Impact of IMF Conditionality on Pakistan

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Abstract:

International Monetary Fund (IMF) is a multilateral financial institution which provides financial assistance to countries facing financial challenges. The increasing influence of IMF through Standby Arrangements and Structural Adjustment Programs and their performances in under developed countries has made it a subject of intense global debate with significant concerns about the effectiveness of IMF program conditionality on borrower countries. This study examines the impact of International Monetary Fund (IMF) program conditionality on Pakistan's economy. Pakistan makes an interesting case study as it is one of the most prolonged users of IMF resources. This study uses a 50 year review period from (Fiscal Year) FY1970 to FY2020 and concludes that IMF programs had insignificant impact of major macroeconomic variables but considerable impact in reforming the country's financial system, trade liberalization, privatization and deregulation. However, it failed to improve the country's fiscal position while also being unhelpful in achieving sustainable external account and higher GDP growth rate. The program implementation was generally weaker during the periods of civilian-rule in the country and relatively better when the military was in charge.

JEL Classification: G0,G2

Keywords: IMF; Structural Adjustment Programs; Pakistan; Trade Liberalization; Privatization; Deregulation

Introduction

IMF is an international institution that promotes the stability of global monetary systems and provides technical and financial assistance to overcome Balance of Payment crisis. The role of IMF in the developing world has been a center of debate in the last few decades due to increasingly strong implications of its lending programs on economies. There exist several studies on this controversial issue and most of the studies have used a generalized approach to see the impact of programs on the developing world. The conditional IMF loans aim to restore macroeconomic stability by controlling short-term reserve problems (Bird, 1996). The usual prescription includes adjustment in monetary, fiscal and exchange rate policy, deregulation, financial liberalization and privatization. The complete history and role of IMF is given in Annexure.

However, this study aims to use the case study of Pakistan which is one of the prolonged users of IMF resources since its independence in 1947, Pakistan has signed 20 agreements with IMF on different occasions. But the relationship between IMF and Pakistan has not been productive since 1980 and most of the programs were called off due to poor implementation. According to IMF International Evaluation Office (IEO) report (2002), decision making in Pakistan is politically driven which is one of the main reason for poor implementation of IMF conditionality as political governments always tried to escape from tough actions. Similarly the political instability and inability of government to take unpopular decisions during 1990s were major hindrances in a consistent implementation of economic policy. However the external shocks also played their role in worsening the economic situation of this decade. On the other hand, the military regime of 1999 was politically stable and strong economic management enabled the country in coming out from the dependence on IMF for some time. During this period macroeconomic indicators performance improved by large extent accompanied by foreign aid from US after 9/11 which further provided a boost for the economy. The major developments under military rule were decline in poverty, reduction in budget deficit, current account surpluses for 4 years and average real GDP growth of 7 per cent (Haq, 2010).

A lot of research has been carried out on IMF impact on Pakistan's economy and most of the studies concluded that these agreements had serious repercussions on the economy of Pakistan in terms of rising poverty and unemployment, low growth and growing Balance of Payment problems. This study uses the time series analysis by incorporating factors that played an important role in determining the effectiveness of IMF

programs. This study includes the review period of 50 years in which military and political regimes and their impact on fiscal, monetary and external sector was studied. This study also analyses the behaviour of macroeconomic indicators which performed better in programs which were taken under military governments.

Problem Statement :

IMF " One Size fits all" policy has been under intense criticism globally as the proposed agreements kept ignoring the internal dynamics and structure of poor recipient countries. At the same, lack of technical expertise to manage the economy and lack of ownership by the borrowing governments made the situation worse. These are the main reasons due to which borrowed governments kept failing in proper utilization of funds which ultimately cause depleting impact on macroeconomic variables and challenge the role of IMF funding in developing countries. The same is the situation with Pakistan, one of the prolonged user of IMF resouces. This study aims an in depth look at the economic impact of these agreements for Pakistan.

