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A BRIEF HISTORY OF PAKISTAN'S RELATIONS WITH IMF: WHEN AND WHY DID PAKISTAN TAKE A LOAN?

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ABSTRACT
The primary factors that compelled Pakistan to regularly visit the International Monetary Fund were addressed in this study. Numerous problems, such as poverty, current account deficits, import and export inequalities, high inflation, and slow income development, have been found to have contributed to the country's IMF deal. These agreements were reached under strict terms that included raising taxes, cutting subsidies, cutting back on government spending, privatizing national businesses, liberalizing the national economy, and other things. According to estimates, Pakistan made 24 trips to the IMF to improve its balance of payments; the primary issue was figuring out why Islamabad kept depending on the IMF funding package. Nonetheless, this study is qualitative in nature and is based on publicly accessible data. Investigating the cause that led the nation to the IMF and providing an answer to the question of how Islamabad might withdraw from IMF funding programs are the primary goals of this study project.
Keywords: *Pakistan, IMF, Economic Problem.*

INTRODUCTION
The IMF is an international financial organization that was founded with the intention of assisting member nations with economic shortfalls, current account deficits, and balance of payments problems (Bird & Rowlands, 2017). The IMF offers financial and technical assistance in such circumstances to promote long-term economic expansion and lift the economy out of dire circumstances. Every member nation that is experiencing poverty, economic difficulties, monetary policy mishandling, or the burden of debits requests financial assistance from the IMF (Bird, 2007). The IMF's primary duty is to offer member nations financial and technical assistance when their economies are struggling.

Similar to other nations, Pakistan has benefited financially from IMF assistance since its founding. Despite this, Pakistan was dealing with a number of problems, including low GDP, ineffective economic strategies, weak governance, excessive debt, budget deficits, balance of payments problems, and more. These elements have forced the nation to seek financial assistance from the IMF (Dreher, 2006b). Pakistan has visited the IMF 24 times in the history of the relationship to obtain financial assistance (Rana, et. al. 2024). Pakistan has so far ratified a number of IMF initiatives, including the Poverty Reduction Program, Standby Arrangement, Extended Credit Facility, Structural Adjustment Program (SAP), and Extended Fund Facility (EFF). The question remains, however, why Pakistan kept going to the IMF for help. And what were the factors that forced the nation to take advantage of the loan opportunity? The aforementioned questions are hotly debated. The structure of the IMF loan facilities has been criticized by a number of critical analysts, who assert that the strict requirements of the IMF funding facilities, such as tax increases, reductions in subsidies, and a free market economy invite poverty and inflation, which leads to long-term economic instability in1 the borrowing nation (Przeworski & Vreeland, 2000). However, some academics have envisioned that governments' ineffective policies and poor governance prevented them from making effective use of IMF initiatives.

Many academics have opposed the IMF's assistance to developing nations, arguing that it has increased long-term poverty and dependency, which leads to political and economic problems, rather than bringing about prosperity and growth. Similar to Pakistan, where there are long-term economic deficits, the weight of external debt, poverty, economic inequality, and unemployment, the IMF is a significant source of economic support. The primary cause of these difficulties is the nation's ongoing reliance on IMF finance programs, which has resulted in a slowdown in GDP. Although Pakistan signed the IMF programs with the intention of stabilizing the country's economy and avoiding fiscal and current account deficits.

The data used in this qualitative study is publicly accessible and has been published in a number of journals. The primary goals of this study are to evaluate Pakistan's dependence on IMF loans and offer recommendations on how the nation might avoid IMF debt traps.

History of Pakistan's Lending Commitments with IMF

Pakistan received its first payment in December 1958 since it joined the IMF shortly after its founding and its economic status deteriorated. Pakistan has borrowed from the IMF 25 times in its 78-year existence. The largest loan was $7.6 billion in 2008, followed by $7 billion in 2024 and $3 billion in 2023. Since its founding, Pakistan has relied on IMF loans to boost its foreign reserves, prevent balance of payments problems, and reduce fiscal deficits in order to meet economic concerns (Khan, 2023).

