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ROLE OF IMF PROGRAMS IN STABILIZATION OF PAKISTAN'S ECONOMY

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ABSTRACT: *The objective of this research paper was to analyze the "Role of IMF programs in the Stabilization of Pakistan's Economy" during 1997-2016. For this purpose, we collected secondary data from Pakistan's economy survey, World Bank, IMF, Asian Development Bank. We selected eleven variables for our study. The GDP growth rate was taken as a dependent variable while, tax revenue as percentage of GDP, inflation rate, unemployment rate, budget deficit, official exchange rate, current account as percentage of GDP, exports, imports, and trade deficit as percentage of GDP, and external debt were taken as independent variables. We used trend analysis and ratio analysis techniques to analyze the data. The findings of this study show that the role of IMF-programs in stabilization of Pakistan's economy couldn't achieve desirable results.*

Key words: IMF programs, Budget deficit, exchange rate. External debt, GDP.

Type of study: ***Original Research paper***

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1. INTRODUCTION:

1.1 Background of the Study:

The International Monetary Fund (IMF) was established in July 1944with 45 countries in order to stabilize world economic system and to overcome global financial crisis during UN Monetary and Financial conference. It was organised formally on December 27, 1945 through formal agreement among member countries. Today IMF is an organisation of 189 members and their voting power is determined through quota system for taking important decisions. These decisions need a super majority of 85% of votes, which always makes the US to be the only country with veto power. The amount of this pool was more than $666 billion in 2016. Countries facing balance of payment problems can borrow from it. This is usually known as *bailout.*

Stabilization Policy refers to overcome macroeconomic problems when an economy is going out of way from its target growth rate. The major objectives of Stabilization Policy are: (a) Sustainable economic growth (b) Exchange rate stability and (c) Low level of unemployment. International monetary fund is an organisation that helps to stabilize world financial system.

The objective of IMF is to provide financial support, develop global monetary cooperation, restore stable prices and stable growth rate, promote free trade, encourage high investment and high employment, achieve macroeconomic stability, and decrease poverty all over the world. Thus the functions of IMF revolve around economic surveillance, technical assistance, and lending for balance of payment problems.

Previously IMF offers "10" Programs to down-trodden economies. Now a day, most of the IMF's assistance is given through "three" different types of lending programs.

(1) Stand-by Arrangement (SBA): where financing by the IMF is made for short-term balance of payment crisis.

(2) Extended Fund Facility (EFF): where lending by the IMF is made for medium-term balance of payment problems concerning structural problems.

(3) Poverty Reduction and Growth Facility (PRGF): It is concessional facility by replacing the ESAF in November 1997 with the goal of reducing poverty and increasing growth in the borrowing countries.

Special Drawing Rights (SDRs) are valuable reserve asset created by the IMF. Simply it is called "currency of the IMF". Currently its value is determined by the basket of five currencies.

(i) US Dollar, (ii) British Pound Sterling, (iii) Euro, (iv) Chinese Renminbi, (v) Japanese Yen (vi)SDRs are like coupons against which a country can exchange currencies with other countries.

While advancing loans, the fund not only analyses the economic conditions and policies of a member country, but the borrowing country will also have to design its policies according to the IMF recommendations known as *IMF Conditional ties*. The era of IMF conditional ties started in 1950s and 1960s, but they have gotten much more importance due to shocks of 1970's oil prices and debt crisis of 1980's. Following conditional ties are imposed by the fund while advancing loans:

(a) Structural Adjustment

(b) Privatisation

(c) Deregulation

(d) Decreasing government borrowing

(e) Increase the interest rate for stable currency

(f) Increase the amount of taxes and cut down spending

(g) Making inefficient firms to turn bankrupt

(h) Decreasing corruption and bureaucracy

International monetary fund and its supporters say that IMF programs and policies remove severe macroeconomic imbalances. Critics argue that they are developed to make poor countries more dependent on the international monetary fund and further sink them into poverty. Another objection is that IMF considers each country's relative position in the world through quota system that causes borrower subordination and lender dominance. Rich countries that contribute more to a pool, they get more influence in the IMF than poor countries which have less share in providing money to the fund. In spite of that, the IMF considers on redistribution. (Diamond, 1972)

1.2 History of IMF funding to Pakistan:

Pakistan came into being in 1947 and became member of international monetary fund on 11th July, 1950. IMF is giving financial support to Pakistan under different facilities and conditions, as Pakistan has been facing deteriorating economy since its inception. Over the span of 61-year history, Pakistan has borrowed 21 times from IMF and made another 22nd agreement under Extended Fund Facility (EFF) for a period of three years 2019-2022, which currently needs $6 billion for the current fiscal year to meet its financial needs. For the first time, Pakistan has borrowed 25 million SDRs under Stand-by Arrangement on December 8, 1958 but that agreement was cancelled before its expiration date, and the whole amount of the loan remained undrawn.

Pakistan's dependence on IMF has increased to a greater extent during last 30 years, particularly since 28th of December, 1988 when we have had an agreement with IMF under SBA. Since that day we have been getting loans from IMF under different facilities to meet the problem of balance of payment deficit. The facilities consist of Stand-by Arrangement (SBA), Extended Fund Facility (EFF) Structural Adjustment Facility (SAF), Enhanced Structural Adjustment Facility (ESAF), Contingency and Compensatory Facility (CCF), Poverty-Reduction and growth Facility (PRGF). But the financing had certain severe conditional ties which brought negative impact on economy and society. Since 1980, the fund has made following main agreements with Pakistan;

1.1.1 The Agreement of 1980:

1.1.2 The Agreement of 1988:

1.1.3 The Agreement of 1994:

1.1.4 The Agreement of 1997:

1.1.5 The Agreement of 2000:

1.1.6 The Agreement of 2001:

1.1.7 The Agreement of 2008:

1.1.8 The Agreement of 2013:

1.3 Main Research Problem:

Our main research problem is to find out the role of IMF programs in stabilization of Pakistan's economy.

1.4 Research Objectives:

The objectives of the study are the following:

1. To find out the impact of IMF programs in stabilization of Pakistan's economy.
2. To analyse the performance of Pakistan's economy.