Objectives of the study:

The objective of this study is to identify various reforms and their impact on Pakistan's Economy. Additionally, the impact of IMF agreements is assessed on major macroeconomics variables through empirical analysis via utilizing the time series econometric procedure. The targeted objective would analysing the significance of dummy variable on economic growth, trade, inflation, Investment and Government spending.

Literature Review

There has been considerable debate about the impact of IMF programs on the economies of borrower countries. Despite extensive research and debate a consensus seems far from achieved and the discourse remains divided between multiple schools of thought. Some economists and researchers have found evidence supporting IMF's role and programs in restoring macroeconomic equilibrium and competitiveness in the borrower economies. On the other side, many economists remain sharply critical of IMF's role in resolving the economic crisis in the developing world and have provided empirical evidence questioning the effectiveness of IMF programs. Moreover, it is difficult to fully establish the impact of IMF programs on any single economy due to different exogenous factors which can play an important role such as supply or external shocks etc. in the performance of agreement. This makes economists to take the sample of different program recipient countries for their study and generalize their findings for whole developing world.

While a variety of techniques have been used in different research articles for performance evaluation of IMF programs by looking at their impact on macroeconomic indicators such as growth, inflation, balance of payment etc., four approaches have been used more frequently. These methods of evaluation are before-after approach, with-without approach, actual-verses-target approach and simulation approach.

According to Khan and Haque (1998), in before-after approach the macroeconomic performance of a borrower country is compared before and after the program. In with-without approach, a control group comprising all the countries without IMF program is used to compare their economic performance to the countries those receiving IMF programs. Actual-verses-target compares the required target of the program with the actual performance of the country. The simulated approach compares the simulated performance of program policies with the performance of other policies.

Before and After approach has not been able to build consensus over the consequences of fund agreement on balance of payment and current account. Connor (1979) observed improvement in balance of payment and current account in his study, whereas Reichman and Stillson (1978) study and Killick (1984) findings concluded that fund programs had insignificant effect on balance of payment. Whereas, these studies showed similar results regarding adverse impact on economic growth, budget deficit and inflation.

The critics of this approach argues that it assumes that all the exogenous factors remain fixed overtime but in reality factors like political stability, natural disasters, weather conditions, global recessions etc., which play an important role in determining the performance of a program seldom remain unchanged so this approach may give biased results at times.

Advocates of with-without approach argue that this approach covers all the aspects and factors related to agreements. With-without approach captures maximum of existing literature and the empirical studies show consistent results under the domain of positive balance of payment and growth rate impact.

Nawaz, Khan and Hussain (2011) criticised the flaws of with-without approach and they claimed that most of the countries differ in the geographical and socio-economic conditions just prior to being selected randomly and argued that this systematic difference effects the economic performance of the country. They suggested that as this non-random implication creates bias in the outcome of with-without approach so generalized evaluation approach should be followed because it identifies those differences appropriately. According to Khan (1990), generalized evaluation estimator is the modified form of with-without approach because it deals with all the biases that were created by the former approach.

It has been observed in recent years that fund policies are evolving and the Fund is making continuous effort to make their programs more effective. This was observed when Khan (1990) carried out his study for the period 1973-88 consisting of 69 developing countries with the help of generalized estimator. He concluded that short run impact is misrepresentation of the outcome because of the lagged impact of policies. His findings showed that the positive impact of supply increasing policies comes out after lag, not immediately. He divided his sample in two sub samples and observed the impact with time. His finding showed that balance of payment improved in both periods but it was significant only when impact was prolonged beyond the program years. Current account deficit decreased and inflation reduced in both periods but he could not find significant impact in either. On the other side, Growth showed decreasing trend in program period but then started increasing beyond the program years.

