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Impacts of the International Monetary Fund on the Economy of Pakistan

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This research article addresses the question "What are the impacts of the International Monetary Fund (IMF) on the economy of Pakistan". Here a matter of concern is whether the IMF program has an overall positive impact on the growth of the economy of Pakistan or has just increased the debt burden. Positive impacts include solving the issue of balance of payment, stabilizing the foreign exchange reservoirs, bringing improvement in its exports, and providing money for imports. The negative impacts included the devaluation of Pakistani currency, increased burden of foreign debt, increased excise duties, discouraged investment, and dictate Pakistan in controlling the stock exchange. A qualitative research approach is utilized to examine the impacts of the IMF on the economy of Pakistan. It has been observed from the study that IMF has both positive and negative impacts on the economy of Pakistan. This study explores and analyses in detail the impacts of IMF loans on economic stabilization processes in Pakistan.

***Keywords**:* IMF, policy, Pakistan, economy, foreign exchange reservoirs.

Today in the 21st century, the destiny of the country depends on the economy of the country. Those countries are at the mercy of their enemy who depend on other countries or some other international monetary institutions for taking loans. These institutions provide funds to achieve sustainable growth and prosperity. The International Monetary Fund (IMF) is primarily focusing on the economic growth and stability of member countries. IMF provides loans to all those member countries having a serious balance of payment problems or any other type of economic crisis. IMF funding is one of the most debated issues from the last few decades in terms of its policies, restrictions, and impacts on the economy of the countries who are borrowing loans from it. Along with loans, it also provides policy advice and conditionalities that are considered to have negative and positive impacts on the indigenous economy of the borrowing country. To get a loan, the core issue for the borrowing country remains to fulfill the conditionalities imposed by the IMF.

Similarly, Pakistan is also dependent on the IMF loan. Pakistan is facing economic problems, therefore, Islamabad looks again and again towards the IMF for loans. The economy of Pakistan is weak while its expenditure is huge, therefore the government has no option but to turn over to the IMF (Lodhi, 2008). Due to its weak economic position, poverty, and balance of payment issues Pakistan has attempted many times to borrow from the IMF. Since 1958 Pakistan has

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borrowed 22 times from the IMF among which 4 times from 2001 to 2019. This study is based on the last four time frames, i.e., 2001, 2008, 2013, and 2019 respectively. The IMF imposed strict conditions and policy measures on Pakistan to take any kind of loan. These conditionalities have negative impacts on the economy of Pakistan. The IMF conditionalities that are imposed on Pakistan were macro-economic plans (monetary and fiscal), inflation targeting measures, economic deregulation, more openness of Pakistan's economy to global capital flows, liberalization of trade (including a decrease of tariff and non-tariff barriers), and denationalization of public sector companies and enterprises.

Although some countries that borrowed from the IMF achieved better economic growth, minimized financial deficit, and got a reduction in inflation in the short-term. In Pakistan, such development has not happened (Majid, 2019). Though IMF funding has played a vital role in trade liberalization, capital flows and privatization of state-governed enterprises could affect the long-run impacts (Qayyum, 2018). Since 1988, 12 IMF programs proved to be unsuccessful (Ahmad & Mohammed, 2012). The IMF program aimed to encourage growth in terms of the balance of payments, current account balance, and lower inflation but the policies of the IMF were not obvious, and difficult to assess the effects. IMF loans would have been positive if the conditions with loans had not become a burden on the economy of Pakistan. Pakistan was always compelled to implement many poorly planned programs, plunging the economy of the country into a gap dying the state in the constraints and restrictions executed by the IMF.

This paper addresses the main question "What are the impacts of IMF on the economy of Pakistan from 2001-2019"? Due to its weak economic position, poverty, and balance of payments issues, Pakistan has been going to the IMF for a long time to borrow. IMF has both positive and negative impacts on the economy of Pakistan from 2001-2019. As for positive impact, it includes solving the issue of Balance of payment, stabilization of foreign exchange reserve, bringing improvement in their exports, and providing money for imports. The negative impact, includes devolution of Pakistani currency, increase in excise duties, reductions in employment opportunities, reduction in subsidies of different items, and dictating Pakistan in controlling the stock exchange.

This paper examines the impacts of the IMF on the economy of Pakistan. The study is significant because still today Pakistan is dependent on the IMF for loans. The novelty of this study is that it highlights the impacts of the IMF on the economy of Pakistan from 2001 to 2019. This paper has highlighted the pros and cons of IMF loans on the economy of Pakistan. The study analyzes in detail the impacts of IMF loans on the economy of Pakistan and explores the causes of how IMF has negative implications on the economy of Pakistan This paper provides a guiding principle for policymakers and presents recommendations for the government of Pakistan in the light of results (Hussain et al., 2021).

