The Impact of IMF Loans on Pakistan's Economy and Remedial Measures for the Debt Crisis

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A 37-month Extended Fund Facility Agreement (EFF) with a total value of around $7 billion has been agreed upon between the International Monetary Fund (IMF) and the Pakistani authorities. The 2023 Stand-by Agreement (SBA) laid the groundwork for this agreement, which will build upon it.

There are a variety of arrangements that allow Pakistan to receive loans from the IMF. Countries with long-term structural weaknesses that are causing significant imbalances in their medium-term balance of payments can apply for financial aid through the Extended Fund Facility (EFF). Countries experiencing difficulties with their balance of payments can apply for short-term financial aid through the Stand-by Arrangement (SBA). Developed and developing market nations alike have relied on this IMF lending. Three year approvals are the norm, four-year approvals are possible in order to execute comprehensive and long-lasting structural reforms. The loans are paid back in 12 equal semiannual installments over a period of 4½-10 years.

During Shahbaz Shareef's first tenure as prime minister (11 April 2022 - 13 August 2023), Pakistan took out a short-term loan through a nine month SBA, which was approved by the Executive Board on July 12, 2023. During Shahbaz Shareef's second tenure (March 03, 2024 to date), the Board's decision permits an immediate disbursement of $1.1 billion on April 29, 2024, bringing the total disbursements under the arrangement to $3 billion.

In return for financial resources, the International Monetary Fund (IMF) demands compliance with a set of policies or conditions. In addition to requiring governments to provide collateral when applying for loans, the International Monetary Fund (IMF) also demands that governments seeking assistance implement policy reforms to address macroeconomic imbalances. The money is held back on a periodic basis unless certain requirements are fulfilled. A decision made by the executive board in 1952 introduced the idea of conditionality, which was subsequently included in the Articles of Agreement. According to the IMF authorities, the EFF program primary policy objectives include:

1. Austerity measures: Sustainable debt-based fiscal adjustment
2. Devaluation of currencies to eliminate foreign exchange control
3. Reducing or eliminating tariffs and other trade barriers
4. Raising investment "stability" (through allowing

domestic facilities to be opened in addition to foreign direct investment)

5. Tight monetary policy
6. Restructural changes, with an emphasis on making the energy sector viable,
7. Privatization: Sale of a significant state-owned company (SOE) and divestment (The inverse of an investment is a divestment).

Instead of focusing on improving economic conditions, all of these recommendations have been imposed on Pakistan with the intention of making its economy more dependent on imperialism and enabling it to repay its overall foreign debt as well as the IMF loans.

Depending on loan terms and international financial markets, the International Monetary Fund has maintained historically low interest rates for their programs in recent years. Budget deficits and interest payments on International Monetary Fund loans are closely related because they both concern the fiscal management of a country. With Pakistan's situation in mind, this analysis examines how these factors interact with one another. In order to repay a loan from the International Monetary Fund (IMF), Pakistan must first pay interest on the loan at regular intervals and then repay the principal. The amount borrowed, the kind of loan program, and the interest rate in effect at any given time determine the interest payments. While the interest rates on most IMF loans are quite low, the sheer size of the loans means they can still end up being a major drain on government coffers. Paying back its IMF loans will have an impact on Pakistan's foreign reserves because the loans are usually denominated in foreign currency, most often SDRs or US dollars.

Budget deficits, in which government spending exceeds revenue collected through taxes and other means, have long been a feature of Pakistan's fiscal policy. To cover these deficits, Pakistan often borrows money, either from its own citizens or from foreign organizations like the International Monetary Fund (IMF). A large chunk of Pakistan's budget has gone toward paying off debt in recent years, which has had an impact on the budget deficit. According to recent statistics, more than 40% of Pakistan’s yearly budget goes toward paying off debt, including interest on loans from the International Monetary Fund and other borrowings. Interest payments on Pakistan's debt increase as the country takes on more debt, especially in times of economic crisis. A worsening of the budget deficit might result from the mounting debt. Essential government expenditures like health, education, infrastructure, and development initiatives are severely curtailed due to a large portion of the budget going toward debt servicing, which includes payments to the International Monetary Fund. This makes achieving fiscal stability and reducing the deficit more difficult for Pakistan. Pakistan might get caught in a vicious cycle if it borrows more money to pay off its mounting interest and other obligations. In the long run, this increases the debt load, which means higher interest payments and wider budget deficits. The government's ability to invest in long-term developmental initiatives, which are crucial for sustainable growth, is hindered by elevated interest payments. Inflationary pressures, which lead to currency devaluation, are a common outcome of large deficits. Managing Pakistan’s external obligations, such as repayments to the IMF, becomes more challenging when the country experiences frequent instances of inflation and currency devaluation during periods of fiscal strain. Pakistan runs the risk of becoming stuck in a debt trap if it continues to rely on borrowing to pay its debt and manage its deficit. In this scenario, a substantial amount of borrowing would go towards repaying previous loans.

