

# IMF and its discontents

Is the IMF the panacea for all our economic ailments or is it a scourge in itself? This debate has been raging on since day one.

In theory, the IMF helps member countries in times of dire need and provides the required foreign exchange to do business with the rest of the world. The primary function of the Fund is the provision of foreign exchange to the countries who are in desperate need of it.

Pakistan has huge potential to be self-sufficient when it comes to forex reserves but the ground situation is totally different. The question is: why do we need to go to the IMF in the first place?

The answer to this question requires a structural and policy-level analysis. If we use a metaphor of a car engine for our economy that chokes at every test drive then the only logical conclusion that can be drawn is that there must be some flaw in its engineering and design. The issue with the engine requires a thorough re-structuring of it and the same can be said of our economy as well.

We have turned to the IMF 22 times in the last 60 years for bailouts, which implies that the engine of our economy choked these many times. It is also interesting to mention that, in 1980, Pakistan, in terms of income per capita, was 40-60 percent richer than its three neighbouring countries (India, China and Bangladesh) but unfortunately the situation is totally opposite now.

As compared to Pakistan, China's per capita income jumped 500 times while India's 60 times in the said period and even Bangladesh is faring far better than Pakistan. This means that there is some built-in structural fault that chokes the engine of the economy. The gist of the argument is that it is not a situational but a structural problem and must be understood and dealt with in the same vein.

We can briefly highlight four major reasons behind the bad design of Pakistan's economy. First, Pakistan's economy has had a continuous low investment rate over the past several decades. The significance of investment in the economic well-being of a country can never be overestimated. One of the major reasons that China, India and Bangladesh are ahead with respect to their economic growth is that their investment rate is far greater than Pakistan.

The second problem is fiscal, which is reflected in the form of a huge gap between revenues and spending. The gap impels governments to borrow as the existing resources prove to be inadequate to run the state and its institutions. The reliance on loans aggravates the fiscal problem and it gets hard for the economy to recover from such setbacks.

Third, the gap between exports and imports is widening over the years. Governments have attempted to fill this gap through remittances and loans which has, inadvertently, put pressure on the exchange rate. The SBP and governments try to overvalue the exchange rate through intervention in the forex market. This further leads to depletion of the reserves and that again forces the government to knock at the IMF's door.

The fourth problem is liquidity. Borrowings usually have short term maturity and for repayment, the government has to refinance every year. When governments fail to repay, the issue is highlighted at the international forums that, in turn, put the sovereignty of the country at stake.

The above-stated causes clearly illustrate that we have dug this hole for ourselves. Our governments have preferred short-term solutions to give the economy an artificial boost. Long-term solutions bear fruit after a long time while governments desire immediate outcomes. Moreover, in order to

implement long-term planning, some hard choices have to be made and this has not been the forte of any of our governments. The focus on short-term solutions has sunk our economic system into this quagmire and now some serious overhaul of the system is required to take us out of this situation.

To make a long story short, it is our flawed policymaking that makes us knock at the IMF's door time and again. A structural overhaul and rethinking on our part would do the trick. The structural reforms ought to be based on medium-term and long-term strategies instead of short-term fixes. Indeed, the PIDE's reform agenda is a comprehensive document in this regard. It addresses both medium- and long-term policy issues and its implementation is imperative before it is too late. No doubt, this implementation is a hard nut to crack but some hard choices have to be made and some bitter pills are to be swallowed before it is too late.

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