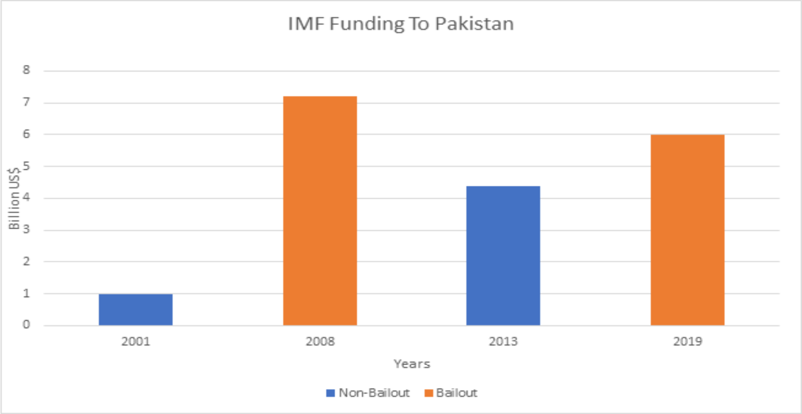
Research Methodology

This study is conducted through a wide review of existing literature through the content analysis technique (CAT). The content analysis technique is widely accepted and broadly deployed in qualitative social research studies. It is important in qualitative data analysis and results in generalization. The data has been collected from research papers, books, reports, IMF and State Bank of Pakistan websites, newspapers, economic surveys of Pakistan, and government of Pakistan white papers released from time to time about the economy of Pakistan.

An Overview of the IMF Policies

International Financial Institutions including the IMF are working for economic regulation and can play a vital role in the economic development of the countries. The core objective of the IMF is to raise the revenue generation and economic development of the borrowing countries. While getting loans countries have to sign some arrangements with IMF.

Figure 1: Showing IMF Loans to Pakistan from 2001-2019.



Source: Impact of IMF Loan on Pakistan's Economy in Long Run and Short Run. https://hcommons.org/deposits/item/hc:24481/

The study period contains four IMF programs extended credit facility, standby agreement, and extended fund facilities, and each fund has different numbers of conditionalities. The conditionalities of the IMF for Pakistan were to control the spending of non-developmental expenses. Besides these devaluations of currency, the decline in GDP, markup rate, excise duties on agriculture and services, inter-bank transactions, and many more were the outlays of the loans to Pakistan. During the non-democratic era of General Musharraf, Pakistan signed a three-year agreement of Poverty Reduction and Growth Facility (PRGF) in December 2001, which was completed successfully. Pakistan delivered well and performed a good track record due to its commitment to IMF although the conditionalities were a little hard to achieve. With the varied procedure of 19 conditions, the performance measures were nearly three times the fund's arrangement.

Again in 2008, the democratic government of the Pakistan People's Party (PPP) got the biggest IMF package of 4.94 billion dollars. The package was composed of 11 conditionalities. They were focused on some reforms for Pakistan to modify its policy of tax such as the removal of tax exemptions and change in the interest rate (Abbasi, 2019). Another package from IMF was approved for Pakistan in September 2013, under Extended Fund Facility with some harsh conditions. In this package, the conditions were severe and very hard to implement. Different actions especially changes in taxation policy, privatization of PSE, and power energy subsidies. The initial US$1 billion was approved by the board of the IMF, while the remaining amount was given in a specified period with the eight reviews consisting of four quarterly and four annual assessments (IMF Press Release No. 19/264, 2019). IMF staff and board regularly apply the conditionalities such an improvement but in most cases, Pakistan did not implement the reforms. So, it leads to the abandoning position of IMF assistance before ending the loan package. Although each case is different from one another, the consequences remain the same.

Yasemin (2016) stresses that the loans of IMF are advantageous for the less developing countries confronting macro-economic inequalities. It was also found that States with IMF plans get economic growth in the short term and have better reserve handling, lower fiscal deficit, and reduce inflation for growth. IMF packages are guiding principles for States on the policy requirements for their economic growth. Bird and Rowlands (2016) opinion the IMF program has negative outcomes in the short run while balancing for the long run which is an encouraging factor. Breen & Egan observed that the IMF program led to a reduction in foreign direct investment.

Saleem (2019) discusses a case study about the IMF shows the impacts on Argentina. The economy of Argentina was very high in the 20th century's first quarter and had one of the leading top ten GDP States of the world was greater than that of France and Italy. What kind of problems led Argentina to such a harsh economic calamity? When Argentina became into member of the IMF on September 20th, 1956. An author analyses of negative impacts of the loan of Argentina by Argentina's observatory of social debt, had "32 % of families while 41 % of people were under the poverty level. Argentina is using digital price tabs in supermarkets because of the price's unstable situation which is changing very frequently. The author's study evaluated that Argentina was one of the stable states in terms per capita of Gross Domestic Products, but changed to the defaulter, where poverty and inflation became regular things. The poverty of Argentina reached 35.4% in the first quarter of 2019 which was the highest recorded figure since 2011. A high level of poverty and inflation rate led to many diseases related to poverty in Argentina".