First Phase of the Pak-IMF History

Loan commitments with IMF terms were lenient during the first period of Pakistan-IMF relations, which lasted from 1958 to 1987. This was in contrast to the 1990s and beyond 2014. But thanks to the first and second tranches of the IMF loan, Pakistan has improved its economic status and achieved the program's goals, including reducing the budget deficit, boosting the reduction of subsidies, which led to a decrease in public spending, increasing exchange reserves, backing down its high level of domestic and foreign debt, lowering inflation, and securing currency devaluation.

The new government took the first installment of the IMF's 1958 bailout from the worsening economic condition because of the country's poor administration. The first US $25,000,000 loan was given to Pakistan by the IMF. On December 8, 1958, it was released based on a standby arrangement (Abbasi, 2019, Shah, 2018). Under General Ayyub Khan, the nation went to war with India. As a result of the devastating losses and economic problems, Pakistan went to the IMF for the second time in 1965 and received a US$37,500,000 loan (Shah, 2018). Three years later, on October 17, 1968, Pakistan once more requested assistance from the IMF for the third time (Abbasi, 2019, Shah, 2018).

Following the end of General Ayyub Khan's protracted dictatorship, Pakistan's political condition deteriorated until the war of 1971, when the East Pakistan fiasco occurred on December 16 (Mustafa & Nawaz, 2014, Zaidi, 2017). Western Pakistan suffered significant losses during the Bangladesh Liberation War, so Pakistan looked to the IMF for a loan. In order to address its expanding needs, Islamabad received US$84,000,000 in 1972, US$75,000,000 in 1973, and an additional US$75,000,000 in 1974 (Abbasi, 2019, Shah, 2018).

Second Phase of the Pak-IMF History (1988-99): The second phase, which lasted from 1988 to 1999, was characterized by a number of governments, including the People Party of Pakistan (Azeem, Ali, Hassan, & Ahmad, 2018), the Pakistan Muslim League (N), and General Musharraf's autocratic rule (Musharraf, 2006). Shortly after the announcement of the Structural Adjustment Facility program in 1986, which marked the beginning of the second phase of the IMF-Pakistan relationship, Pakistan turned to the IMF for credit facilities. The strong strings caused negotiations to drag as the IMF imposed the loan terms. However, the loan requirements in policies were introduced after a change of administration (Boughton, 2001). However, political instability and frequent changes in government led to failure and the inability to accomplish the objectives. An additional SAF program was launched in 1991 and ran until 1994. Pakistan participated in nine different IMF programs till the second phase's conclusion (Nasir, 2012).

Pakistan faced dire economic circumstances at the start of the second phase, with foreign exchange reserves being restricted to roughly two months; a 6.2% budget deficit, excessively depreciated currency, and inflation that was 3% higher than the 1.6% inflation rate from the previous year; and a current account deficit of 8%, which was double that of the early year, which was 4.6%. Under the terms of the national economy's liberalization, the nation has joined the Standby Arrangement and Structural Adjustment Facility programs to solve these issues and boost investment to create income. Both initiatives were successful at first, but they were eventually discontinued in December 1990 due to the country's political unrest, rising oil costs on the global market, and a decline in remittances (Siddiqui 2019). Khan (2023) went on to say that the project's early failure led to more inflation and a decline in the trade's investment effect ratio. As a result, the GDP per capita decreased from 4.3 to 1.46, along with other causes.

Political instability resulted from toppling the PML-N government, and the nation also experienced economic instability and the devastating floods of 1992. While the caretaker government took advantage of the administration's weaknesses, it was in vain. At the macro level, business was declining, imports were rising, and exports had reached a low level. They signed up for the Standby Arrangement, but another program quickly took their position (Khan, 2023).

The Extended Fund Facility and the Extended Credit Facility were two of the IMF initiatives that Pakistan adopted in 1994 and 1995. Addressing the financial problems and rescheduling the unstable economy were the goals. Due to the strict requirements, the initiative was halted in 1995 in an attempt to address the nation's economic problems. When the PPP government decided to use nuclear weapons in retaliation against India, the situation worsened. The PPP's previous administration was criticized by the public and violated IMF conditionality. The IMF ended the program as a result of this (Shafqat, 1996).