The privatization of state-owned enterprises (SOEs) in Pakistan, often a condition of IMF loans, has several negative impacts on the economy. It leads to higher unemployment due to downsizing, along with reduced public access to essential services as privatized companies prioritize profit, potentially leading to higher prices. Privatization often concentrates wealth and economic power among a few, sometimes involving foreign ownership of key assets. The government may face long-term revenue losses, and the process can be marred by corruption and mismanagement. Workers may experience weaker labour protections and reduced union power. Privatizing strategic industries can also lead to loss of control over critical sectors, compromising national interests. Additionally, private firms may prioritize short-term profits over long-term investment, neglecting less profitable regions. Privatization often sparks public backlash and fails to significantly improve efficiency, while sometimes still requiring government bailouts.

The policy of devaluation is not beneficial to Pakistan since Pakistan exports various labour intensive goods, such as textiles, garments, leather and agricultural products. To produce these exports, Pakistan imports raw materials, including cotton, synthetic fibers, automotive parts, the agricultural and pharmaceutical sectors import fertilizers, pesticides, and active ingredients. This reliance on imported inputs is crucial for the production of exportable goods and highlights the interconnected nature of global trade and supply chains. In this scenario, currency devaluation can enhance export competitiveness, the increased cost of imported raw materials and potential inflationary pressures may limit the overall positive impact on the trade balance and economic stability. A currency devaluation raises the cost of foreign loans in local currency, which puts strain on foreign reserves and increases debt repayment obligations and interest expenses. Pakistan's economy may be strained as a result, particularly if export revenue and foreign exchange inflows do not increase quickly enough to offset the increased debt load.

In conclusion we can say that IMF-imposed austerity measures in Pakistan, aimed at reducing fiscal deficits, have had several negative consequences and have backfired in more ways than one. Among these, a decline in economic growth and industrial production has resulted from government spending cuts and tax increases. The devaluation of the currency and the elimination of subsidies both contribute to rising prices, which is known as inflation. Public sector job losses and privatization exacerbates poverty and unemployment, while regressive taxation deepens inequality by disproportionately impacting the poor. Political instability rises as a result of public protests and backlash, and public services like healthcare and education reminn underfunded. Pakistan will likely have to resort to additional borrowing in the future because, while austerity measures may alleviate economic hardship in the short term, they do little to fix underlying structural problems.

In what follows, we concentrate on important indicators like GDP growth, inflation rates, trade deficits, and currency devaluation to put forth a data-driven study of how IMF policies have affected Pakistan's economy. The following is how, chronologically, each of these measurements fit into the effects of the IMF intervention:

1. GDP Growth (Historical Context and IMF intervention periods)

Pakistan has historically achieved higher growth rates before entering into repeated IMF programs. Here's a look at the GDP growth trend:

Table 1: GDP growth

Year	GDP Growth (%)	IMF Program Periods
2004	7.5	No IMF program
2005	9	No IMF program
2006	5.8	No IMF program
2008	1.7	IMF Stand-By Agreement (2008)
2010	2.6	IMF Program (2008-2010)
2013	3.7	IMF Extended Fund Facility (2013)
2018	5.5	No IMF program

2019	1.9	IMF Program (2019-present)
2020	-0.9	IMF Program (2019-present)
2023	-2.7	IMF Program (2019-present)
2024	3.38	IMF Program (2019-present)
Sources: Pakistan Bureau of Statistics (PBS), SBP, IMF		

As shown in table 1 Pakistan experienced higher growth rates (6-8%) before IMF interventions. Since entering IMF programs, growth has slowed, with the economy contracting by -2.7% in 2023 under austerity and economic tightening measures.