In case of Pakistan, Reforms and structural change are always imposed partially and haltingly, either rolled back or abandoned or accepted with level of least resistance. But mostly it was achieved through manipulating the data or with exemptions and concessions. Hakro and Ahmed (2006) analysed the impact of Fund stabilization programs on Pakistan. They used generalized estimator technique and found out that the

country's major macroeconomic indicator (Inflation, Unemployment and Current Account) deteriorated overtime apart from Fiscal balance during period of agreements. Moreover due to poor implementation of reforms by the government, it enlarged the dampening effect on the economy. Their findings supported the results of Zaidi (2000) who also claimed that the structural adjustment and short-term agreements mostly created economic hurdles by raising unemployment and poverty level in Pakistan. The positive impact of SBAs and structural adjustment were always missing.

The critiques of this approach argue that it does not incorporate the positive shocks such as productivity and technology shocks etc. which can play considerably favourable role in achieving policy targets so the impact of program by looking at its target cannot be evaluated clearly.

Barrow and Lee (2005) analysed the impact of 725 IMF programs for the period 1970-2000 and identified that those countries that have never taken any IMF programs grow fastest. Their findings were consistent with results of Przeworski and Vreeland(2000) study which showed that average growth rate for countries that enter in program is lower than those who do not ,whereas those countries that have never experienced IMF program progressed with fast pace.

Iqbal (1994) used with-without and regression analysis approach to examine the impact of adjustment lending on Pakistan ,found out that country suffered with fall in real output and increase in inflation rate during Fund agreements whereas he could not find any significant impact on exports. He included that conditional lending increased investment but at the same time it originated Dutch disease by raising government expenditure in Pakistan which subsequently became the reason for country to secure loan (Vos, 1993).

IMF has been criticized due to its rigid stance of major economic policy matters such as imposition of harsh conditions on the country and ultimately hurting the poor peoples at the end. Due to this reason, IMF is blamed as anti-poor institution. Nobel laureate Joseph Stiglitz also raised some concerns over IMF role in East Asian Crisis in this manner "All the IMF did was make East Asia's recession deeper longer and harder". For this purpose, Anwer (1996) analysed the impact of conditionality in 1988 on poverty level of Pakistan. He concluded that the level of poverty increased from 13.81 percent in 1988 to 17.2 percent in 1990 and government measures in achieving program targets have increased income inequality in the society and criticised the structure of IMF program. He elaborated that government increased GST on goods and services to achieve revenue targets, which dampened the consumption level of poor people. Similarly government

increased the prices of fertilizer, petroleum and wheat to achieve the target of reduction in subsidies. Moreover, authorities reduced the development and social services expenditure to achieve target of reduction in budget deficit. All these anti poor measures adversely affected the lower class of society and deteriorated their welfare at same time. Balassa (1989) and Nicholas (1988) highlighted the impact of adjustment lending on economic indicators of developing countries and according to their findings, Pakistan experienced increase in real economic growth and current account with depreciation in exchange rate due to conditional lending. On the other hand, Zaidi (1999) claimed that IMF loans to Pakistan have just created some breathing space for the prevailing governments. He argued that agreements resolved balance of payment crisis and exchange rate pressure occasionally. It also helped to rebuild the shattering confidence of International Financial Institutions (IFIs).

The literature does not provide the clear picture regarding the economic impact of IMF agreements on developing countries. Despite all the exceptions and difference in findings that exist, the general outcome from most of the studies has shown that Fund arrangements had positive impact on current account, it showed improvement. Similarly the studies conducted for Pakistan does not address why programmes have not led improvement in economy despite long engagements neither it answers why do policy programme fails so often in Pakistan. The summary of known approaches and their findings is given in annexure (Table 1)

PAK-IMF RELATIONSHIP

With current population of 184.4 million, Pakistan is the 6th most populous country of the world and classified among lower-middle income countries. According to Economic survey of Pakistan (2012-13), the country's total GDP is Rs. 22.9 trillion (about $ 240 billion) with per capita income of $ 1,368. The country's GDP contributions are agriculture (21.4%), industry (20.9%) and services (57.7%). Pakistan is a major global producer of agriculture commodities such as cotton, wheat, rice, sugarcane and milk. Textile is the country's biggest industrial sector and accounts for 53% of the country's total exports.

