

Economy of pakistan: suffocating from imf loan?



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Many groups are against of Kerry Logar Bill because they think that it is unfavorable of their honor and interest but corporate media believe that it will help to reduce poverty for ordinary citizens.

On 21st November, 2008 IMF has approved a 23-month Stand by Arrangement for Pakistan the amount of US\$7.6 billion to support the economy of Pakistan. The total amount was 500 percent of the country's quota under the agreement. IMF Board under the Fund's fast track Emergency Financing Mechanism procedures had approved this arrangement.

In General Musharaf's era, the fiscal policies were led the country into bankruptcy. Consequently, foreign exchange reserves were reduced, capital inflow decreased and currency was depreciated. As a result, Pakistan had to face the problems of budget deficit and it will have to take loan from IMF but everyone was unaware of the conditions imposed by IMF that were to raise the duty by 24% in three phases % in Oct, December quarter, 12% in Jan-March and 6% in April-June.

There was two-fold purpose of this agreement:

To increase the macroeconomics stability by tampering policies and to increase social stability by supporting the poor and miserable Pakistan. But there was a confliction between Pakistan Govt. and market fundamentalists.

Under the IMF agreement, SBP blocked forex to finance crude oil imports and as a result Pakistan's currency was weakened. So Pakistan increased the interest rates that resulted bad effects on economy and middle-sized

business activities and on farmers. Some people believed that the higher interest rates will encourage the FDI but meaningless.

Although Pakistan didn't comply with the deadlines yet it got \$1.13 billion.

IMF declared that although it is unable to fulfill the conditions under the agreement yet it gets \$1.13 billion aid. The deputy managing director of IMF Murilo Portugal said that there have been settled down the important and political tax reforms and these will be continuously moving ahead. He said that Pakistan's condition would be miserable due to increase spending on security, inflation, energy sector problems and decrease in revenue and foreign investment. Moreover, United States forces Pakistan to send its troops to North Waziristan to tackle with Taliban.

IMF Loan to Pakistan

(History and current perspective)

No doubt IMF acts as a lender of last resort for a country like Pakistan facing problem like budget deficit, balance of payments, and destabilization of currency, liquidity problems and foreign exchange reserves.

Instead of taking new actions in bad circumstances like inflation up to 25%, decrease in exchange rates and increase in imports by 35.2%, Pakistan asked IMF to give loan of \$7.6 billion to meet its problems or deficiencies.

Before this we discuss the impacts of IMF on Pakistan's economy. Firstly, we must have idea about IMF loan. In 1988, Pakistan became the member of IMF. Up till now Pakistan has obtained 11 installments of loans from IMF.

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Almost 6 installments were obtained in the era of Benazir Bhutto, 2 were obtained in Nawaz Sharif's era and 2 in Musharaf's period.

During the last twenty years, 44% of the agreed amount has been obtained and it is noted to see that 9 installments are obtained in Civil Govt. whereas only 2 installments obtained in Military Govt.

Many conditions were imposed on Pakistan for optimal utilization of funds. There is greatly positive as well as negative effect on Pakistan. Pakistan felt that its GDP growth rates have been decreased but in Musharaf period, he turned down to IMF loan.

Current Perspective

Currently IMF has influenced Pakistan's economy positively as well as negatively. It has increased liquidity, good credit rating, low default risk, encourage foreign exchange reserves, investors' confidence to invest in money as well as capital market.

But it has also bad affects on our economy like striating the policies, increasing poverty and unemployment problems. For example, 1% increases in sale tax, deletion of subsidies in domestic petroleum products, increasing excise duty etc.