2. Inflation Rates (Impact of IMF Programs)

Table 2: Inflation rate

Year	Inflation Rate (%)	Remarks
2000-2007	3.1% - 9.3%	Before IMF conditional loan
2008-2012	7.6 %- 20.28 %	IMF SBA, currency devaluation
2013-2018	3.8 %- 8.6 %	Post-IMF impact
2019	10.7	IMF program starts
2020	9.7	Continued IMF impact
2022	25	Devaluation and subsidy cuts
2023	27.6	Post-IMF

		intervention
2024	24.5	Post-IMF intervention
Sources Pakistan Bureau of Statistics (PBS), SBP, IMF		

Prior to the 2019 IMF program, inflation mostly stayed in the single digits, but it sharply increased to double digits afterward. This rise is the result of measures taken frequently in IMF-driven austerity plans, such as cutting subsidies, devaluing currency, and raising indirect taxes.

3. Trade Deficit Trends

Table 3: Export, import and trade deficit

Year	Exports (Billion USD)	Imports (Billion USD)	Trade Deficit (Billion USD)
2003	12.1	13.7	-1.6
2010	19.69	34.71	-15.02
2013	24.80	44.95	-20.15
2018	23.22	60.86	-37.64
2019	22.53	50.76	-28.23
2022	32.46	72.05	-39.59
2023	35,472	61,333	-25.861
2024	38,904	63,275	-24,371

Post-IMF periods, especially from 2019 onwards, show a sharp increase in the trade deficit, as exports lag behind the rising cost of imports. Trade liberalization policies promoted by the IMF allowed cheap imports, but this hurt local industries, leading to an uncompetitive manufacturing sector.

4. Currency Devaluation (IMF's Influence on Exchange Rates)

Table 4: Exchange rate

Year	Exchange Rate (PKR/USD)	Remarks
2017	105	Pre-IMF devaluation
2018	138	Start of devaluation (IMF conditionality)
2019	160	Under IMF program
2022	225	IMF conditions, devaluation continues
2023	295	IMF-related devaluation, high inflation
2024 (Jan-Aug)	278.39	IMF-related devaluation, high inflation

Under IMF agreements, the exchange rate is allowed to depreciate to correct external imbalances. However, this devaluation has increased import costs, leading to inflation and worsening the trade deficit due to higher energy and commodity import prices.

5. Pakistan's Internal and External Debt and debt servicing

Internal debt includes borrowing from local sources, like domestic banks, non-banking financial institutions, and the public. **Sources of Domestic Debt** are Treasury bills, Pakistan Investment Bonds (PIBs), National Savings Schemes.

Table 5: Debt of Pakistan

Year	Domestic Debt (PKR trillion)	External Debt (USD billion)	Domestic Debt Servicing (PKR trillion)	% of Govt. Revenues	External Debt Servicing (USD billion)	% of Foreign Exchange Reserves
2018	16.4	95.2	1.9	35%	7.5	35%
2019	20.7	110.7	2.4	40%	9.5	45%
2020	23.7	115.7	2.8	42%	11.4	50%
2021	26.3	130.6	3.3	44%	13.8	60%
2022	31.0	130.2	4.0	50%	15.5	70%
2023 (est.)	37.4	125.7	4.5	53%	23.0	95%
2024 (June)	47.1	130.5	7.2	54%	16.9	119%

External debt consists of borrowing from international institutions (IMF, World Bank), foreign governments, and issuing bonds. **Sources of External Debt** are IMF, World Bank, bilateral loans from countries (China, Saudi Arabia, etc.), commercial loans, Eurobonds, and Sukuk.

Pakistan’s Debt Servicing

Domestic debt servicing has consumed an increasing share of government revenues, largely due to higher interest rates and growing short-term debt obligations. Rising external debt servicing obligations have severely strained Pakistan’s foreign exchange reserves, which fell below **USD 4 billion** in early 2023, covering less than one month of imports.

Total debt servicing (Domestic + External)

Combined Data

Table 6: Combined data					
Year	Total debt servicing (PKR trillion)	Total debt servicing (USD billion)	Total Expend. (PKR trillion)	Total debt servicing as %age of Total Expend.	Fiscal Deficit (PKR trillion)
2018	1.9 + (0.0075 * 138) = 2.93	21.23	6.6	44%	1.4
2019	2.4+(0.0095*160) =3.92	24.50	8.3	47%	2.5
2020	2.8 + (0.0114* 160) = 4.62	28.88	9.6	48%	3.3
2021	3.3 + (0.0138* 162) =5.53	34.14	10	55%	3.1
2022	4 + (0.0155* 225) =7.48	33.24	12.2	61%	4.3
2023	4.5 + (0.023* 295) =11.28	38.24	14.5	78%	5.5

Total debt servicing: The combined total interest payments reflect the rising burden of servicing both internal and external debts. The total is projected to increase significantly, affecting fiscal space.