Pakistan enjoyed growth of 6 per cent in first four decades after independence in 1947 and was considered to be role model for the developing world in the 1960s while facing the costly confrontation with India on two occasions 1965 and 1971 accompanied by detachment of Bangladesh which hampered the economic growth of the country badly. The economy recovered quickly from these exogenous shocks and in 1980s huge foreign

aid, remittances and policy of deregulation worked in favour of the nation and the growth rate came back at 6.5 per cent. However, the economic performance started deteriorating in late 1980's, political disputes in 1990s accompanied by international sanctions due to nuclear test in 1998 brought a rise in debt which ended up at 99 per cent of GDP in 1999 (Haq,2010). Meanwhile, the ruling governments had already used this debt unproductively which eventually created serious debt repayment problems and country came close to default. In that situation, government used their only and last option of knocking at the door of IMF and the journey of IMF-Pakistan relations started. This scenario is supported by Dreher (2004) findings who identified the reasons to seek financial assistance and argued that the probability of approaching IMF's program increases in countries with higher debt servicing requirements, lower levels of democracy and with smaller short term debt. After the military coup in 1999, the social and macroeconomic indicators showed major improvement with high real GDP growth due to timely reforms, trade liberalization, good governance and foreign aid as a result of cooperating in the US war on terror post 9/11 (Zaidi ,2005). Pakistan had a healthy and sound economy in 2007 but due to subsequent rise in militancy in country compounded with global recession of 2007 and domestic energy crisis, the economy started suffering.

Pakistan - Prolonged user of IMF resources and its reasons

Pakistan is one of the prolonged users of IMF resources and country mostly approached IMF due to debt and balance of payments problems. According to IMF Member Quota and Voting Power (2013g), Pakistan became member of IMF in 1950 and the quota was fixed at SDR 150 million. Pakistan quota with IMF stands on 1.1 SDRs, currently Pakistan availing 300 percent of its quota carrying 3.5 SDRs($5.25 Billion).The level of Quota for Pakistan has increased overtime which is evident from Chart 1(Annexure).

Pakistan started its journey with IMF in 1958 only some minor programs were undertaken until the 1980s (IMF Evaluation Report, 2002). During the period of 1972-77, country approached IMF four times for one year Stand-by-Agreement programs. The excessive use started in 1988 and next twelve years brought seven arrangements out of which four were single year Standby programs and three multi-year agreements. To correct imbalances more focus was given to strict management policies as well as on structural reforms (Hussain, 2002). All programs went off-track apart from SBA in 2000 and Poverty Reduction Growth facility (PRGF) of 2001, both agreements were under military regime. The last failed program was SBA in 2008

which was taken down due to weaker resource mobilization and high budget deficit compounded by an international financial crisis. The brief History of IMF-Pakistan relationship is given by table 2(Annexure).

IMF IEO case study report (2002) declared Pakistan as one of the prolonged user of IMF financial and technical resources. This report claimed that there were two main factors that played significant role that forced Pakistan to use this assistance persistently. The first one was design flaws within IMF programs and the second one was weakness of local governments and administrations. The major flaws in the design of programs and conditionality were overambitious target of savings, growth and exports, limited time for implementing and analysing measures and reforms, conditionality weakness in dealing with any external or exogenous shocks like natural disasters and security issues, lack of integrated prior action programs, limited understanding of dynamics of economy, increasing number of conditionalities, weak prioritization of tough measures, sequencing error, missing contingency plans and weak emphasis on ownership and implementation as major component causing extensive use. It further stated the deficiencies by authorities and external shocks which were responsible as well, such as endogenous factors of political instability in 1990s, ad-hoc measures taken by authorities to achieve targets which adversely affected the aim of long-term stability of country, missing political will at highest level for undertaking tax reforms and not following the sustained approach. So, this report justifies that Political will is an indicator that plays an important role in success of conditionality **(**Przeworski and Vreeland ,2000).