3. To make recommendations how to improve economy, in case of poor economic performance without IMF’s assistance.

1.5 Scope of Study:

This study aims to provide an inclusive overview of the core economic issues of Pakistan and numerous financial challenges and macroeconomic instability that it is facing despite financing from IMF. An analysis of IMF programs, policies, and conditional ties will help to explore whether it is good or bad to have loaning from IMF. The results of this study will also helpful for policy makers of other developing countries which are facing similar fiscal issues and are availing IMF assistance.

2. LITERATURE REVIEW:

Fidrmuc and Kostagianni (2015) investigated the impact of international monetary fund loans on economic growth in a vast panel of countries. Their data included 213 countries and 38 years (1971 to 2009). Their findings indicated empirically that IMF programs were not successful in increasing economic growth and investment.

Dreher (2004) investigated empirically the effect of IMF-supported programs on economic growth through different sources. He used panel data for the period 1970-2000 for 98 countries. He concluded that IMF assistance didn't provide statistically significant evidence. Therefore, IMF-stabilization programs were a failure.

Umer et al (2015) examined whether the IMF was blessing or a curse for Pakistan's economy. This research was descriptive in nature. The study concluded that Pakistan has to fulfill many demands and conditions in getting loans from IMF and made IMF more curse than blessing for itself.

Githua (2013) described the effect of IMF/World Bank structural adjustment programs on the developing countries, with their application in Kenya. Data was mainly be obtained from primary and secondary sources. He concluded that IMF/World Bank structural adjustment policies increased poverty and caused underdevelopment.

Bengali and Ahmed (2000) analysed the Pakistan stabilization experiences. In Pakistan the policies pursued under stabilization objectives at the expense of growth objectives, which in turn, decreased GDP growth rate. The study concluded that any policy reforms has to include both stabilization as well as growth objectives.

Haque and khan (1998) investigated different studies which covered cross country samples at different time periods, and used different techniques. They concluded that if the government of borrowing country was reform-minded and also made efforts in stabilizing its own economy, then IMF policies have generally been helpful in improving economic stability.

Butkiewicz and Yanikkaya (2004) concluded that Bank loans accelerated growth to some extent, mainly by stimulating public investment. IMF assistance were either ineffective or risky to economic growth. As they found negative effect of IMF loans on public and private investment as well.

Amjad and Kemal (1997) used time series data to estimate poverty levels for both rural and urban areas as well. They concluded that poverty level was increased by following structural adjustment reforms mainly due to reduction in growth rate, employment, and government spending on social services.

Gera (2007) in his article discussed the effect of IMF-supported programs on social welfare in Pakistan's economy for the period 1988 to 1999 based on household surveys. The researcher concluded that overall, the impact of structural adjustment reforms on labor and poor presented a disappointing picture.

Przeworski and Vreeland (2000) examined that IMF lending activities reduce growth rates as far as a country remains under it. Once a country leaves the program, it grows faster than if it remains, but not faster as it would if it had never participated. It was towards growth that IMF policies and their conditional ties were aimed.

Barro and Lee (2003) argued that the international monetary fund is a "bureaucratic and political organisation" so that more influential members of the organisation were likely to get loans easily than those members with less importance it.

Ivanova (2003) examined the role of the IMF-stabilization programs and said that it mainly depended upon the political and economic structure of the borrower country. Lack of political stability and cooperation, poor governance and class disparities weakened program completion.

Zaidi (2000) argued that Pakistan didn't really need an IMF-supported programs. What it needed were reforms. He concluded that we don't need the IMF to resolve Pakistan's economic problems, we need efficient and responsible political leadership.

Awan and Mukhtar (2019) analysed that during IMF’ program years Pakistan's economic performance has been poor, only the budget deficit was improved to some extent. Moreover, an inappropriate conditional ties have deteriorated the economic condition and increased poverty.

Awan and Anwar (2016) found excessive government expenditures and low tax revenue created economic problem and worsen balance of payment and Pakistan had to approach IMF for assistance many times. Pakistan should reduce its unproductive expenditures and expand tax base in order to increase revenue rather than resorting always to IMF and World Bank for financial assistance.

Stiglitz, (2006) argues that from South to East Asia, debt poses a burdensome problem for developing countries as a result of international monetary fund and World Bank programs, money should be transferred from rich countries to poor ones, but because of large debt repayments for the last few years, the fund's money has been flowing in opposite direction.

3. THEORETICAL FRAMEWORK:

In this study we present theories regarding the role of international financial institutions with special reference to developing countries. At international level, there are 'two' main institutions (i) IMF and (ii) World Bank. This study provides theoretical analysis whether these institutions really help developing countries or further sink them into poverty.

3.1 IMF Approach to Stabilization Policy:

Financial lending program of the international monetary fund gives importance to 'two' main policy variables: (i) domestic credit and the (ii) nominal exchange rate. This is based upon the conclusions of following 'two' models.

3.1.1 The Polak Model:

Domestic credit expansion reduces foreign reserves (due to high imports), and that a credit constraint induces an improvement in the balance of payments. If credit growth is caused due to high fiscal deficit of most under developing countries, then Polak provides the basis for two IMF policy variables: (i) credit contraction and, (ii) fiscal consolidation.

3.1.2 The Mundell - Fleming Model (F-M model):

The effect of F-M model on IMF policy purposes that fiscal policy (the national budget) and monetary policy (the interest rate) should be targeted to achieve either of two goals, internal or external stability. The M-F model presented very specific policy implications considering free capital mobility.

The above models developed links between the money supply and external accounts, making domestic credit growth, foreign reserves, and inflation as policy targets, which support the IMF policy statement that a deficit in the balance of payment is mainly caused by high monetary growth, through domestic credit expansion caused by fiscal deficit.

3.2 The International - Structuralist Models:

There is another approach about the study of international underdevelopment that is known as *"International - Structuralist Models". The* structuralist approach is bifurcated into 'two' main concepts.

