slowdowns. During the decade of 80s, Pakistan had economic boom. However, after facing some economic tough times during 90s, its economy fell into a recessionary period. With reduced investments and the flawed implementation of economic policies, Pakistan's face high poverty, unemployment and inflation.

Ahmad (1998) analyzed that there is a difference in effects of fiscal and non-fiscal on growth. Moreover, any program can play its role depending upon the order of policy reforms that is being adopted. It is the sequencing of the policy that is effective. Developed nations are more tuned to make trade liberalization reforms that allows them to integrate well while developing nations should focus on the strengthening of institutions, money and fiscal reforms rather trade or capital reforms. Ivanova (2003) brings forward that any funded programs implementation would depend on its political stability, interest groups and ethnic divisions of the country. The stronger the political stability is the better implementation. Stiglitz (2002) highlighted a very crucial insight, stating force policy implementation before having a proper set up would make situation even worse such as not having a proper regulatory privatization before liberalization and not having enough competition before privatization would lead to mismanagement and confusion. Such things where there is more of job destruction rather having job creation in a country would lead to serious backward shift.

The funding of programs has its own implications and outcome. The implementation of policies may be delayed by lack of political support, interest groups can be the reasons. In addition macroeconomic instabilities play a critical role in the appropriate implementation of policies which are evident in some countries such as Egypt (Richards, 1991). Moreover, Pakistan could not reap the benefit from the IMF since 1988 due to many external and internal developments and shocks that would deviate the economy moving towards its targeted objectives. Kemal (1994) said the Gini coefficient raised from 0.34 to 0.41 and poor population increased from 13% to 14% in 1987 to 1991. Increasing the interest rates to commodity prices added more burden on government and such slow decision only added to the poor decision-making situation in Pakistan. The effects of the program have been severe Zaidi (2000), especially for the poor masses facing low purchasing power, unemployment, low wage rate and inequality. Leading to higher commodity prices and slower growth rate. Hussain (2002) comprehended a case study on why countries opt for IMF and the lessons for it. Countries that have accessed IMF facilities have been through several problems. Some of these problems have prompted to make reforms in the policy framework so as to increase productivity, employment and growth rate. Pakistan's economic future is uncertain and fraught with difficulty. The country faces a range of macroeconomic trends, including downward GDP growth and limited foreign investment. IMF programs have attempted to address these problems, but have produced only limited gains for the country overall (Hyder 2012). Hasan et al (2013) examined the IMF programs effects on inflation output tradeoff finding that IMF do not influence inflation output trade off in short run but in the long run it effects the sacrifice ratio.

(Majid, A. 2019) examined the impact of IMF and other external loans on Pakistan in the short run (within one year) and long run. The results showed that IMF's loan program not only

improves Pakistan's balance of payments situation, but also helps reduce inflation, interest rates, and public debt-GDP ratio. IMF impact on government education spending was a central focus of Stubbs et al (2020), which explored the impacts of IMF programs on education. The study found that IMF programs had a negative and statistically significant effect on government spending in developed economies, but a positive and statistically significant effect for developing economies.

3. Data and Methodology

The study used annual time series data from 1980-2020 and examined the impact on various macroeconomic variables (real gross domestic product, inflation rate, current account balance and unemployment). The research methodology includes OLS regression analysis and simple statistical techniques for interpreting the results. Table 2 shows the details of variables.

Table 2: Details of Variables

Variables time (1980-2020)	**Symbol**	**Measurement**	**Data source**
Variables			
Current Account Deficit	CA	Percentage of GDP	WDI
Domestic Credit	DC	Percentage of GDP	WDI
Fiscal Deficit	FD	Percentage of GDP	WDI
Gross Domestic Product	GDP	Percentage	WDI
Inflation Rate	INF	Percentage	WDI
Interest Rate	INR	Percentage	WDI
Real Effective Exchange Rate	REER	Percentage	WDI
Term of Trade (ToT)	TOT	PKR	WDI
Unemployment	UNEMP	Percentage	WDI

Source: Author

The study aims to analyze the effects of the IMF program on the macroeconomic variables for Pakistan's economy. For the purpose, the following econometric model was utilized:

$$Y_i = \beta_1 + \beta_2 x_i + \beta_3 w_i + \beta^{IMF} d + \varepsilon_i \dots\dots (1)$$