During 1988-2000, the important factors that led Pakistan to go for assistance were mainly due to Balance of Payment crisis as well as debt overhang problem. Due to these issues, securing IMF loan was prerequisite condition to obtaining financial assistance from some international financial institutions as well as from bilateral donors. In that situation there was no option other than locking up in IMF agreements. On the other side, the authorities of Pakistan always tried to avoid the decisions that do not suit their political interest and they used IMF as a scapegoat for their unpopular decisions and used them as a source of external funding (Hussain,2005).All these reason eventually brought huge burden of successive programs and low economic growth.

According to Hussain (2002), during the period of 1988-2000, Pakistan tried to overcome external imbalances with the help of short-term liquidity injecting facilities of IMF and avoided long-term structural reforms because of the associated political cost attached with them. Meanwhile political insecurity, poor governance

and inefficient expenditure were other factors that disturbed the macroeconomic balance. The governments always approached IMF for resolving any temporary crisis such as balance of payments problems and increasing budget deficit (Yaqub, 2013). It was never taken for undertaking reforms or improving structure of the economy. The commitment to carry out reforms for future economic independence and stability was missing in all governments. Borrowing from IMF has always been used as a tool to pass the given time in office and save the governments without delivering. Every government implemented the softer measures that were easy to execute and avoided the tough ones. Sometimes governments manipulated the numbers and achieved the policy targets on paper only. Reforms were avoided and for tough measures either asked for waivers or suspended the programs without achieving the targets. This argument is endorsed by study of Ahmed (2011) which claimed that Pakistan used the strategy of "financing without adjustment" from 1988 and always ignored the important steps and measures that should have been taken to avoid prolonged use of conditionality and this policy of Begging and Borrowing can only delay the pain of crisis for any economy but it cannot resolve that crisis.Pakistan has lacked ownership for adjustment program, neither implemented any program in full earnest nor tried to overcome its weaknesses

During nineties, the successive change in governments was another determinant factor that pushed country towards IMF on different occasions. Pakistan was ruled by two political parties twice in this period and all were removed due to corruption charges. This caused every next government to approach IMF for new agreement due to lack of trust on the competence and expertise of each last government (Cheema, 2004). Meanwhile Asian financial crisis and International community sanctions due to nuclear tests of 1998 also intensified the economic problems which eventually led seven agreements in this decade. Likewise, Pakistan's importance and credibility was spoiled due to these back to back agreements which forced international institutions to use tough terms with subsequent loan. (Looney, 2002).

AN ASSESSMENT OF IMF PROGRAMS ON PAKISTAN ECONOMY

Approach

The inherent complexity of the functioning of an economy makes its analysis a difficult task even when the subject on hand is a relatively less developed country. The complicated interaction of exogenous and endogenous factors influencing the economy limits the conclusiveness of any attributive analysis and hence

any findings of an exclusively quantitative method for evaluation should be interpreted with caution. The four main approaches, namely, before-after, with-without, actual vs. target and simulation, commonly used in the studies on the impact of IMF programs on borrower countries are essentially quantitative models. While these may be more useful when analyzing a cross section of economies, the study of single economy provides better perspective when analyzed using a broader approach combining both quantitative and qualitative factors. This is the approach used in this study beside doing time series empirical analysis to assess the impact of IMF programs on Pakistan's economy with the help of data analysis.

The study aims at identifying the fundamental changes in the structure and orientation of Pakistan's economy and analyzing the trends in key macroeconomic indicators including balance of payments, exchange rate, monetary policy, fiscal policy, inflation, external debt, poverty, investment and real GDP growth. The study also analyses the design, conditionality, and implementation track record of IMF programs in Pakistan and how these were impacted by internal and external political factors.