Positive Impacts of IMF on the Economy of Pakistan

Privatization of State Enterprises

Privatization is one of the key policy options of the IMF when providing a loan to a country. Concerning privatization, Pakistan experimented with many ways to privatize the state-owned entrepreneurs and some banks but was not as successful as was required by the IMF. Privatization has impacted the economic development of the states in different ways. The idea of privatization flourished Neo-classical for advancement in the export system by entering the free market arrangement. With the introduction of free trade, foreign investors feel free to bring their investments to the free markets (Mehmood & Faridi, 2013).

The process of privatization is giving different results in different countries, especially in under-developed nations and only a few showed positive. The possibility of privatized properties is lent to the middle-class elites instead of the high class (Todaro, 2000). While taking some steps for privatizations of different states' enterprises the IMF gave dictation for it in its conditionality of loan. The privatization of State-Owned Enterprises (SOEs) in Pakistan was held at different times which had given some fruitful results for the country's economy. The positive impacts of privatization measures of SOEs could be observed in Pakistan with an increase in FDI and intensification of the domestic demands which was a positive sign for any economic growth.

Increased FDI

It is observed that the capital inflow has gained momentum in Pakistan since 2003. The capital inflow recorded a blooming growth between the fiscal years 2003 and 2007 in Pakistan. The share of external capital was very low which was about 4 percent of the total investment of the state in the year 2000-2001 which dramatically changed to 38 percent in the fiscal year 2007-08. The figure of FDI showed 2.3 percent of the total investment and 55.7 percent of the total external capital in 2000-2001. FDI shares increased to 10.6 percent of the whole investment while 27.5 percent of the foreign resources of the country in 2007-08 (Nasir, 2012). Privatization of SOEs also created helpful earnings in foreign exchange by attracting foreign investors to the constructive macro-economic setting of the state. The percentage of FDI to Pakistan in the year 2005 recorded the highest ratio to the world's FDI inflows which was about 0.222%. One of the basic reasons for that increase in inflow was the privatization measures after getting loans from the IMF and managing its conditions.

Table 1

FDI Inflows to Pakistan from 2001 to 2018 with the rate of change and percentage to GDP in Pakistan (in million US Dollars).

Year	FDI (Million US$)	Rate of Change (%)	Percentage of GDP
2001	322.5	-31.37	0.45
2002	484.7	50.29	0.67
2003	798	64.64	0.96
2004	949.4	18.97	0.97
2005	1524	60.52	1.39
2006	3521	131.04	2.57
2007	5139.6	45.97	3.37
2008	5152.8	0.26	3.03
2009	3,719.90	-27.81	2.22
2010	2,150.80	-42.18	1.21
2011	1,634.80	-23.99	0.77
2012	820.7	-49.80	0.36
2013	1447.3	76.35	0.61
2014	1 868	29.06	0.69
2015	1 621	-13.22	0.36
2016	2 479	52.93	0.82
2017	2 806	13.19	0.90
2018	2352	-16.18	1.10

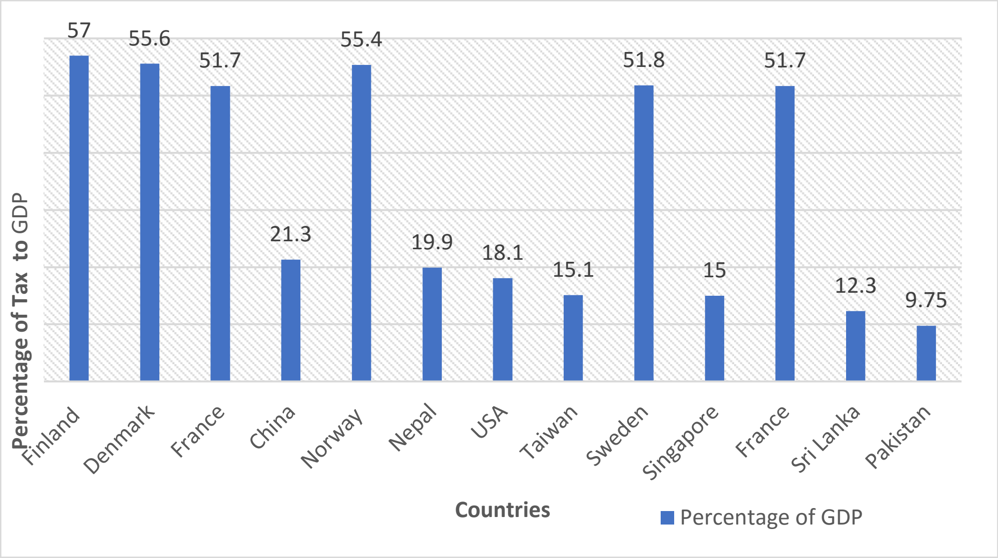
Source: Trading Economics. Pakistan Foreign Direct Investment.
https://tradingeconomics.com/pakistan/foreign-direct-investment

Table 1 shows a solid increase in the volume of the FDI from 2002 to 2008. Besides the politically stable environment, the economic stability that had been brought about by the IMF package is on track. FDI inflows declined consistently from 2009 to 2013 despite taking another bailout from IMF Pakistan. It was due to some worse political instability, a severe flood in 2010, and the absence of any notable privatization policy of SOEs to attract FDI. From 2013 to 2018 there was no continuity in FDI inflows to Pakistan to improve its economic growth. The percentage of FDI was only good in the year 2007 which was 3.37 percent of GDP. The role of privatization in bringing FDI to Pakistan could be observed by the transaction of the country's single bank "United Bank Limited" (UBL) which was privatized for 387 million dollars. In the period from 2004 to 2007, Pakistan experienced an increase in FDI inflows and got a well economic growth, and political stability along with engaging in a privatization strategy, which showed positive effects on the growth (Nanji, 2014).