- **GDP Growth**: Pakistan's growth was significantly higher (6-8%) before IMF interventions. Under IMF programs, growth contracted sharply, with a negative growth rate of -2.7% in 2023.
- **Inflation**: Inflation remained in single digits before the 2019 IMF program, but IMF-induced

devaluation and subsidy cuts pushed inflation into double digits, reaching over 27% in 2023.

- **Trade Deficit**: Trade liberalization led to a widening trade deficit. Exports couldn't keep up with the rising import bill, particularly post-2003, as the trade deficit reached $39.8 billion by 2022.
- **Currency Devaluation**: Frequent IMF-driven currency devaluations worsened inflation and import costs, pushing the exchange rate from PKR 105/USD in 2017 to nearly PKR 295/USD in 2023.

Thus, data confirms that IMF policies, particularly austerity, devaluation, trade liberalization, and privatization, have contributed to slower economic growth, higher inflation, a worsening trade deficit, and increased cost of living in Pakistan.

Remedial measures

Elimination of interest from all debt

For many Muslims in Pakistan, adhering to Shariah principles, particularly the prohibition of riba, is considered a fundamental duty. This duty is seen as vital not only for an individual but for the overall economic and spiritual well-being of society. We call for the immediate implementation of the Federal Shariat Court's rulings, demanding the elimination of interest from the economy and urging the government to reform the financial system in accordance with the

Islamic teachings. Entering into the IMF $ 7 billion ESAF makes implementation of the shariat court decision on Riba (to which the government is firmly committed) by 2027 impossible.

In recent years, over 40-50% of Pakistan's budget has been allocated to domestic debt servicing, predominantly for interest payments. Approximately 4 trillion PKR of the overall budget of 9-10 trillion PKR is allocated to this singular expenditure. The projected budget deficit for FY 2023-2024 was 6.54% of GDP, equating to around 7.57 trillion PKR. The outstanding 3.75 trillion PKR is required to address the expenses, which can be achieved by either curtailing expenditures or expanding the revenue base. The aggregate, inclusive of external debt servicing, totals Rs 11.28 trillion. The abolition of interest payments, which constitute the bulk of debt servicing, will result in a budget surplus. This will allow our economy to extricate itself from IMF conditional loans and create an autonomous economic framework, escaping the Austerity Trap, unreasonable currency depreciation, draconian trade liberalization policies, and excessively stringent monetary policies. We recommend that the government:

(a) Announce a moratorium on repayment of the principal foreign debt for ten year period and enter into negotiation with foreign auditor institutions

(b) Cancel all interest payment on foreign debt

(c) Cancel all domestic debt obligations

(d) restructure individual domestic debt along with sharia backed musharika/modarba rules (for instance by linking the rate of payments on domestic private debt to rate of growth of GDP or rate of growth of specific economic sector).

The internal interest payment can be promptly eradicated without external coercion or complications. The debt repudiation policy can be done legally without external repercussions.

Debt repudiation policy:

Repudiating external debt owed by governments has been common practice since the beginning of the 19th century. In capitalist international law an attempt to legitimate repudiation has developed in the context of the doctrine of "odious" debt. This doctrine is based on a series of jurisprudential procedures and has been discussed at length by bodies such as the UN International Commission, the IMF and World Bank. The doctrine originates in the work of Alexander Sack, a Russian lawyer who fled to the USA after the Bolshevik Revolution. Sack argued that "if a despotic power incurs a debt not for the needs or in the interest of the State, but to strengthen its despotic regime, to repress its population that fights against it, etc., this debt is odious for the population of the State" and a new legitimate regime does not have an obligation to repay debt agreements contracted by the old regime(s). Table 1 lists some of the major instances of debt repudiation during the last two and a quarter centuries. The list does not include instances of default such as those of Afghanistan in 1999 or Sri Lanka, Lebanon, Argentina and several other countries following the COVID-19 epidemic.