Review Period

Pakistan's being a prolonged user of IMF resources provides a fairly long history for analysis. This study uses 50 year period (1970-2020) analysis but the 29 years duration of (FY1985-2013) carry more importance because it contains a fairly large number of programs for study. During this period a total of 11 programs granted by IMF to Pakistan aggregating SDR 12.34 billion. However, the actual disbursements under the period were SDR 7.90 billion (64%). Secondly, this period contains years when the country was both under and outside the IMF programs. Total years inside the program were 19 and outside the program were 10. Thirdly, the country's domestic political landscape underwent several changes which provide the opportunity to analyze the impact of political dispensation on program implementation. During the 29 year period, 12 years were under military rule while 17 were under civilian control. Fourthly, the country's relations with the western world saw significant swings providing the opportunity to analyze the influences of external political factors on IMF program designs and conditionality. Table 3(Annexure) provides the nature of agreements taken in this period.

Program Structure

IMF programs are designed to restore macroeconomic stability primarily through a significant tightening of macroeconomic policies. The usual prescription includes instilling fiscal discipline via reduction in untargeted subsidies, privatization of state owned enterprises (SOEs) and resource mobilization. This is accompanied by a flexible exchange rate policy with minimum intervention from SBP to adjust exchange rates based on market demand and supply. Moreover, monetary tightening by increasing discount rates is called to curtail inflationary pressures from fiscal consolidation (increasing administered prices) and adjustment in exchange rates (to make imports expensive by PKR devaluation).

To implement these policies, IMF programs are structured with a set of prior actions, quantitative targets and structural reforms. The prior actions are prerequisites for qualifying for a loan and involve steps such as increasing discount rate and increasing electricity tariffs. Quantitative targets are limits on economic indicators such as caps on fiscal deficit, government borrowing and monetary expansion. For this purpose the quantitative targets and structural targets for PRGF taken in 2001(Ninth Review) is given in appendices. Finally, structural reforms are steps that government commits to take for achieving desired objectives of macroeconomic policies. Some of these reforms include resource mobilization by increasing taxes, elimination of power subsidy by increasing electricity prices and amendment in banking laws to increase supervision of SBP.

Program Implementation Track Record

Pakistan has been involved in 11 IMF programs during the 29 year history under review and only two of these 11 IMF programs were 100% complete while a third (PRGF 2001) was also on track but was not required to be completely drawn down. Most of the programs under review were taken during 1990s which was highlighted by severe political instability and frequent changes in government leading to termination of IMF programs. The intent of the governments for taking IMF programs was to support balance of payment pressures and rebuild foreign exchange reserves rather than achieving macroeconomic stability. In a decade where governments were more occupied in retaining power, bearing political cost of IMF reforms was certainly not on the agenda. Moreover, the benefits of unpopular decisions would have become evident in the longer run when incumbent government would most likely have been out of power. Therefore IMF program

implementation during the civilian rule in 1990s remained unsuccessful owing to political reasons. Unlike the civilian rule of the 90s, Musharraf's military regime was prepared to take unpopular decisions and had long term plans for economic revival of the country. During this period, Pakistan and IMF were on the same page and of the 3 successful IMF programs during the 29 year history, 2 (SBA 2000 and PRGF 2001) belonged to this decade.

Pakistan's relations with US also had an important part to play in success of IMF programs. In 1990s, post disintegration of the Soviet Union, military and economic aid to Pakistan was stopped. Moreover, unstable democracy, conflict with India over Kashmir and nuclear tests made Pakistan the most sanctioned ally of US in the 1990s. However, 9/11 saw a drastic shift in Pak-US relations as Pakistan became a frontline state in war against terror.