Increased Tax Ratio

The IMF Stabilization Program has some typical Policy measures like an increase in taxes. The state of Pakistan is coming in the list of the under-developed economy having a very low tax ratio to Gross Domestic Products. The Tax arrangement in Pakistan is not fully developed and is considered complex, rigid, non-neutral, and unproductive for the state economy. For the improvement of the tax system in Pakistan, many efforts have been made with the help of IMF policy recommendations. The ratio of tax to GDP of Pakistan is 9.75 % which is very low compared to other Asian countries.

Figure 2. Tax Ratio to GDP in Different Countries.



Source: https://www.cia.gov/the-world-factbook/countries/pakistan/#economy

During the period from 1999 to 2001, there was a decline in the currency of Pakistan by about 12.1% while the exports improved by 25 %. With the rapid rise of payments and inflow of capital into the country, the value of the rupee increased. For microeconomics, the first thing that influences a state economy is to maximize the demands. Secondly, it has an outcome on the other goods with relation to labor which can affect the volume of the worker employed for each unit of production. IMF wanted to mobilize the revenue and tax treks but there was some strain on the government because the protection of the poor was a matter of helplessness from the adjustment and its effect which was proposed by IMF. It can benefit to lessen the impacts of global prices and instability in the exchange rate (Ijaz et al., 2019).

Tax reforms had a great impact on the economic growth of Pakistan, especially in the balancing of the budget problems. The budget deficit of Pakistan improved to the proportion of GDP with the tax reforms policy. Pakistan was continuously struggling with tax revenue generation during the study period. With the new bailout package, the current government is also trying to bring improvement in public finance through tax reforming policy (Masood, 2019).

Table 2

Year Wise Tax Revenue and Expenditure of Pakistan, 2001-2018 (in million $).

Year	Tax revenue	Expenditure
2001-02	478.1	826.2
2002-03	555.8	898.2
2003-04	617.9	940.3
2004-05	659.4	1,116.9
2005-06	803.7	1,401.9
2006-07	891.2	1,663.8
2007-08	1,095.5	1,874.6
2008-09	1,331	2,531
2009-10	1,500	3,008
2010-11	1,738	3,566
2011-12	2,076	4,326
2012-13	2,231	4,816
2013-14	2,635	5,027
2014-15	3100.1	5808.2
2015-16	3534.6	6304.4
2016-17	3,969.2	6,800.5
2017-18	4,467.2	7,647.0

Sources: Authors' Simulation from Finance Division, Pakistan and Economic Survey of Pakistan.

In the study period, it was noted that the tax revenue generation was very low compared to the expenditure of Pakistan. One main cause of the budget deficit was the low tax ratio in the country. The period from 2001 to 2007 was comparatively good due to the implementation of some taxation policies. If taxes were increased as compared to expenditures it could improve the fiscal budget to a great extent. The deficit was reduced to 4% of GDP in the year 2003-04. It further declined to 3.4% and 3.2% in the years 2004-05 and 2005-06 respectively. The budget deficit rose again in the fiscal year of 2006-07 to 4.2 percent and reached a high level of 7.3 % of GDP in 2007-08. Pakistan is one of those borrower countries that have the maximum growth rate of adjustment loans from IMF but reliably had a massive budget deficit which still brought the country to the public severe debt crisis (Easterly, 2012).

Positive Impacts of Adjustment of Exchange Rate

Adjustment of the exchange rate had also some positive measures in contrast to currency fluctuation for the economic growth in Pakistan. In the year 2007 a year of the Standby Arrangement, it was recorded that the economy of Pakistan was in good form. At that time the exchange rate was stable, and the exchange rate of the Pakistani Rupee to the US dollar was round about Rs. 60. In an adjusted rate the foreign reserves were at the peak point of that time which was about 16.5 billion US dollars. The current account deficit was almost 5.3% of the gross domestic product. The export growth rate exceeded imports, which was about 14.2% and 4.5%. The private sector credits were 15.2 percent, and the financial growth was a little above the nominal GDP which was 18.2% (Husain, n.d.).

Balance of Payment

The exchange rate has a direct link with the balance of payment. When the balance of payment is for selling local products abroad or purchasing foreign assets there should be a change in the supply and demand of the foreign currency. Any international transaction cannot be completed without an exchange rate. Changing any one constituent of the balance of payment will affect the supply and demand of the country for foreign currency.