Where Yi is the dependent variable which is the combination of macroeconomic variables such as (i = current account balance, economic growth, inflation rate and unemployment), Xi is a vector of policy instruments (exchange rate, fiscal deficit, domestic credit, inflation rate), W is exogenous variables (e.g., Term of trade, international interest rates), d is an IMF dummy variable to see the effect of years when Pakistan went to IMF and for years when it did not, and E is the error term. Following the work of Hakro and Ahmed (2006), where worked with previous years' timelines. To start with the statistical analysis for the time series the Augmented Dickey Fuller Unit Root Test was implied where all variables were found stationary on first difference, followed by OLS regression technique was used. Table 1 shows the results of the model estimated.

4. Results Analysis

The target variables taken in the study were selected based on the very thought of how any stabilization policy has been designed. Keeping in mind their goals such as sustained growth rate, stable and lesser inflation rate, more employment opportunities and balance of payment surplus. Keeping in view, GDP, unemployment and inflation rate are chosen as the target variable to assess the effects of IMF programs. Moreover, according to the IMF methodology, it is their job to correct balance of payment issues of a member country; therefore, fiscal deficit and current account balance are chosen to be assessed by the policy and exogenous variables.

4.1. Augmented Dickey-Fuller (ADF) Unit Root Test

To assess the impact of stabilization program, ADF test was applied to investigate the unit root properties of selected variables. The result shows that all the variables are stationary on first difference. Using this information, it led us to use the OLS regression.

Table 3: Augmented Dickey-Fuller (ADF) Unit Root Test Results

	Level	First Difference	
Variables Name	**Value**	**Value**	**Decision**
Current Account	0.763 (0.346)	-2.873** (0.057)	I(1)
Domestic Credit	0.875 (0.785)	-5.308* (0.000)	I(1)
Fiscal Deficit	-0.296 (0.916)	-6.849* (0.000)	I(1)
Gross Domestic Product	-0.593 (0.713)	-3.608* (0.009)	I(1)
Inflation Rate	0.934 (0.392)	-3.025** (0.041)	I(1)
Interest Rate	-1.972 (0.297)	-4.774* (0.000)	I(1)
Real Effective Exchange Rate	-1.863 (0.345)	-6.041* (0.000)	I(1)
Term of Trade (ToT)	-1.51 (0.515)	-5.769* (0.000)	I(1)
Unemployment	-2.103 (0.244)	-6.234 (0.000)	I(1)

*The *, **, *** shows the 1%, 5% and 10% level of significance respectively*
Source: Author's own calculations

4.1. The Current Account Balance

Model 1 is based on the current account balance for the economy; the real effective exchange rate has insignificant effect on the existing account which is mainly because of the inelastic demand of export. However high exchange rate has substantial outcome in the depreciation of the currency making the imports prices high. A negative relationship has been investigated between current account and domestic credit. We find that a one percent increase in domestic credit causes the current account to decrease by 29 percent. This suggests that capital inflows are an important channel of contagion between banking and current account crises. Similarly, one percent increase in interest rate causes to decrease the current account by 10 percent which

is significant at 5 percent level of significance. The IMF stabilization program has significant impact on current account. In the presence of IMF program there is decrease of 1.77 percent of current account.

The overall results shown in table 2 shows that the IMF program has not much added on but only deteriorated the current account balance. There is need for correcting the balance of payment imbalances through reduced import tariffs and more liberalization of the economy, giving chance to the domestic industries to compete with the foreign competitors. There is a need to expand and diversify the export portfolio that would enhance the consumer demand nationally and internationally. Due to devaluation of rupee the efforts to create demand for exports and less demand of imports have failed.

4.4. Unemployment

The IMF's stabilization programs have been ineffective in alleviating the situation of unemployment in Pakistan. The result clearly shows the worsened employment rate in Pakistan during 2010-2022 supported by IMF programs. A 4.65% of employment rate in 2020 is caused by several factors. As the stabilizing programs focus on cutting the expenditure side of the economy while building up the expenditure side would allow economic activity into play where more opportunities would be produced, and job creation would increase. Moreover, reducing the employment cost by limiting income wages below inflation adds to further increase in unemployment rate. There have been bans on recruiting labor up to a certain point, early retirements were promoted and other cost-effective measures to minimize involvement of labour in economy.