3.2.1 The Neo - Colonial (Neo - Marxist) Dependence Model:

The dependency theory was developed by Hans Singer and Raul Prebisch with the publication of two papers in 1949. This theory represents Marxian thinking. According to this approach, underdevelopment of under developing countries is due to historical development of a highly unequal capitalistic relationship between advanced and third world nations. This theory is of the view that free enterprise economy causes exploitation. As a result, wealth is concentrated into the hands of a few people, while large segments of the population are deprived of basic facilities of life due to dependence.

Paul Baran (1957) describes this theory as:

"The special groups in under developing countries like landlords, entrepreneurs, businessmen, government officials and trade union leaders who enjoy high salaries, social prestige and political power forms a small elite ruling class, are willing to continue the international capitalistic system of inequality, perhaps for their own benefits".

Dos Santos (1971) writes,

"Underdevelopment is an outcome and specific form of capitalist development known as dependent capitalism. This system causes the poor countries to be both backward and exploited. Dominant countries are blessed with technological, commercial capital and socio-political pre-dominance over dependent countries. Dependence is built upon an international division of labour which promotes industrial development to take place in some countries while limiting it in others, whose growth is controlled by and subjected to the power centres of the world".

Thus Neo - Colonial theory says, the poverty of under developing countries is due to the policies followed by rich nations and their advocates in the form of small, but powerful "comprador" groups in under developing countries.

3.2.2 The False Paradigm Model:

This theory describes that the foreign 'experts/ advisers of the advanced countries and global financial organisations such as World Bank, International Monetary Fund, United Nations Development Program, and UNICEF mostly suggest improper policies to solve the problems of third world countries, which is the main reason for their backwardness and poverty. These specialists advise prestigious ideas, classic methods and advance techniques of econometrics and other technical subjects which makes unsuitable policies.

The rich, political, and powerful groups often take advantage of these policies, regionally and globally due to structural and institutional problems such as: rising population, high unemployment, lack of education and skill, and unequal possession of financial assets.

These concepts of *"International Structuralist Model"* explain that it is the laissez-faire economy, its extensions, and its supporters which have caused the global poverty. Therefore, advocates of this theory condemn the slogan of raising GNP as an indicator of development. In contrast, they stressed upon the fundamental reforms regionally and globally. Such structural reforms will be helpful in removing hunger, poverty, and unequal incomes, raising employment opportunities, and living standards. Thus, according to structuralists, it is not the growth but the nature of growth process itself, which matters much, so that larger population of the third world countries could take advantage of growth.

3.3 The Neo Classical Counter - Revolution Theory:

3.3.1 Privatisation and Free Markets:

The neo-classical free market theory was revived during 1980s when conventional political leadership ruled in USA, England, Canada, and Germany. Such neo-classical theory is a response to the interventionist debate of dependence model. According to dependence theorists, international poverty of under developing countries is due to victimisation of the third world countries by the wealthier countries. The counter revolution gave special attention to supply side macroeconomics and privatisation of state enterprises in advanced countries and it emphasized upon the rejection of state ownership, control, and regulations in under developing countries. This theory got popularity in Washington at the headquarters of International Monetary Fund, International Bank for Reconstruction Development, United Nations Development Program and other global financial organisations which are involved in order to stabilise the world economy and make structural reforms like programs.

Advocates of neo-classical non-interventionist theory attributed all the structural and institutional problems of developing nations due to intervention of government in the economic affairs. Therefore, neoclassical economists suggest that under developing countries should emphasize upon *'Open-Markets'* and *'Laissez-Faire'* economic system rather than criticizing international financial agencies or focussing on more effective state planning. The government of the developing nations should promote the "magic of the market place" and "invisible hand" to make distribution of resources more efficient and improve their economic system. For this purpose, the neo-classical non-interventionist raised the motto of "privatisation" to rebuild private capitalism. The neo-classical theory gives the examples of ASEAN called Asian Tigers which surprisingly accelerated their economic activities on the basis of "free markets and price mechanism", but the economic system of Africa and Latin America collapsed even they pursued "interventionist policies". Thus, the main point of neo-classical counter revolution theory is associated with the liberalisation of free markets that will invite local and foreign investors. In this manner, the economic growth in the third world will be simulated.

3.3.2 Analysis of the Neo-classical Counter Revolution Theory:

The *"Neo-classical Counter-revolution"* theory can't be applicable in under developing countries and it has been criticized due to following reasons:

The prepositions and laws of free market theory will be difficult to apply in under developing countries due to differences in economic, political, social, and structural conditions from their developed and rich counter parts. The under developing countries lack competitive markets. There exist monopolies in fixing market prices of quantities purchased and sold. In case of under developing countries the markets are furnished with imperfections and supply impediments such as rising population growth, and unemployment, environmental pollution, agricultural stagnation, high capital output ratio, poor industrial growth and structural rigidities. Thus, the free market economy in developing nations like Pakistan will not be helpful to improve the general welfare because it will benefit those who are already rich by forcing down the vast majority of the poor people.

4. RESEARCH METHODOLOGY:

4.1 Nature of Research:

This is quantitative study in which quantitative methods have been used. In this study we describe some key economic variables of Pakistan's economy which provide the results of this study. These variables play a major role in the economic stabilization of a country. In this chapter, we will explain type of data, sample of study, data collection procedure, selected variables, and analytical techniques.

4.2 Type of Data:

We have used secondary data in this study. The data has been obtained from different sources such as Data Base of IMF, World Bank, Asian Development Bank, Economic Survey of Pakistan, and State Bank of Pakistan.

4.3 Sample of Study:

Our study has taken the time period from 1997 to 2016 as a sample of study.

4.4 Data Collection Procedure:

Time series panel data has been collected for selected variables: GDP growth, tax revenue, inflation rate, unemployment rate, budget deficit, exchange rate, current account, exports, imports, trade deficit, and external debt of Pakistan's economy over the time period 1997 to 2016. The data has been collected during the program years from different sources.