Figure 3: Current Account Balance of Pakistan in million US dollars.

Source: https://www.ceicdata.com/en/indicator/pakistan/forecast-current-account-balance

The adjustment rate of the first bailout loan of the study era, the balance of payment showed a positive result, and the exports exceeded over imports. After 2004-05 the balance of payment declined till 2008-09. Another adjustment was set up in 2009-10 which gave a sound result for BoP. During the second and third loans of IMF in the study period, the BoP was a little controlled due to the adjustment of the exchange rate policy of Pakistan. The BoP declined to a record level of - 6.3 billion US dollars in the year 2018 due to no adjustment of the exchange rate.

Standard of Living

Over 80% of the population of Pakistan consistently reported that their financial security had either worsened or continued the same in the study period. Only 20%, excessively focused on the very topmost of the circulation, feel that they were improved and likewise, small figures have faith that financial situations have improved in their area (Rahman et al., 2021). The state's statistic about the issue concerned shows a diverse story. According to the "National Poverty Line" set in the year 2001, the country had seen extraordinary poverty, dropping from 35% in 2001 to less than 10% by 2014. These improvements were not focused on among those close to the poverty level. Even 5% of the inhabitants saw an upgradation in living standards. The possession of resources like motorbikes had increased from only 2 percent to 18 percent and many more of the poorest families now have fridges, TVs, cookers, and stoves.

Value Determination of Pakistani Currency

IMF called to avoid operational exchange rates for a limited competitive advantage. Under a fixed exchange rate system, only a choice by a state's administration or financial authority can change the official worth of the currency. Governments rarely, take such actions, often in reply to uncommon market burdens. When a government devaluates its currency, it is often due to the interface of market forces and policy choices that has made the currency fixed rate indefensible. To bear a fixed exchange value, a state essentially has adequate foreign exchange assets, often dollars, and is ready to spend it, to buy all offers of its money at the recognized exchange value. First, devaluing makes the state's exports comparatively less expensive for outsiders. Second, devaluing makes external goods comparatively more expensive for local customers. This may help to raise the state's exports and decline in imports and may then support to decrease of the current account deficit. A state might try to practice deflation to increase collective demand in the economy in a struggle to contest joblessness (Federal Reserve Bank, 2011).

The currency of Pakistan had determinedly weakened against the value of the US dollar. The primary purpose of devaluing the currency was to strengthen the growth of export items. When a country devalues its currency its exports are becoming low-priced, and its demand increases. Regarding Pakistan, the long-term struggle to export items is associated with imports which are around 37 percent. However, the result seems with an interval. The shares of capital goods and raw materials were 16 and 24 percent respectively (Bader, 2006). Also, depreciation affects the balance sheet.

The economic survey of 2008-2009, reported an increase of 18 percent in public debt and 30 percent in foreign exchange because of the devaluation of the Pakistani rupee compared to the dollar. IMF welcomed the devaluation of Pakistan's currency and called it significant for financial development. For the external adjustment of the exchange rate suppleness is vital. The leader of the staff mission of the IMF, Finger said after the SBP provision for devaluing measures “allowing the currency to decline was a good measure to achieve progress for the current year”. The IMF expected growth to gross domestic products was 5.6% (Shahzad, 2017). Economic policy alone is questionable to encourage large and determined depreciations required for achieving that permanent development. The spending substituting effect of a currency weakening is generally insignificant. As mentioned, 10 percent of devaluation usually progresses a trade of a state about 0.3 percent of GDP in one year mainly due to the reduction of import items since the trade was charged in dollars. If the period is extended for such a process of the trade balance, the gross domestic product rises to 1.2% so the complete outlay result comparatively remains uncertain (Smith, 2019).

Currency devaluation may worsen inflation and lead to an additional loss to the economy of the country. The government tried by interfering in the foreign exchange market and increasing rates of interest, and reserve ratios, and tightening monetarily (Azis & Yarcia, 2014).

Support for the Finance Sector

Likely, the impacts of the deflation on the economy could be the inspiration of exports, depressing imports and thus refining the terms of trade, rise in income collection and investments in the repatriation of incomes and royalties by current foreign stockholders, transporting prohibited foreign exchange leaks into official networks and put an end to the smuggling of gold. The arrival of foreign wealth can be better by devaluation only if values do not increase (Shah et al., 2015). It managed to take down the current account deficit by choking the economy. Imports have dropped from 19 billion dollars to 14.65 billion dollars. In spirit, the current account deficit shriveled because of a disturbing slow-down of the economy, and not because of any noteworthy progress in exports. A 36% drop in the current account deficit of the country was surely good news for the IMF (Rahman et al., 2022).

Negative Impacts of IMF’s Policies on the Economy of Pakistan

IMF conditionalities alongside positive outcomes on Pakistan’s economy have also proved some negative consequences as well.