Following the termination of the previous IMF agreements, the PPP administrations encountered financial difficulties and increased accusations of corruption involving certain government officials. However, the government at the time signed the Standby Arrangement in 1995 and the Extended Fund Facility in 1997 in order to address economic difficulties (Khan, 2023). These programs were implemented under strict guidelines that included privatizing state-owned businesses, reorganizing fiscal and monetary policy, raising taxes and cutting subsidies, cutting back on government spending even more, gradually implementing a fully market-based exchange rate, and lowering customs. These were the requirements associated with IMF programs; the PPP government implemented all of these strict procedures because of the economic volatility, even if the program was somewhat successful and seamless. Positive developments were brought about by the 1997 conversion of the SBA to EFF; inflation was 6% in 1998, compared to 12% in 1997, and was cut in half. In 1998, there was an increase in GDP. Despite the program's success, it soon saw another decline. The nation was subject to sanctions as a result of the 1998 nuclear tests, and the program was quickly discontinued. The nation's economic circumstances have gotten worse, and in 1999, a military coup took control.

Third Phase of the Pak-IMF History (2000-08):
The relationship between Pakistan and the IMF in the third phase (2000–2008) was far worse in the first phase, which coincided with Pakistan's 1998 nuclear power announcement. Pakistan's economy was severely impacted by the sanctions imposed by the developed nations, which caused its foreign exchange reserves to drop to $415 million in November 1998. In order to restore economic equilibrium, foreign currency accounts were frozen (Nasir, 2012). The military took control of the government shortly after the dire economic circumstances of 1998. Although the country's political and economic conditions were dire, Musharraf made a significant contribution to the US war on terrorism, and the IMF announced another SAF program for Pakistan. The economic climate began to improve, and Pakistan had rapid growth through the end of 2007 (Siddiqui, 2019). The nation experienced political and economic unrest prior to the third phase of Pak-IMF ties, as military officer General Pervez Musharraf overthrew the PML-N administration. Economic instability was caused by the PML-N government's test nuclear arsenals, which resulted in international sanctions and the dismantling of IMF programs. General Pervez Musharraf's new organization is ready to knock on the IMF's door. Because of the prior experience, the IMF arrived this time with strict terms (Khan, 2023).
The military leader has agreed to the 10-month Standby arrangement program with fifty-six strict requirements. Normally, this program has fewer than twenty requirements for the borrower, but because Pakistan violated the prior program, the IMF came up with strict rules. The military leader made a difficult choice and finished the program effectively. Several national companies, including UBL, PTCL, and the sale of Sui Southern Gas Company's shares, were privatized, despite the fact that the sole decision maker General complied with all IMF requirements. The IMF inked another sponsored program in 2001 after Pakistan's successful completion of the Standby Arrangement program increased their faith in the country (Siddiqui, 2019).
However, Pakistan was on the front lines of the fight against terrorism, which released it from international sanctions, and the nation once again turned into a powerful ally of the United States. Shortly later, in 2001, the nation signed an additional program with over 70 restrictions called the Extended Credit Facility. These requirements included reducing subsidies on a variety of goods, liberalizing trade with low barriers to attract international investment, reforming taxes, privatizing state-owned businesses, and more. Once more, the military ruler has successfully finished the ECF and implemented certain adjustments to revenue policies, such as reforming the tax system and rebuilding the banking sector. The military government failed to control inflation or boost commerce and investment in spite of these reforms. In 1999, the GDP per capita ratio was 1.24%, which further decreased to -0.23% in 2001. However, in 2002, it increased to 1.04%. The GDP per capita did, however, rise by the end of ECF, reaching 5.1% in 2004. However, the country's trade and investment were in decline, which led to significant inflation reported at 7.4% at the program's completion in 2004 after it was low in 1999 at 4% (Khan, 2023).
During his administration, General Pervez Musharraf benefited from the IMF and USAID as frontline allies. Although the economy was thought to be steady, it was really only a bubble economy that imploded once Musharraf was overthrown. Things were completely turned upside down during the fall of the military administration. The nation experienced instability as bombs were dropped on nearly every city in KP and Baluchistan, leading to both economic and human problems. Foreigners' confidence was eroded by insecurity, and they eventually hurried to depart the nation. Government spending was excessive, inflation was doubled, poverty increased, and exports were reduced while imports were boosted.
In addition to this, the global recession of 2008 and the 2010 flood have caused additional problems, and oil prices have appeared in the domestic market (Khan, 2023). In order to address

the remaining economic concerns, the PPP government entered into a new Standby Arrangement agreement in 2008. Despite this, the Pakistani government has dealt with a number of economic crises throughout the recession, the 2010 floods, the rise in global oil prices, and, more importantly, the nation's security concerns. The government was able to increase the per capita GDP under this program from -0.35% to 0.6%. In addition, inflation fell from 20% to 11.9%, although the trade ratio declined and encountered significant difficulties. However, because of noncompliance with the terms and circumstances associated with the IMF program, the program was cancelled (Khan, 2023).