4.5 Selected Variables:

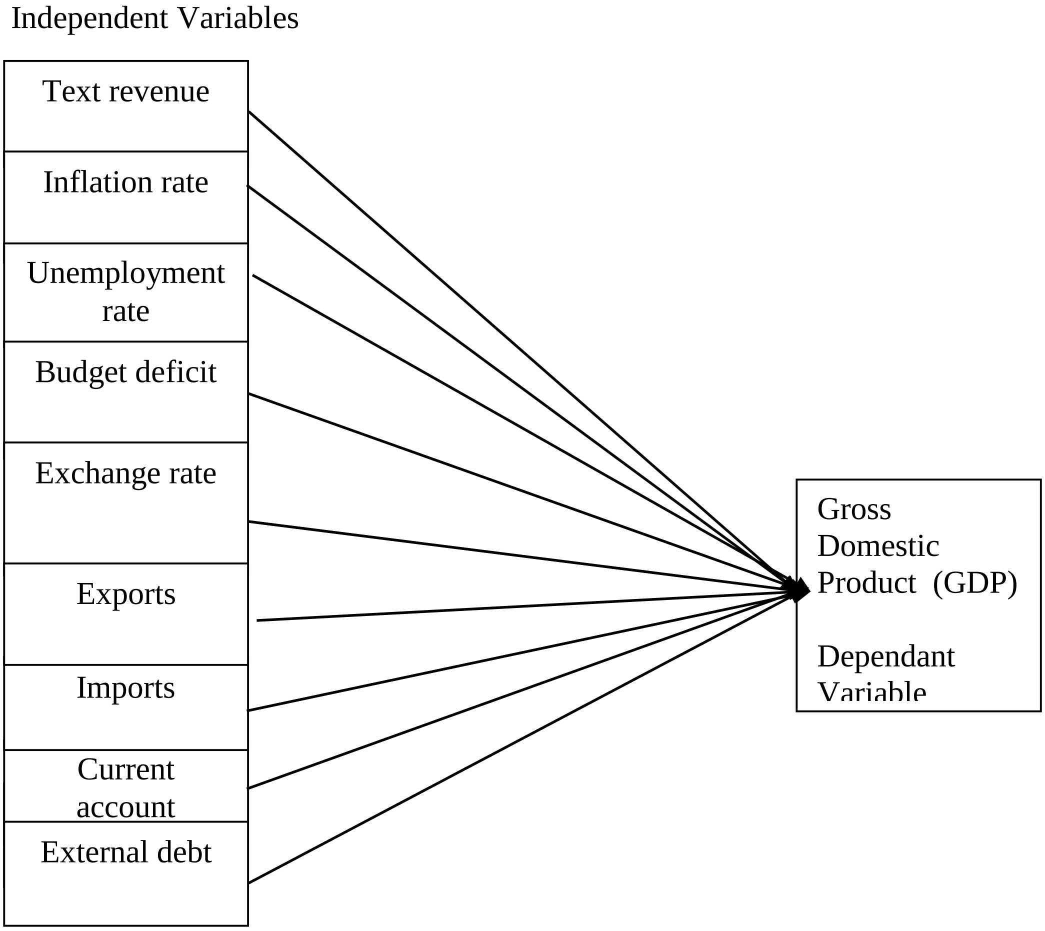
For our study we selected some variables with the help of literature review. Many researchers used different variables and techniques. In this study, dependent variable is GDP growth rate whereas, Tax revenue, Inflation rate, Unemployment rate, Budget deficit, Exchange rate, Current account, Exports, Imports, Trade deficit, and External debt are taken as independent variables.

3.6 Formulation of Hypothesis:

H_0: There is no positive impact of IMF-programs on Pakistan's economy.

H_1: There is a positive impact of IMF-programs on Pakistan's economy.

3.7 Conceptual Model:



4.8 Analytical Techniques:

Following statistical techniques have been used to analyse data.

i. Trend Analysis

ii. Ratio Analysis

5. DATA ANALYSIS:

5.1 Trends Analysis:

5.1.1 Types of IMF Programs:

Pakistan availed total five IMF programs during 19-year period starting from 1997 to 2016, which is our study period. Out of these five programs four programs were partially completed and suspended due to not completing IMF conditional ties while the last program was completed its term but Pakistan was given 15 waivers because it could not the meet criteria set by IMF. The detail of these programs and loans amounts were given in the table 5.1.

Table 5.1: Types of IMF Programs, 1997-2016

Type of Programs	Date of program started	Date of program ended	Amount Agreed (SDRs)	Amount Drawn (SDRs)	Ration of availing facility
Extended fund facility	Oct 20, 1997	Oct 19, 2000	1,699 billion	1.137 billion	0.66
Standby Agreement	Nov, 29 2000	Sept 30, 2001	1.498 billion	1.326 billion	0.83
Growth Facility (PRGF)	Dec, 2001	Dec 5, 2004	1.322 billion	1.186 billion	0.87
Standby Agreement	Dec, 2008	May, 2010	11.3 billion	8.7 billion	0.76
Extended Fund Facility	Sept 04, 2013	Sep 30, 2016	6.68 billion	6.68 billion	100

Source, IMF,2019.

5.2 IMF Extend Fund Facility, 1997-1999:

Now we have intended to study how the above variables behaved during the execution of above five IMF programs in order to draw the conclusion whether as a result of these programs Pakistan GDP growth was increased, unemployment was reduced, inflation was controlled, aggregate output was increased, twin deficit was scaled down, tax revenue was raised, external debt and current account deficit was reduced, exports were geared up while imports were contained. The data of these variables relating to the period of the above five IMF programs are given in Table 5.2::

Table 5.2 Extended Fund Facility, 1997-1999

Year	GDP Growth Rate	Tax Revenue as % of GDP	Inflation Rate	Unemployment Rate	Budget Deficit	Official Exchange Rate (US$)	Current Account as % of GDP	Exports as % of GDP	Imports as % of GDP	Trade deficit as % of GDP	External Debt in US Billion
1997	1.7	13.4	11.8	6.12	6.4	38.99	-6.2	13.5	17.9	4.3	22.509
1998	3.5	13.2	7.8	6.12	7.7	43.2	-3.1	13.1	17.7	4.01	22.844
1999	4.2	13.3	5.7	6	6.1	46.79	-4.5	13	17.6	4.1	25.423