4.2. GDP Growth

The result of model 3 deals with economic growth, it is seen that the IMF programs have not caused much of economic growth. The policy instrument variables seem to have significant negative impact on growth as interest which is significant at 1% while domestic credit has also has positively added to the economic growth. This result adds to the existing body of knowledge on the state of Pakistan's economy. The results indicate that Pakistan has not much competitive status for its exports and have inelastic demand that has not added much to the growth of the economy. Similarly, the rise in the prices and inflation rate further burdened the economy reducing the purchasing power of people, thereby decreasing the standard of living for most parts of its territory.

Pakistan faced tough economic conditions in the recent months since it came out of its balance of payment crisis. Although the country had managed to secure a reasonable number of foreign inflows under these circumstances, it had become increasingly imperative to control inflationary pressures by keeping monetary policy tight. The results from this study show that Pakistan was moving on a better growth track before entering a stabilizing program with IMF. One of the downsides of going for an IMF program is adopting contractionary policy where price mechanism is fixed and stable. Moreover, balance of payment requirements as well as

budgetary corrective measures were achieved at the expense of achieving economic growth. Another factor coming into play in the slowdown of economic activities are import prices hikes due to which productivity and efficiency of economic activities are adversely affected causing further slowdown in economic activities. When import prices increase domestically, they put pressure on domestic price levels causing further slowdown as well.

Table 4: Result Analysis

	Model 1	Model 2	Model 3	Model 4
	CA	UNEMP	GDP	INF
REER	-6.91 (6.29)	-0.71 (3.02)	-6.97 (4.94)	0.24 (0.57)
DC	-29.02 (9.72)*	-2.52 (1.30)***	19.59 (7.64)**	0.54 (0.89)
TOT	14.47 (5.93)**	3.11 (0.79)	2.48 (4.66)	-1.47 (0.54)**
IR	-10.03 (4.13)**	-0.52 (0.55)	-10.08 (3.24)*	0.41 (0.37)
IMF	-1.77 (0.79)**	-0.09 (0.10)	-0.22 (0.62)	0.19 (0.07)**
FD	-3.58 (4.10)	0.18 (0.55)	5.20 (3.22)	0.35 (0.37)
C	37.57 (22.49)***	-0.08 (3.02)	-5.66 (17.67)	1.69 (2.06)
R2	0.64	0.60	0.52	0.44
F-Stats.	6.92	5.96	4.23	5.04

*The *, **, *** shows the 1%, 5% and 10% level of significance respectively*
Source: Author's own calculations

4.3. Inflation rate

Model 4 deals with the macro variable's effect on the inflation rate. It is seen that exogenous shocks and other policy variable have no significant effect on the rate of inflation. The IMF and term of trade variables are significant at 5% which means it too have slight say in the inflation in the country. In Pakistan, the main cause of inflation is due to the rise of input prices and devaluation of currency mostly the policies adopted due to the incorporating IMF reforms causes the cost push inflation. The financial institutions say about the devaluation of the currency that they are overvalued so it is preferred that currency is depreciated for the developing countries. Better sequencing of policies is required to reap full benefits from these policies.

5. Conclusion and recommendations

The paper critically evaluates different macroeconomic outcomes in Pakistan after adoption of IMF programs. This study examines the effect of stabilization programs on macroeconomic variables such as GDP growth, inflation, current account balance and unemployment.

The IMF program may have helped Pakistan in terms of achieving economic growth, but there are other factors that needs to be taken into consideration. The reports by the IMF showed that that Pakistan has enjoyed economic growth. However, this is the case in short term only while in long run according to our research the growth of the economy had deteriorated, there was a rise in unemployment, and measures like immediate trade liberalization led domestic plants to be closed, while the devaluation of the currency resulted in a massive increase in import prices. Pakistan is currently facing a tough economy where fuel prices are increasing day by day, and there are very few options to make any difference. The main reason behind Pakistan's weak economy is our imported goods which have affected the domestic market price and forced it to rise. It makes it hard for us to compete in the international markets. The newly decided contractionary monetary policy and cuts in public expenditure under the 23rd IMF program have caused the economy to barely experience any growth.