In 2013, the economy returned to stability and the security concerns were somewhat normalized. Foreign investors were drawn in and the CPEC project came to fruition. In any case, the nation continued to struggle with the energy and security crises, as well as the balance of payments and fiscal imbalances. On September 4, 2013, the PML-N government struck an agreement with the IMF about the EFF and received $4.32 million. Many macroeconomic goals were achieved and numerous governance and restructuring plans were determined to be effective during the EFF program till the end of 2016. However, a political insurgency occurred at the end of 2017; PTI protests, terrorist attacks in KP and Baluchistan, and PM Nawaz's removal from office ultimately plunged the nation into a political and economic catastrophe (Khan, 2023).

Factors Driving Pakistan towards IMF Loan

Although a number of factors contribute to Pakistan's reliance on IMF loans and assistance, these include inefficient policies and poor administration, an unstructured tax collection policy that only benefits the poor, a lower export-to-import ratio, high government spending, the energy crisis, a lack of industries and modern technology, an unskilled populace, and more. Current account deficits, fiscal mismanagement, and the IMF's geopolitical support are the main issues that drive the nation to seek aid from the IMF.

Current Account Deficits

Pakistan has experienced balance of payments issues throughout its history as a result of the ongoing current account imbalance. Increases in imports and exports, rising oil prices on global markets, depreciation of the national currency, high loan interest rates, and numerous other factors all contributed to current account deficits. Under such circumstances, Pakistan has turned to the IMF for help in resolving its economic issues. Between Musharraf and Nawaz Sharif, imports outpaced exports; there was no balance between the two. Additionally, compared to exports, imports grew by more than four times (Pasha, 2017). In addition, a string of earthquakes, floods, and security problems have hampered the country's economy and resulted in current account deficits, which have made it necessary to rely on IMF financial programs.

Fiscal Mismanagement

Poor fiscal management landed the nation at the doorstep of the IMF, and it was caught in a vicious cycle of low income production due to bad fiscal control. Although public taxes are the primary source of revenue for Pakistan, bad fiscal management resulted in low tax collection, which in turn led to economic instability. Pakistan's tax-to-GDP ratio in 2017–18 was 13.7%, below the 20% required to sustain a sufficient level of public services and investment (Qayyum, 2019). Despite demands from the IMF to expand the tax base, the elite classes are primarily free from paying taxes. Despite being the primary sources of income, the majority of state-owned businesses, including Pakistan International Airlines, Pakistan Steel Mills, and Pakistan Railways, experienced losses (Mukhtar, 2020). Despite numerous changes, the energy sector's large subsidies and mounting debt have resulted in deeper budget deficits (Khan, 2020).

The nation's budgeting is constantly immature and based on poor management; the largest portion of the budget is devoted to defense, while the smallest portion is spent on health and education. Furthermore, the government's interest in the development projects was consistently lower. This is similar to the budgetary proposal for 2020, which boosted the defense budget and earmarked 41% of the leftover funds for debt repayment (Siddiqa, 2020). These include Pakistan's government's budgetary incompetence, which caused economic instability, prompted the nation to visit the IMF, and forced it to take out loans under harsh terms. These are the factors that have forced the nation to continually contact the IMF for balance of payments and economic management.