The above results are also shown in Figure 5.1:

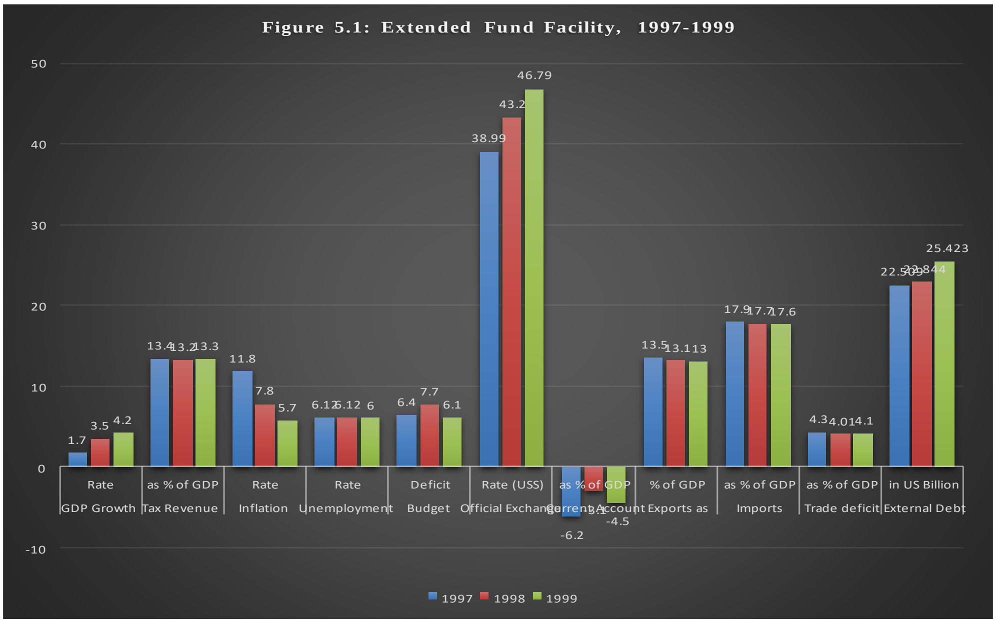


Figure 5.1: Extended Fund Facility, 1997-1999

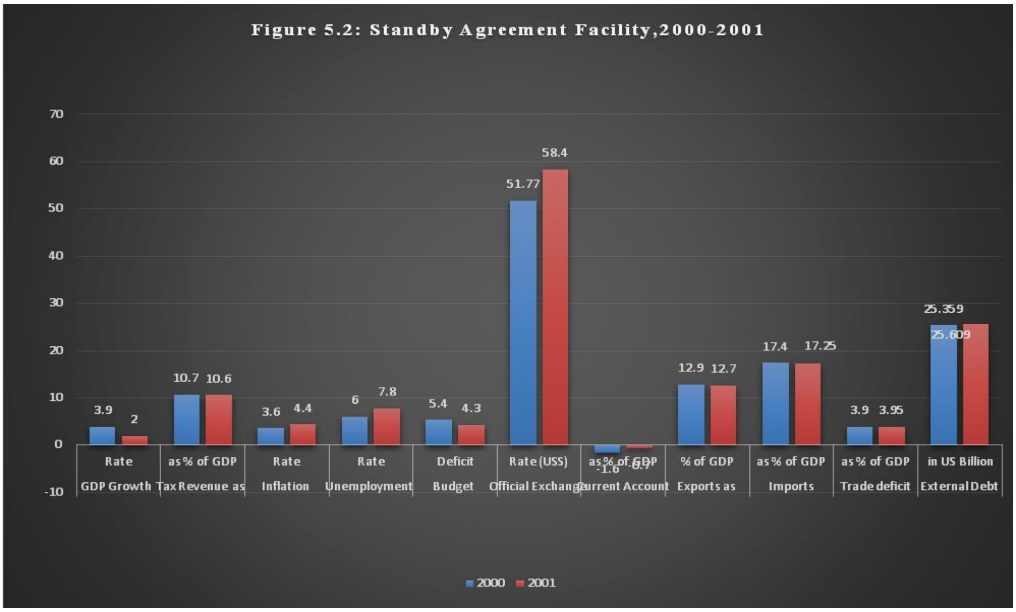
5.3. Standby Agreement Facility,2000-2001:

This program was a similar to aforesaid IMF program and its sanctioned amount was US$1.498.But disbursement was $1.326 billion and program completion ratio was 86 percent. The program started in 2000 and was concluded in 2001. The results are shown in Table 5.3:

Table 5.3 Standby Agreement Facility, 2000-2001

Year	GDP Growth Rate	Tax Revenue a as % of GDP	Inflation Rate	Unemployment Rate	Budget Deficit	Official Exchange Rate (US$)	Current Account as % of GDP	Exports as % of GDP	Imports as % of GDP	Trade deficit as % of GDP	External Debt in US Billion
2000	3.9	10.7	3.6	6	5.4	51.77	-1.6	12.9	17.4	3.9	25.359
2001	2	10.6	4.4	7.8	4.3	58.4	-0.7	12.7	17.25	3.95	25.609

The above results are also shown in Figure 5.2:



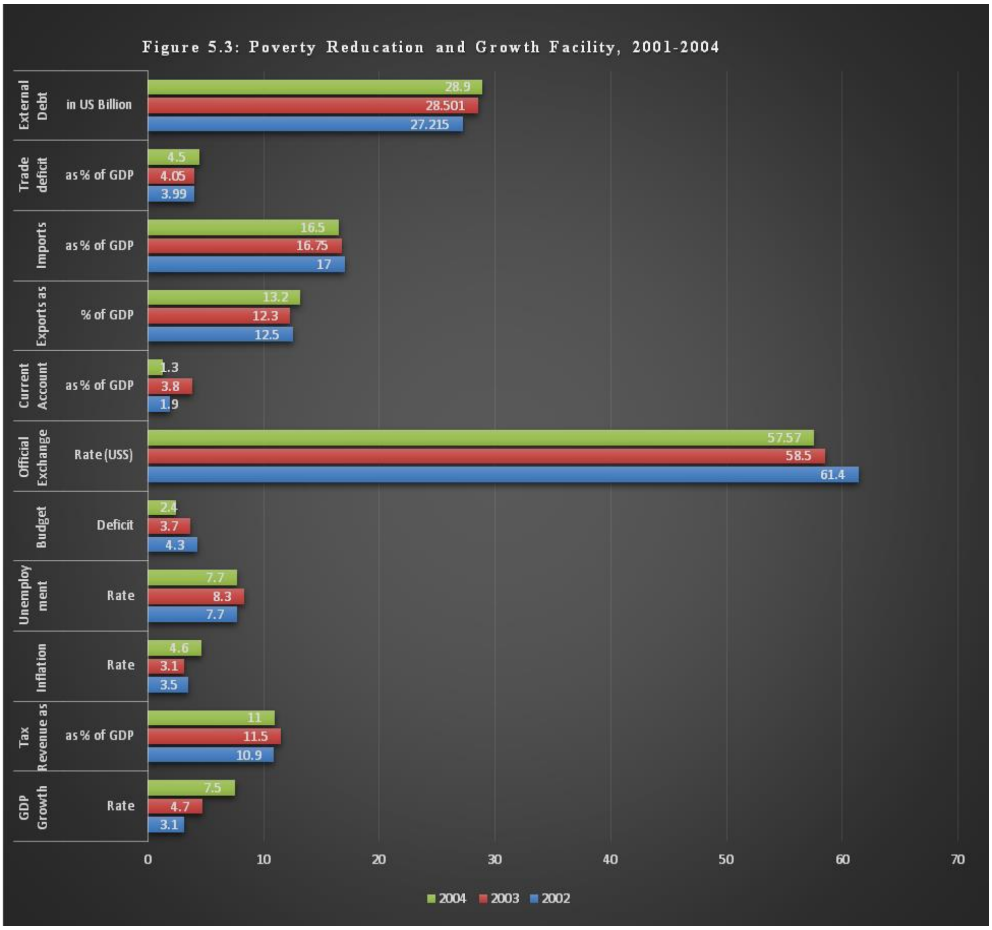
5.4. Poverty Reduction and Growth Facility (PRGF) 2002-2004:

This program was specific nature, aiming at reducing poverty and enhancing economic growth. IMF allocated $1.322 billion in 2002 but the actual amount released was $1.186 billion and the ratio of released funds was 87 percent of sanctioned amount. It was three year facilities. The results of the programs are shown in Table 5.4:

Table **5.4** Poverty reduction and Growth Facilti, 2001-2004

Year	GDP Growth Rate	Tax Revenue a as % of GDP	Inflation Rate	Unemployment Rate	Budget Deficit	Official Exchange Rate (US$)	Current Account as % of GDP	Exports as % of GDP	Imports as % of GDP	Trade deficit as % of GDP	External Debt in US Billion
2002	3.1	10.9	3.5	7.7	4.3	61.4	1.9	12.5	17	3.99	27.215
2003	4.7	11.5	3.1	8.3	3.7	58.5	3.8	12.3	16.75	4.05	28.501
2004	7.5	11	4.6	7.7	2.4	57.57	1.3	13.2	16.5	4.5	28.9

The effects of IMF program “Poverty Reduction and Growth Facility, 2001-2004” can also be seen in the Figure 5.3:

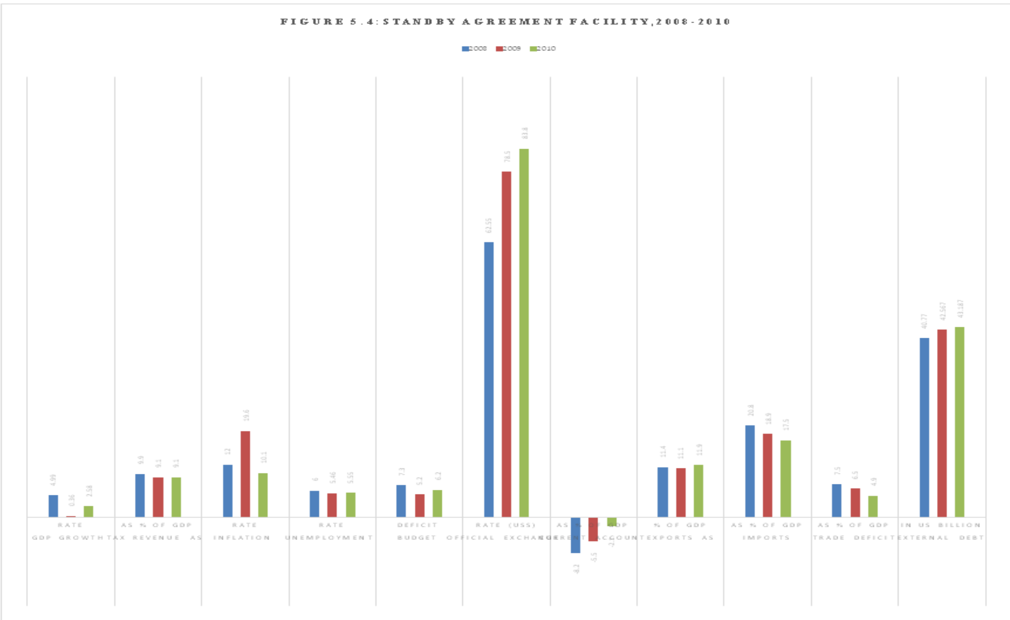


5.5. Standby Agreement Facility, 2008-2010:

This was the biggest program ever approved by IMF in term of amount which was $11.3 billion but total amount released was $8.7 billion, which was 76 percent of sanctioned amount. This program was started in 2008 and concluded in 2010. The results of the program are shown in Table 5.5:

Table 5.5: Standby Agreement Facility, 2008-2010												
Year	GDP Growth Rate	Tax Revenue as % of GDP	Inflation Rate	Unemployment Rate	Budget Deficit	Official Exchange Rate (US$)	Current Account as % of GDP	Exports as % of GDP	Imports as % of GDP	Trade deficit as % of GDP	External Debt in US Billion
2008	4.99	9.9	12	6	7.3	62.55	-8.2	11.4	20.8	7.5	40.77
2009	0.36	9.1	19.6	5.46	5.2	78.5	-5.5	11.1	18.9	6.5	42.567
2010	2.58	9.1	10.1	5.55	6.2	83.8	-2.1	11.9	17.5	4.9	43.187

The above results can be visualized in Figure 5.4:



5.6 Extended Fund Facility, 2013-2016:

The sanctioned amount of this facility was $6.68 billion and the same amount was disbursed during four-year period. It was the first program which completed hundred percent funds disbursement but about 15 waivers were granted to Pakistan because of not achieving set targets. The results of this program are given in Table 5.6:

Table 5.6: Extended Fund Facility, 2013-2016

Year	GDP Growth Rate	Tax Revenue as % of GDP	Inflation Rate	Unemployment Rate	Budget Deficit	Official Exchange Rate (US$)	Current Account as % of GDP	Exports as % of GDP	Imports as % of GDP	Trade deficit as % of GDP	External Debt in US Billion
2013	3.84	9.8	11	5.95	8.8	89.2	-2.1	10.7	18	6.6	46.391
2014	3.65	10.2	7.4	6.24	8.2	96.72	-1.1	10.2	17.4	6.8	44.353
2015	4.03	11	8.6	6	5.5	102.9	-1.3	8.9	17	6.4	48.984
2016	4.06	12.6	4.5	5.9	5.3	101.29	-1	7.9	15.3	6.9	47.867

The above results are shown in Figure 5.5:

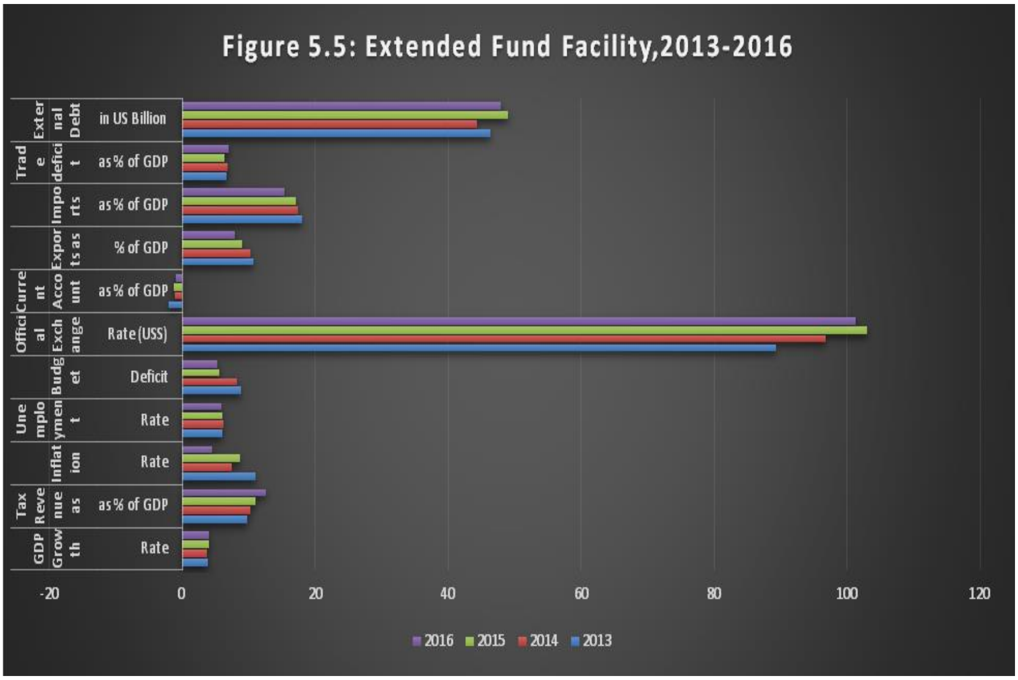


Figure 5.5: Extended Fund Facility,2013-2016

6. FINDINGS AND DISCUSSIONS:

The objectives of this research paper was to analyse the "Role of IMF Programs in Stabilization of Pakistan's Economy" during 1997-2016." For this purpose, we collected secondary data from Pakistan's Economic Survey, databases of the State Bank of Pakistan, World Bank, IMF, and Asian Development Bank We selected ten variables for this study. The GDP growth rate was taken as dependent variable while, tax revenue as percentage GDP, inflation rate, Unemployment rate, budget deficit, official exchange rate, current account as percentage of GDP, exports, imports and trade deficit as percentage of GDP and external debt were taken as independent variables. Null hypothesis of our study was that whether the role of IMF in stabilization of Pakistan's economy is positive. While alternate hypothesis was that the role of IMF program in stabilization of Pakistan's economy is negative. Trends analysis and ratio analysis techniques were used to analyse the data. We analyzed five different IMF funding programs, aiming at stabilize Pakistan's economy. Key findings of the study are given below:-

When first program under study was started in 1997 the official exchange rate was Rs.38.99 against one US dollar but in 2016 when last program was concluded the official exchange rate was at Rs.101.29, a net depreciation of Rs.62.3 during 20-year period. Pakistan's exports as percentage of GDP was highest, 13.5 percent when first program was initiated in 1997 but it gradually declined every year during each program. When fifth program was concluded in 2016 Pakistan exports as percentage of GDP was reduced to 7.9 percent. It means the depreciation of Pak rupee did not have any positive impact on exports. It was negation of economic theory which states that depreciation of currency makes domestic goods cheaper and attract foreign buyers.

Pakistan’s imports were between highest 20.8 percent in 2008 and lowest 15.3 percent in 2016 as percentage of GDP. The average of these two extreme values is 18.05 percent. Again, IMF’s prescription was failed to achieve desired results, aiming at reducing level of imports. This was the reason that trade deficit was increased during the study period. It was 4.3 as percentage of GDP in 1997 but was shoot up to 6.9 as percentage of GDP in 2016. So the trade balance was not improved during the study period.

