

# The role of the imf and world bank in pakistan

[Finance](#), [Banks](#)



The topic which I am going to write about is IMF and the World Bank. Though they both play an important role in Pakistani economy, I am going to emphasize more on IMF role in Pakistani economy. The International Monetary Fund was conceived in July 1944 and came into existence in December 1945. The international financial system has changed dramatically since its beginning. Its original purpose was to maintain the stability of the world monetary system. It was created to encourage worldwide economic growth. The Imf and the world bank provides for infrastructure projects and loans to countries like Pakistan, however it still imposes harmful conditions on countries in which in most cases results in weakening the economies, therefore imf and world bank should look up to interests of the countries rather than imposing harmful conditions on them. Countries receive assistance, in accordance with the IMF Articles of Agreement they are often called as a requirement of this assistance to take on economic reforms proposed by IMF staff.

IMF has an interesting relationship with an interesting country Pakistan. A country facing problems like a rapidly growing population, sizable government deficits, a heavy dependence on foreign aid, recurrent governmental instability, terrorism and large military expenditures. Pakistan economy is extremely depended on foreign aid agencies such as IMF. Since the new “ democratic” government took over in 2007 the country’s economy has gotten worse and is on the brink of becoming bankrupt. Its external debt is about \$53, 620, 000, 000 in 2010. External debt today poses one of the biggest barriers to development for Pakistan as well as other of the worlds less developed countries (LDC’s). Excessive external debt is often

responsible for negatively effecting economic growth which creates uncertainty and discourages the private sector from investing in the economy for fear about the stability of the government, and it also discourages public investment and reforms because they are aware that any benefits would be likely to be transferred abroad in the form of debt servicing.

Despite all these problems in Pakistani economy IMF still provides loans to Pakistan. It is vital to consider that in spite of the trouble linked with excessive debts, Pakistan have the obligation to accomplish the contractual terms to which it committed to when they took loans from the IMF. Though it is a real brave move by IMF to help a country in such problems and debt but the problem is that after IMF gives out loans, many in Pakistan view that it fails in keeping in check on what is done or where the loan is used. It is argued in Pakistan that the vast quantities of loans that are provided to Pakistan are misused by corrupt governments and the loans are used in bad projects that fail to turn out the required amount of profits necessary to service their loans. And mostly in Pakistan, loans are used in non developmental projects. Therefore IMF should also emphasize more to check whether the loan is used for development projects which would help the economy or whether they are used in corruption or in any other wrong uses.

It is argued that the conditions of IMF loans cause more harm than good. In the Asian Crisis of 1997, many criticise the IMF's insistence on Spending cuts and tax rises and higher interest rates and due to that the IMF turned a minor financial crisis into a major economic recession with unemployment

rates in countries like Thailand, Indonesia and Malaysia shooting up. Another policy that IMF follows is that “ One Size Fits All”. The IMF often argues for the same economic policies not considering that the situation is not the same everywhere and different policies would be needed for different situations. For example, dropping of the exchange rate may help many countries, but, it doesn’t mean that this is always the solution. Policies of privatisation and system disinvestment may work better in developed countries in the West, but, maybe more difficult to implement in the developing world like Pakistan. The World Bank is also criticised for such policies but the World Bank involves itself more in projects related to education and helping the people of national disasters such as the recent floods and health sector rather than just giving out the loan.

Even though IMF has many policies which caused problems for Pakistani economy but IMF plays an important role in the modern day economy. It can be seen as lender of last resort. When a Pakistan was on the edge of becoming bankrupt, the IMF provided crucial loans to stabilise the economy and prevent a collapse of confidence. It can be argued that the IMF can also impose necessary reforms on the economy. Reforms such as privatisation, control of Money supply, and attacking corruption. But for all these policies to work for the economy the Pakistani government too has to coordinate and implement the policies. These policies may cause short term pain, but, are important for preventing future crisis and long term developments. It provides an external review of the economy, which helps the government to implement popular ideas. Yet, despite the potential benefits of having a monetary fund which can provide an effective counter to financial crisis, the

role of the IMF has proved very controversial. Another important role the IMF plays is that it prevents international financial system from collapsing

Many critics attack the IMF for making its loans conditional. Making loans conditional on a package prevents real economic recovery and crushes the hope of the people of the country. The IMF takes away political autonomy from the Pakistan government. It takes away the ability to decide their own national policy and instead they have to follow the policies of IMF such as reduction of government spending, rising taxes etc which usually causes increase in unemployment and increase in poverty rate and inflation. A recent example for this would be when IMF extended Pakistan loans as the Pakistan government has to pass an economic bill, RGST (reformed general sales tax) in order to get the next instalment of the IMF loan. The IMF said that “ The extension will provide time to the Pakistani authorities to complete the reform of the general sales tax, implement measures to correct the course of fiscal policy and amend the legislative framework for the financial sector” but the bill which was planned for implementation in July, now seems unlikely to be passed. Only due to this bill the government in Pakistan lost its majority as its coalition partners left the government due to this bill and the government is likely to fall.

So is the IMF a saint or a sinner. I think that the IMF is something in between. It should be remembered that IMF is called in the times of crisis and at times of crisis there is no easy way to solve the situation. In this case corrupt government is also a factor in the worsening of the economy. But this does not mean that the IMF is spotless. The IMF sometimes does too much which

creates moral hazard which encourages the government to be reckless and it relies too much on the IMF. Yet, while it is easy to criticise the doctor which prescribes a bitter pill, there is an agreement that, now, we need an effective international organisation which can deal with the many financial crisis that are occurring around the world.