The paper suggests that Pakistan should not go to the IMF program in the future. It is worth noting here that Pakistan had already been involved in the IMF programs for too long now. Pakistani government should rather focus on rebuilding its economy on sustainable grounds through better planning and policies by increasing GDP growth rate with innovative technology, productive investment and exports as well as reducing unemployment rate. To reduce the trade deficit, the government should adopt policies that encourage production and imports for consumption rather than for capital formation. One way to do this is to control exchange rates. The government should also invest in other sources of energy that are not as dependent on imports. Making land property and agriculture income tax mandatory will help increase federal revenues as well as curb the misuse of agricultural subsidies by rich farmers. Also, we should adopt policies that encourage investments by making our economy friendlier for foreign capital (such as privatization).

5.1 Important highlights

- The Real Effective Exchange Rate (REER has insignificant effect on the existing account which is mainly because of the inelastic export's demand. A negative relationship has been investigated between current account and domestic credit.
- A 4.65% of employment rate in 2020 is caused by several factors. As the stabilizing programs focus on cutting the expenditure side of the economy while building up the expenditure side would allow economic activity into play where more opportunities would be produced, and job creation would increase.
- The results from this study show that Pakistan was moving on a better growth track before entering a stabilizing program with IMF.
- In Pakistan, the main cause of inflation is due to the rise of input prices and devaluation of currency mostly the policies adopted due to the incorporating IMF reforms causes the cost push inflation.

5.2 Way Forward

- The IMF is making assessment of the flood damage and may agree to direct assistance from its concessionary window for disasters and emergencies. But it did not compromise on conditionality then, nor is it likely to do now, like it did during COVID-19 pandemic.
- With a priority focus, the government, as the finance minister has already indicated, must sit with the IMF for a relief in the ongoing program. Revenue targets need to be adjusted due to floods. As floods have washed out about 10 percent of the GDP, the revenue targets must be cut accordingly, from Rs 7,470 billion to Rs 6,723billion. Slashing revenue targets from petroleum levy and electricity price hike can significantly ease out inflationary pressure.
- Investments ought to be steered towards productive sectors of the economy, such as the manufacturing sector. It will help boost the exports and help Pakistan overcome balance of payment crisis. Special Economic Zones can be the best sites for investment.
- The factors responsible for trade deficit are mostly domestic in nature. Pakistan has got one of the lowest tax-to-GDP ratio in the world. Unless government increases the tax collection, Pakistan would keep borrowing from IMF.
- Pakistan will incur a loss of 6-7 Billion if levy is not implemented. However, this is not a tax revenue rather non-tax revenue. Therefore, it may be compensated from another head instead of putting the people under more pressure.
- All governments have failed to reform, with the result that the structure of the economy is in a shambles. IMF program is for stability not for sustainability. Structural reforms are committed but never fulfilled.

References

Ahmad, Mushtaq, 1998, “Fiscal adjustment: trade-offs of macro-economic goals and recent policy reforms in Pakistan”. The Pakistan Development Review, 37:4.

Bagci, P., and W. Peraudin, 1997, “Do IMF Programs Work?” Global Economic Institutions (Working Paper, 1997).

Ball, Laureence and Sheridan, Niamh, 2003, “Does inflation targeting matters?” International Monetary Fund (Working Paper/2003/129).

Baqir, Reza, Ramcharan, Rodney and Sahay, Ratna, 2003, “IMF program design and growth: what is the link?” International Monetary Fund (Working Paper).

Chang, Ha-Joon, and Amir Lebdioui. "From fiscal stabilization to economic diversification." Helsinki, Finlande: Institut mondial de recherche sur l’économie du développement de l’Université des Nations Unies (2020).

Connor, T., 1979, “The apparent effects of recent IMF stabilization programs”. International Finance Discussion Paper 135, Board of Governors of Federal Reserve System.

Cukierman, Alex and Liviatan, Nissan, 1992, “The dynamics of optimal gradual stabilization”. The World Bank Economic Review, Vol. 6, No. 3.