The highest tax revenue as percentage of GDP was 13.4 percent in 1997 and lowest 9.1 percent in 2010 during 20-year study period. The average of these two extremes was 11.25 percent. It means that tax-to-GDP ratio was not improved but it was declined due to narrow tax base. It also indicates that desired level tax resources were not mobilized and Pakistan had to seek external loans to fill budgetary and trade deficit. This is the reason that Pakistan’s external debt was jumped from US$22.509 billion in 1997 to US$47.867 billion in 2016, a net increase of US$ 25.358 billion during 20-year study period. In other words, external debit of US$1.267 billion was increased per annum from 1997 to 2016.

The highest inflation rate was 19.6 percent in 2009 and lowest 3.1 percent in 2003. The average of these two extremes was 11.35, which is in the range of two digits. So the monetary policy was failed to tame inflation through tightening belt policy. However, during 2000-2004 the inflation rate was remained within the range of above 3 percent and below 5 percent. While in the rest of years the inflation rate was almost remained in two digits. Only “Poverty Reduction and Growth Facility,2001-2004 significantly reduced inflation rate because this program specifically focused on low price level of goods and services so that the poor could purchase them conveniently. The exports were increased from 12.5 as percentage of GDP to 13.2 percent during this period. The controlling inflation rate is the best policy option as per our study to reduce dearness and inflationary pressure on domestic and foreign buyers.

The highest level of unemployment was 8.3 percent in 2003 and lowest 5.4 in 2009. The average of these two extremes was 6.85 percent of 20-year study period. It means that 6.85 percent active labour force was remained unemployed and it did not produce anything but consume everything during the study period. From these results, we can assume that IMF different programs was not proved helpful to reduce unemployment rate in Pakistan.

The highest level of budget deficit was 8.8 percent in 2013 and 2.4 percent in 2004. The average of these two extreme values is 5.6 percent, which appears to be highest. During the study it was noted that sometime budget deficit was highest in the start of program and lowest at its end and sometime it was increased in the middle of the programs. So there was no uniform trend in budget deficit. However, IMF programs hit this variable and budget deficit was decreased due to cut in public spending. In contrast, it negatively hit unemployment variable because when budget deficit was lowest at 2.4 percent in 2004 the unemployment rate was 7.7 percent. When budget deficit was 8.2 percent in 2014, the unemployment rate was 6.24 percent. It shows negative relationship between budget deficit and unemployment rate. Thus, IMF stabilization policy is helpful to reduce budget deficit but not helpful to reduce unemployment rate as well as poverty level.

The null hypothesis of the study was accepted because the most of the selected variables performed negatively and as such the role of IMF program in stabilization of Pakistan’s economy was almost unsuccessful.

7. CONCLUSIONS:

From the above findings and discussion, we draw the following conclusions:

● IMF policy prescription for devaluation of currency is not a viable or practical solutions to resolve balance of payment problems.

● During the study we have noted that depreciation of Pak Rupee did not generate foreign demand for Pakistani goods and services because Pakistan is almost producing and exporting primary goods and raw material.

● It was also noted that repeatedly seeking loans from IMF has negative effect on exchange rate and as well as level of external debt. Pakistan’s external debt was jumped from US$ 22.509 in 1997 billion to US$47.867 billion in 2016 and Pakistan has to borrow more money to pay previous loans. In this way debt services were increased year by year. It also appears that IMF policies are aimed at serving the interest of its western shareholders rather than stabilizing the economies of developing countries.

● The selected five IMF programs were failed to enhance tax revenue and it remains stagnant throughout execution of different programs.

● Similarly, IMF programs understudy were failed to generate employment opportunities and reduce poverty level. In contrast, unemployment rate and poverty level were increased due to cut particularly in development spending during the execution of these programs.

● Positive impact of IMF selected programs were noted on budget deficit, current account and inflation rate to some extent. Budget deficit and current account were seen declining during study period. But on the other side of picture these reductions brought negative impact on aggregate demand, employment and investment opportunities.

● Low public spending also slower the pace of GDP growth. Diverse trends were noted in GDP growth during study period. However, overall positive impact of selected programs on GDP growth was noted during the study.

● Our first problem is to enhance literacy rate and higher education but our real problem is to utilize the skill and creativity of our educated human capital. The capital flight is not so dangerous for the economy as much as the flight of human capital.

● Our subordination to IMF and foreign donors are hurting our sovereignty and freedom of decision making about national issues. The practices of repeatedly approaching IMF for seeking funds to correct balance of payment must be abandoned and independent economic policies must be followed to strengthen economic base of the country.

8. Policy Recommendations:

On the basis of above conclusions, we would like to make the following recommendations:

► Pakistan must abandon its continuous devaluation of currency policy because it is not working well to obtain desired results.

► While reducing budget deficit, Pakistan should reduce non-productive expenditures rather than cutting development expenditures.

► Employment opportunities must be increased to reduce unemployment rate and poverty level and special care must be made not to disturb employment level while reducing budget deficit.

► Pakistan should keep its exchange stable because wild fluctuations in exchange rate disturbs local and foreign buyers to take correct decision.

► Pakistan must mobilize indigenous resources through taxation, issuance of bonds in dollar currency for overseas Pakistanis and local investors rather than repeatedly approaching International Monetary Fund for seeking loans to solve the problem of its balance of payment.

► Moderate fiscal and monetary policies may be followed to create balance in different segments of the economy.

► Pakistan should follow supply side economics rather than demand management economics because being a populous country Pakistan needs more and more goods and services rather than managing existing demand.

► Special fiscal incentive may be given to foreign investors to attract foreign investment in fixed assets.

► Security of investment and safety of assets must be ensured through rule of law so that local as well as foreign investors can invest their money and knowledge with full confidence and safety.

► Tax payment and contract abiding culture must be developed to promote sense of responsibility among the people.

► Pakistan should focus on value-addition and technology-based products to make its economy knowledge-based.

► Pakistan has so far availed 22 programs of IMF and now this practice may be abandoned. Independent economic policies which serve the interest of country and its people may be followed to ensure the economic security and sovereignty of the country in future. The consequences of IMF programs must be evaluated before availing it.

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