Negative Impacts of Privatization of State Enterprises

IMF focused on privatization and liberalization policies of state-owned enterprises which were running in deficit to improve the economy. By adopting the process of privatization of state-owned enterprises, due to privatization, Pakistan faced many costs of negative impacts. Privatization is not the only remedy to boost the economy of a country, but rather it is necessary to improve the performance of those enterprises that are running in deficit. Privatization was accelerated in the Fiscal Year (FY) 2000 but declined dramatically in 2002. Consequently, the economic growth of Pakistan was consistent during that period. There were some diverse forms of growth during different years of the study period. The growth of privatization declined from 2006 to 2008 (Mehmood & Faridi, 2013). Along with the varied forms of growth, privatization had some negative implications on the economy as well. It resulted in socio-economic problems in Pakistan. Evidence shows that the revolutionization and privatizing policy of the IMF did not control the financial space of the Pakistani economy but deteriorated. IMF also did not control the space by reforming commodity processes. Still, the debt rose, and unemployment increased in Pakistan (Saleem, 2019).

Privatization harmed the employment ratio in Pakistan. When the privatization of State-Owned Enterprises increased, a decrease occurred in the employment rate. The World Bank's senior vice president said about the policies of international economic institutions "Their policies protect the foreign creditors". But he did not mention anything about those who lost their jobs. A lot of Pakistanis lost their jobs, but the IMF had no provision for them. Unemployment of laborers in Pakistan was on the fast track and moved towards starvation. The private sector adopted many methods of improving their investment in the host countries and depressed their unemployment (Megginson, 2005). In the case of Pakistan, the employees were selected for the golden handshake and then rehired on a contract basis for the privatized firm (Kemal, 2003). Private sectors were also selected for different characteristics of the labor force which had no capabilities of achieving the targeted jobs.

Table 3

Unemployment Rate in Percentage (%).

Years	Unemployment ratio	Male unemployment	Female unemployment	Male youth unemployment	Female youth unemployment
2001	7.4	5.8	16.7	11.4	27.2
2002	7.8	6.2	16.5	12.1	20.7
2003	7.7	6.2	15.7	11.8	19.3
2004	7.4	6.2	13.1	11.1	15.1
2005	7.1	6.0	12.3	10.5	13.7
2006	6.1	5.2	9.8	8.5	9.8
2007	5.1	4.2	8.7	7.2	9.0
2008	5.0	4.0	8.8	7.1	10.7
2009	5.0	4.0	8.8	7.1	10.7
2010	5.1	4.0	8.8	7.1	10.7
2011	5.1	4.0	8.8	7.1	10.7
2012	5.1	4.0	8.9	7.3	11.2
2013	6.3	5.4	10.0	8.5	11.5
2014	7.3	5.1	8.7	7.7	11.9
2015	8.3	5.0	9.0	7.6	13.3
2016	6.0	5.1	8.6	7.7	14.2
2017	5.9	5.1	8.8	7.7	14.7
2018	5.8	5.1	8.3	6.5	15.2
2019	6.9	5.9	10	9.5	16.3

Source: Pakistan Bureau of Statistics, Labor Force Surveys. http://www.pbs.gov.pk/

Table 3 illustrates that the rate of unemployment varied in different years. It is observed that after the privatization of the state-owned enterprises during the years of getting loans from the IMF, there was an increase in the unemployment rate in the subsequent years. In 2002, it was 7.8% as compared to 7.4% in the previous year of 2001 due to adopting of privatization policy of some state-owned enterprises. It is to be noted that female youth unemployment decreased to a high level from 27.2 to 20.7 percent in the same year and a reduction noted in male employment increased from 11.2 to 12.1%. The unemployment of males was more affected and rose to 6.2% in 2001 where it was 5.8% while female unemployment decreased to 16.5 % in 2002 from 16.7 % in 2001. These figures show that there was a slight decrease every year starting from 2003 up to 2008. It is observed that an increase in unemployment started again in 2009 and continued till the year 2012 due to privatization measures. This time an increase in the unemployment ratio occurred in all the above types of male/female youth and female youth. After another, package from IMF in 2013 Pakistan implemented a privatization policy but at that time the wave of privatization was different from previous phases and sold out 26 pc shares in which PIA was also included (Shaikh, 2013). The rate of unemployment in 2013 was not much increased as compared to 2002 and 2008. However, there was an enormous increase in 2014 and 2015 when the government did some privatization after taking a bailout from the IMF.

Negative Impacts of the Increase of Taxes

The share of direct and indirect tax was variant in Pakistan during the study period. The Indirect taxes harmed economic growth in the long term while its factor for the short term is immaterial. Generally, with a one percent increase in indirect taxes, there is a decrease of 1.68 in economic development. It is necessary to increase the direct taxes and decrease the indirect taxes for real economic development. The share of direct taxes was only 33 percent of total tax revenue while the contribution of indirect taxes was 63 % in the country (Ahmad et al., 2018). Besides these, with an increase of taxes, there were negative impacts on the real gross domestic products, an adverse effect on investment due to income tax while the daily use consumption expenditure is negatively affected by the sales tax. Along with the negative effect of taxes on GDP, investment and consumption also were negatively affected by taxes in Pakistan (Saqib, et al., 2014). However, the IMF wanted the program of 2007-08 to reduce the financial gaps from the figure 7.4% of GDP to 3.3 % in the next year by taking some measures including taxation measures (Irfan, 2011). Due to IMF conditionality, the whole economic activities were affected by the introduction of a new taxation policy in Pakistan.