Geopolitics of IMF assistance to Pakistan

The United States (US) has taken notice of Pakistan's physical location; during the Cold War, the US strategically exploited Pakistan's topography against the Soviet Union. As friends of the United States, Pakistan supplied the Mujahideen in Afghanistan with weapons, and in several camps within Pakistan, jihadists were trained to fight the Soviet Union (Dohadwala et al., 2020). Despite the fact that Pakistan had served the US's strategic interests, the US responded by continuing to invest in its economy and military. The US has prohibited and stopped all forms of help during nuclear blasts, but the IMF has tacitly supported Pakistan. Pakistan was supported by the IMF. The United States used several Pakistani air bases to combat terrorists in Afghanistan during the War on Terror. Since 2000, the United States has provided Pakistan with both military and economic support through USAID and IMF loans. In any case, the IFIs have provided Pakistan with economic support because of the US's geopolitical and geostrategic interests. Pakistan has consistently depended on the IMF loan from 1980 to 1990 and 2000 and beyond (Dohadwala et al., 2020).

Aside from these issues, corruption, elite tax fraud, and inefficiency in energy and development projects led to Pakistan's poor governance, which in turn led to reliance on the IMF loan. These all contributed to Pakistan's reliance on the IMF loan.

Conclusion

Pakistan has made numerous trips to the IMF since its founding in order to receive financial assistance and to resolve balance of payments concerns. However, the nation is still having economic difficulties and is always relying on the IMF for assistance rather than solving its own problems. Thus, poverty, economic inadequacies, economic inequality, unemployment, and other associated issues are prevalent in Pakistani society. What kind of measurement may remove Pakistan from the IMF programs, then?

Pakistan's withdrawal from the IMF is a hotly debated topic. First off, Pakistan has the option to obtain the loan from sources other than the IMF program. Except for friendly nations like China, the United Arab Emirates, Saudi Arabia, and the United States, Pakistan is eligible to receive financial aid from the Asian Development Bank. Instead of using the IMF, consider taking out a loan from a friendly state or another source that offers low interest rates or favorable terms. Pakistan may easily improve the country's worsening economic status in this way. But at the same time, other academics condemned Pakistan for having also benefited from loans from friendly nations like China, Saudi Arabia, and USAID. Nonetheless, Pakistan has continued to attend the IMF to discuss economic stability and other issues. Therefore, it begs the question of what steps the nation will take to withdraw from IMF financial programs. Think tanks have recommended that instead of relying on foreign sources, particularly the IMF lending facilities, Pakistan should test its own economic stability through self-remedy. Likewise, Pakistan needs to adopt the following actions.

First and foremost, the Pakistani government needs to develop a more comprehensive foreign reserves policy that emphasizes export earnings, lessens the impact of foreign goods on the domestic market, and establishes a consistent policy for debt repayment and a stable balance of payments. This will help the nation escape the IMF debt trap.

Second, in order to achieve economic growth and stability, a policy that is effective must be established for GDP. This policy should include investments in macro and micro industries and businesses, human capital with modern technology skills, infrastructure construction, and exporting modern industries to compete with the modern world. The nation will be able to achieve economic prosperity and growth in this way. New ideas will come from modern education, human capital will be intellectual, and infrastructure will make communication and transit easier. Additionally, privatization will boost national market performance and productivity, which could raise the nation's GDP. The country can break free from the IMF loan habit by managing these measures.

Thirdly, for economic stability, revenue policy reforms are essential. Taxation should not be restricted to the lowest classes of society, but should be extended to the political, business, and landowner elites. The government must also streamline spending and prioritize only necessary expenditures over unnecessary ones. By doing this, the country may reduce fiscal deficits, avert balance of payments problems, increase fiscal stability, and get rid of its dependency on borrowing and loans from outside sources.

Fourth, aside from these, Pakistan needs to establish a policy of government accountability, responsibility, and transparency at all levels of the national institutions and state departments. The cornerstones of the country's progress are the eradication of corruption, upholding merit, and delivering justice.

Fifth, the government should create a unified trade strategy and assist domestic traders in exporting their goods to foreign markets, and policies that facilitate trade, the reduction of trade barriers, and the establishment of agreements and memorandums of understanding with other countries in order to boost exports. Additionally, a policy to boost exports and decrease imports should be put into place. The government can avoid daily loans from the IMF and other sources if such a policy is implemented.

Last but not least, a debt payment policy must be implemented by the government. a suitable management for the terms and conditions, sustainability, implementation, holding, and completion of the IMF program. To learn more about the requirements, circumstances, results, expenses, and advantages of the IMF program, more research is required.

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