Hakro, N. A., & Ahmed, W. W. (2006). IMF Stabilization Programs, Policy Conduct and Macroeconomic Outcomes: A Case Study of Pakistan. Lahore Journal of Economics, 11(1).

Hasan, I., Ramzan, M., & Ahmed, M. (2013). Impact of Imf Programme on Sacrifice Ratio in Pakistan. World Applied Sciences Journal, 23(9), 1135-1139.

Husain, I. (2002, July). Pakistan and the IMF: 1988-2002 A case study. In International Expert Workshop organised by the German Foundation for Development, Berlin (pp. 1-2).

Hutchison, Michel M., 2001, “A cure worse than a disease? Currency crises and the output cost of the IMF adjustment programs”. Department of Economics, Social sciences 1, University of California, Santa Cruz.

Hyder, S. N. (2012). IMF Stand-by Arrangent for Pakistan and its inclusive end-what went wrong?

Iqbal, Zafar, 1994, “Macroeconomic effects of adjustment lending in Pakistan”. The Pakistan Development Review, 33:4.

Ivanova, Anna, Mayer, Wolfgang, Mourmouras, Alex and Anayiots, George, 2003, “What determines the implementation of IMF-supported programs?” International Monetary Fund (Working paper 2003/08).

Kemal, A.R., 2003, “Structural adjustment and poverty in Pakistan”. MIMAP Technical Paper Series No. 14. Pakistan Institute of Development Economics, Islamabad.

Khan, Ashfaque Hasan. "COVID-19 AND PAKISTAN'S ECONOMY CHALLENGES AND WAY FORWARD." Strategic Thought 3, no. 1 (2021): 25-50.

Khan, Mohsin S. and Knight, Malcolm, 1985, "Fund-supported programs and economic growth". International Monetary Fund, Occasional Paper 41.

Khan, Mohsin S. and Knight, Malcolm. D., 1981, "Stabilization programs in developing countries: A formal framework". International Monetary Fund Staff Papers.

Khan, Mohsin S., 1986, "Macroeconomic adjustment in developing countries: A Policy Perspective". World Bank Discussion Paper- Development Policy Issues Series.

Khan, Mohsin S., 1990, "The macroeconomic effects of fund-supported adjustment programs". International Monetary Fund Staff Papers, June.

Khilji, Nasir M. and Leon, Jean Claude, 1989, "Output effects of stabilization policies: the case of Pakistan". The Pakistan Development Review, 28:4.

Kiguel, Miguel A. and Liviatan, Nissan, 1992, "The business cycle associated with exchange rate-based stabilizations". The World Bank Economic Review, Vol. 6, No. 2.

Lang, Valentin. "The economics of the democratic deficit: The effect of IMF programs on inequality." The Review of International Organizations 16, no. 3 (2021): 599-623.

Loxley, J., 1984, The IMF and poorest countries, Ottawa, Canada: NorthSouth Institute.

Majid, A. (2019). Impact of IMF loan on Pakistan's economy: In long run and short run.

Moran, Christian, 1989, "Economic stabilization and structural transformation: lessons from the Chilean experience, 1973-87". World Development, Vol. 17, No. 4.

Richard, Alan, 1991, "The political economy of dilatory reform: Egypt in 1980's". World Development, Vol. 19, No. 12.

Schadler, S. et.al., 1993, "Economic adjustment in low income countriesexperience under the enhanced structural adjustment facility". International Monetary Fund. Occasional paper 106.

Stiglitz, Joseph, 2000, "Capital market liberalization, economic growth and instability". World Development.

Stiglitz, Joseph, 2002, Globalization and its discontents, Penguin Books, London.

Stubbs, T., Reinsberg, B., Kentikelenis, A., & King, L. (2020). How to evaluate the effects of IMF conditionality. The Review of International Organizations, 15(1), 29-73.

Suleri, Abid Q., and Vaqar Ahmed. "Contours of a programme with IMF: Choosing between approaching or not approaching IMF." (2018).

Uribe, Martin, 1999, "Comparing the welfare costs and initial dynamics of alternative inflation stabilization policies". Journal of Development Economics, Vol. 59.

Zaidi, S. Akbar, 2000, Issues in Pakistan's Economy: Oxford University Press (Karachi).