Besides the controversial view of economists about the tax’s measures regarding economic growth indirect taxes big a negative impact on the GDP of Pakistan. It is justified as it directly affects the individuals of a common society. The main source of tax revenue in Pakistan is indirect taxes. A huge change occurred in the fiscal year of 2007-08 and direct tax increased from 18 percent to 40 percent of the tax revenue. Indirect taxes had a high share in the tax revenue it declined only twenty percent from 80 to 60% in the year 2009. It was 60% in 2010. The total share of taxes was recorded at 38.315 billion US dollars in 2018.

The increase in taxes in Pakistan decreased the business profit. When the number of the tax payer rises it ultimately reduces reusable income and slows down the economy of the state. The slowdown ultimately also affected the collection of the amount of taxes. As Pakistan has an Agrarian-based economy the share of taxes was very low as compared to other economies where the share of indirect taxes is high, which affects the GDP of Pakistan.

Negative Impacts of Adjustment of Exchange Rate

While fulfilling the conditionalities of the IMF for the new bailout package Pakistan had decided to initiate a high-powered monetary policy committee (MPC) to regulate the dollar-rupee exchange rate in the country. The IMF had asked for an adjustment of the market-based flexible exchange rate from the existing managed exchange rate of Pakistan (Haider, 2019). Pakistan has faced many economic issues including contained inflation, external debt, fiscal deficit, and imbalance of import and export expenditure which were improved by adjustment of the exchange rates. Generally, the high exchange rate has a positive link with the growth rate of a country. Nonetheless, in the case of Pakistan, the export balance was slighter than the import balance, so the balance of payment and trade balance hurt the growth rate (Ahmad et al., 2013). The adjustment of the existing managed exchange rate to a market-oriented exchange rate greatly affected the currency and made it unstable. As the market-based flexible exchange rate needs the depreciation of the currency and the prices of imports increase, the pressure comes on Pakistani currency.

From 2007 the foreign exchange reserves were reducing very rapidly and the rupee fluctuated to 25% (Husain, n.d.). With the adjustment of the declining value of the Pakistani rupee, the cost of imported things like chemicals, paints, etc. also increased and created problems for the local non-exporting industries of the country. However, as remained the case in working investment credits, the depreciation of the Pakistani currency also intensified the cost of the imported machinery, showing a fixed investment loan by sugar, textiles, power generation, and some other distributor sectors. For example, the whole commodity price index remained 16.6 % higher between July and October in the year 2018 and posted a devaluation of 6.4 % between November 2018 and June 2019.

The average Commodity Price Index (CPI) is observed with the average depreciation between the Fiscal Year (FY) 2018 and FY 2019. The CPI average increased from 3.9 to 7.3% by the depreciation of -4.8 in 2018 to -19% in FY 2019. For adjustment of the exchange rate due to the current measure of IMF, there should be further fluctuation in the currency which could be very negative for the Commodity Price Index (O'Neill, 2014).

Value Devaluation of Pakistani Currency

Devaluation of the currency was another policy measure taken by Pakistani governments under the IMF conditionalities. Value determination was also one of the most important factors that had an impact on the economic development of a country. The value of the currency was always determined by the central bank of Pakistan i.e., the State Bank of Pakistan (SBP). The currency of Pakistan was directly or indirectly guided by the IMF. According to H. Finger, the IMF staff mission's leader in 2017, "the current currency devaluing measure is an important starting idea to achieve economic growth in this fiscal year" (Shahzad, 2017).

In June 2008, the Pakistani rupee's value fell from almost 66 to 70 equal to a dollar and inflation reached 20%. The State Bank of Pakistan (SBP) raised its discount rate by 150 points while intervening in the foreign exchange market to recover. The State Bank of Pakistan used the reserves and contribution to the depletion to defend the rupee, therefore, the State Bank issued a temporary suspension of all imports of forwarding booking of the time (Felipe & Lim, 2008). The same happened in 2019, the value of the rupee decreased by 17 percent. It resulted in the loss of the value of the rupee up to 21% against the US dollar and crossed Rs.150 from Rs.123 in only nine months (Majid, 2019). The economic identifications were observed in Pakistan while agreeing with the IMF's 22nd agreement. Economic uncertainty started again in the country when the rupee was devalued.