The reasons due to which Pakistan is bound to get debt concession from world

According to poverty reduction strategy paper (PRSP) issued by IMF regarding Pakistan entailed that Pakistan has paid a large amount on front line war. During last five years, our direct and indirect cost almost Rs. 2

trillion. Being Pakistanis we argue that it is not our war but the war of US. That resulted unbelievable affects on Pakistan economy and people. Rather to get loan from IMF, all parties in parliament should get together to discuss how to get rid from IMF loan. That will result decreasing debt service cost and decline our liabilities. It will decrease non-developmental expenses and the optimal utilization of the resources to the Govt. sector. Pakistan's situation regarding debt structure is not so bad as the media has declared. Up to March 2010, the total debt of Pakistan is US\$54. 5 billion. In this amount US\$14 billion is of 18 nations called Paris Club. US\$1. 8 billion is bilateral lenders and others like Asian Development Bank, Islamic Development Bank, World Bank etc.

After requesting to Paris Club, China, Saudi Arabia, Japan, Germany and Kuwait, Pakistan was able to get relief of US\$15. 8 billion. But this is not fair. It is noted that Credit Default Swap (CDS) of Pakistan has been boosted up after the murder of Benazir Bhutto. That resulting in decreasing the foreign investment in the country, reducing liquidity, high ring interest rates and economic crises that was commenced from August-September 2008. During SWAT war, the CDS of Pakistan was increased up to 30%. It is not a good position. That's why foreigners hesitate to invest in our country.

Request to IMF for financial support after floods.

The request is sent to the Managing Director of IMF Mr. Strauss Kahn regarding financial support of Pakistan. It was stated that the flood ruined more than 2 million families, 1540 were died, over 2320 were wounded. Almost 15million (10% of total population) is affected. The condition of the

country is more severe. It requires a lot of funds to rehabilitate the people and definitely there should be financial assistance.

Although the Asian Development Bank and the World Bank have promised to pay damages up to October but it is obvious that our requirements are greater than our sources. That's why we are looking for the quick financial support by the IMF to tackle the severe economic condition. We assure that the grant will properly utilized by providing food, shelter, health and other basic services without disturbing the financial market and decreasing foreign exchange reserves. The IMF support will also help us externally to stand in International Market. We are still agreeing with the conditions laid down under the Stand-By-Agreement (SBA).

The effects of flood on economy and budget

Due to flood the country's conditions, infrastructure have severely damaged. Particularly agriculture sector that contributes 21% in GDP and 45% in employment is harshly damaged. The major harm is of cotton, rice and sugarcane crops. Due to damage crops, there is higher inflation in rural areas for flood and other items. Other basic necessities of life also disturbed due to floods. Inflation increased from 11. 7% to 13. 5%.

Financial sector is also affected. Many banks were blocked in floods affected areas. The floods have also budsetry affects. Income from taxes has been reduced due to poor economic condition. Balance of payment has also disturbed. Imports are greater than exports.

What's our reaction towards floods?

The Government of Pakistan is ready to offer aid and mobilize the resources.

In the affected areas by the floods, the (NDMA) National Disaster

Management Authority has offered solvage and release services thousands of people have been procured and basic necessities have been disturbed.

The United Nations has controlled the operations by what it requires US \$460 million of which US \$275 million obtained from private international and public donors. ADB committed to support with US \$2 billion. Further we also introduced tentative income tax surcharge of 10%. In spite of these efforts, our requirements are greater than our sources and consequently it resulted in push 4% deficit of GDP.

SBP is also doing an important role to compensate the economy and financial sectors by friendly working with banks to make easy the easily flow of credit and to international development agencies to enlarge and pass on the previous facilities for financing. It has also encouraged the small and medium-sized business concerns and micro-finance projects in the areas affected by the floods. SBP has also ensured that the international trades and the financial relations are normally working. There is no need to oblige any new restriction on the making of the payments and for transfer of international transactions. We will be able to change our GST and introduce RGST that will cover value-added tax (VAT) that will enable us to reach at our desire sustainable level by acquiring the tax revenues. We will take steps to limit the fiscal deficit that is 4% of GDP. Once the damage needs evaluation is completed, the macroeconomic structure will be re-shaped.