Table 7: Debt repudiation country and period

Country	Year
United States	1830s, 1860s, 1870s
Portugal	1857
Mexico	1866, 1867, 1881, 1910, 1942-43
Peru	1886, 2006
Cuba	1898
UK	1899, 1900
USSR	1918, 1921, 1924
The Baltic Republics of the USSR	1920
Costa Rica	1922-23
Brazil	1942-43
China	1949-52
Indonesia	1956
Algeria	1961

Iran	1979
Latvia	1991
Estonia	1991
Lithuania	1991
Namibia	1994
Timor	1999-2000
Iraq	2004 *
Paraguay	2005
Sera Leone	2006
Egypt	2006
Jamaica	2006
Ecuador	2009
Source: Toussaint E. (2019) The Debt System, p. 132-33 *during USA occupation.	

To declare Pakistan's debt as odious debt under international law, a legal strategy needs to be developed with the assistance of legal advisors who specialize in international finance and law. The odious debt doctrine argues that if a debt is incurred by a regime for purposes that do not benefit the nation, and creditors are aware of the improper purposes, the debt is considered illegitimate and can be repudiated.

Other policies

After eliminating odious debt, the government could immediately implement **credit planning**, a strategic approach for directing financial resources toward priority sectors. This framework would guide the financial sector in allocating loans to critical industries such as agriculture, small and medium enterprises (SMEs), infrastructure, and social welfare, ensuring that credit is extended based on economic needs. This targeted approach would ensure that loans are directed toward projects that generate social and economic value, rather than serving speculative or purely profit-driven motive.

The privatization of state units, particularly in utility sectors, should be abandoned. The production and distribution of essential services like electricity and gas should be the state's responsibility, ensuring these resources are provided to industries at concessional rates. Since electricity and gas are fundamental inputs for industrial and services production, offering them at lower costs would enable industries to reduce production expenses, enhancing their competitiveness in both domestic and global markets.

Trade policy should not rely on devaluation as a means to boost exports; instead, a managed fixed exchange rate should be established to promote trade in alignment with the country’s economic advantages. Trade liberalization, which harms domestic industries, should be abandoned and replaced with an import substitution policy to protect and strengthen local production.

Pakistan's geopolitical situation necessitates a sovereign economic policy that prioritizes national security, particularly by strengthening defense capabilities. In today's world, defense is increasingly linked to control over telecommunications and internet services, which are vital for intelligence, communication, and cybersecurity. To safeguard its strategic interests, Pakistan should reduce reliance on Western-controlled internet services and develop its own independent information infrastructure, similar to China's approach. By creating a secure and self-reliant digital ecosystem, Pakistan would not only enhance its defense mechanisms but also protect its data, communication networks, and sensitive government information from external surveillance or cyberattacks. This move would align with national security objectives and support broader economic independence, reducing vulnerabilities tied to global dependencies. Furthermore, a localized system could promote innovation in the tech sector, fostering domestic growth and technological advancement in critical industries.

Conclusion

The IMF's Extended Fund Facility and Stand-by Agreement have been instrumental in increasing

Pakistan's fiscal and balance of payments deficits as these programs often come with strict conditions like currency devaluation, austerity measures, privatization of state-owned enterprises, and trade liberalization. These conditions have worsened Pakistan's long-term economic challenges, such as job losses, decreased access to essential services, and increased reliance on foreign ownership. Additionally, austerity measures have slowed economic growth, increased unemployment, and worsened inflation, straining Pakistan's foreign reserves and fiscal stability.

Pakistan's Muslims believe in adhering to the Shariah principles, particularly the prohibition of interest, which is seen as a fundamental duty. Implementing the Federal Shariat Court's rulings to eliminate interest from the economy is crucial for a more equitable and sustainable economic model. Currently, 40-50% of Pakistan's budget is allocated to domestic debt servicing, primarily for interest payments. Eliminating interest payments would create a budget surplus, allowing Pakistan to break free from IMF loans and their harsh conditionalities. Repudiating external debt could be done through the doctrine of odious debt. Pakistan could also implement credit planning, nationalizing essential utilities like electricity and gas, and reforming trade policies to create a more resilient and autonomous economy aligned with Islamic principles and sustainable development. Pakistan should prioritize national security by strengthening defense capabilities and developing its own independent information infrastructure, reducing reliance on Western services and promoting domestic growth and technological advancement.

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