Discourage Investment

The effect of devaluation has also led to various measures like higher demands for domestic goods and an increase in inflation. Considering devaluation as a sign of economic weakness, the confidence of investors was reduced in the country's economy, and were found upset about further investments to secure their investments. The consecutive devaluation led to a negative effect on the concerned export industries. The trading partners were also affected by the devaluation of the currency. The export prices of goods of the country were decreased by devaluation. At the same time increased the prices of domestic goods which reduced the purchasing power of the people, ultimately leading to inflation. Over the past practices of devaluation of the currency, there was no positive remedial measure for the proper long-term economic development of the country. It is important to note that the devaluation of the currency in Pakistan resulted in negative impacts on the economy of the country.

Increase the Volume of Pakistan's Foreign Debt

Pakistan is among those countries in the world that has a floating exchange rate and has a core issue of currency depreciation. The devaluing issue of the rupee in Pakistan has created many problems for its economy. The depreciation of the rupee means buying 1 US dollar required more rupees to pay for it. It has serious issues with debt repayment. The foreign debt in 1994-95 was to be paid in 2013 increased almost six times due to the dollar rate of 2013. About 1,035 billion Pakistani rupees were equal to 30.22 billion US dollars at a rate of Rs. 34.25 dollars in 1994 while Rs. 6,499 billion rupees were equivalent to 60.43 billion dollars at the dollar rate of Rs 108.04 in 2013. If the currency of Pakistan were stable at Rs. 34.25/US$, it would have to acquire to pay about 2, 069 billion in rupees. Rupee depreciation started more rapidly since 2008 which was one of the main causes of the prevention of the economic development of Pakistan (Malik, 2014).

The debt of Pakistan continuously increased year by year. The total debt ratio to GDP was 67.20 percent in the fiscal year of 2017 and reached 2018 to 72.5 percent (Mourdoukoutas, 2019). The total foreign debt of the country raised in 2019 to 105841 million US dollars which was 99086 million US dollars in the last quarter of the preceding year. The position of Pakistan, as compared with the rest of the world, had worsened in 2018 in terms of GDP percentage. Currently, the country is ranked 144 on the list of debt ratio to GDP and 60 in debt per capita, out of the 186 countries list.

Table 4

Showing the Annual Debt in Million US Dollars.

Year	Debt in millions of US$	Debt in Percentage of GDP	Debt per capita in US$
2001	63,299	81.23%	451
2002	59,353	76.10%	415
2003	63,269	70.49%	431
2004	66,810	63.23%	446
2005	69,764	58.91%	457
2006	73,719	53.72%	474
2007	79,894	52.44%	505
2008	97,678	57.16%	593
2009	98,270	58.47%	584
2010	107,242	60.58%	624
2011	125,835	58.90%	718
2012	141,819	63.24%	793
2013	147,659	63.86%	809
2014	155,061	63.47%	833
2015	171,306	63.32%	902

2016	188,515	67.63%	974
2017	204,277	67.05%	1,036
2018	225,435	71.69%	1,122
2019	248,845	77.51%	1,163
2020	239,003	79.56%	1,095
2021	256,161	73.56%	1,151

Source: Pakistan national debt goes up. (2021). https://countryeconomy.com/national-debt/pakistan

Conclusion

Pakistan is among the frequent borrowing member countries of the IMF. Every new political setup in Pakistan claims for the last loan but it never stopped. From 2001 to 2019, Pakistan got four loans from the IMF. The total amount of those four loans was 18.6 billion dollars which were 1 bn, 7.2 bn, 4.4 bn, and 6 bn in the years 2001, 2008, 2013, and 2019 respectively. IMF provided loans to Pakistan along with some conditions and policy advice that were mandatory to be implemented. Each time the number of conditions was stricter. Some of the conditions and policy advice proved to have negative impacts on the economy of Pakistan. Besides the strict and harsh conditions of the IMF, it also had some positive impacts on the economy of Pakistan.

Most of the IMF conditions were macro-economic plans to control the fiscal deficit, denationalization of public sector companies, liberalization of trade and openness of the country's economy to the global market, increase in direct and indirect taxes, adjustment of exchange rate for global market flow, and measure of determining of Pakistani currency. These policies had negative impacts on the economy of Pakistan. The conditionalities of higher taxes and the privatization of state-owned enterprises directly affected the low-income class. With the introduction of indirect taxes, a decrease in the growth of GDP was also recorded. With the depreciation of the currency of Pakistan on the IMF demand, the external debt of the country reached 103.4 billion dollars during the study period. The debt raised per capita from 451 to 1,122 dollars, an almost 250 % increase in just eighteen years.

1. Recommendations

1. Pakistan should strive to get rid of the IMF as soon as possible by developing indigenous resources, increasing exports, decreasing imports, strengthening relations with "Friends of Pakistan" and converting its economy to producing one.
2. The government of Pakistan needs to reinforce the financial restructuring and policies to accelerate economic growth to make the country independent from receiving loans.
3. It is required to control government expenditure and reduction in the military budget.
4. The government of Pakistan needs to focus on the improvement of its exports and indigenous revenue generation to tackle the issue of balance of payment as most of the time Pakistan went to IMF for loans to solve the issue of balance of payment.
5. A firm kind of motivation is required to develop the tax culture in the country along with its structural reforms.

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