Prescription of all programs for Pakistan revolved around the same elements of strengthening of tax administration, executing tax reforms, removing issues of fiscal decentralization, resource mobilization through broadening of tax bases, executing energy sector reforms and controlling theft, privatization and restructuring of PSEs, improving investment climate specially in energy sector, building of foreign reserves for stability of exchange rate and to strength financial sector. All programs remained critical over resource mobilization, Restructuring of PSEs, taxation and power reforms, enhancing tax to GDP ratio upto 15 percent, improving governance by appointing professionals.

Impact Analysis

Developments in Reforms and NFC Conundrum.

In case of Pakistan, governments have failed to implement any power and tax reforms and even could not pursue resource mobilization. The sponsored reforms by IMF remain unperformed especially in the area of tax administration and SBP autonomy. It is quite evident from low tax to GDP ratio and deteriorating performance of FBR in collection of taxes. Similarly state bank has never exercised full autonomy so far as monetary policy, exchange rate policy and interest rate policy was never conducted independently for the reason which made SBP failing in controlling inflation.

NFC Award is criticized because through this award provinces get 60-65 percent of total revenue from FBR so now achieving any revenue or deficit targets depends on provincial governments and the challenge is that

national government has not been able to develope the consensus among provinces to achieve these targets and following binding constraints for longer interest of economy. Due to decline in provincial fiscal efforts, NFC award seems sowing a perpetual macroeconomic crisis because transfer should have been linked with capacity building of provinces. Provincial government requires budgeted revenue to achieve target surplus however federal government always targeted revenue as residual due to which binding constraints are required otherwise it will further complicate fiscal discipline.

To address issue of fiscal decentralization, government need to introduce the binding constraints to make sure the attainment of fiscal deficit targets, as now the success of meeting targets depend on the provincial government so as the macroeconomic stability and fiscal discipline. Federal government is getting 42.5 % share due to this award which indicate that it lacks economic foundation as most of the resources have been transferred to provinces.

Economic Orientation & Structure

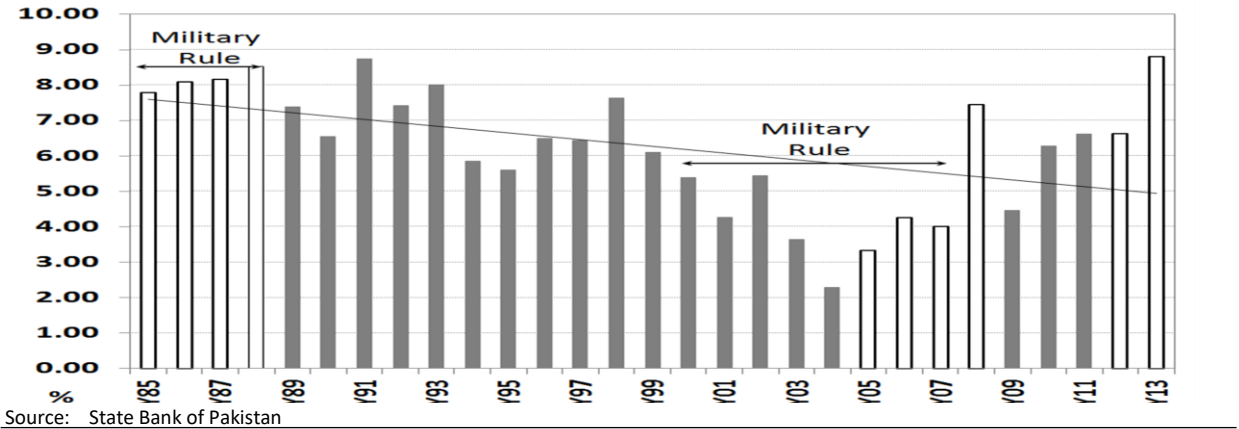
Pakistan witnessed radical transformation during the review period from being a state-dominated, highly regulated and largely closed economy to a private sector led, largely free market based and open economy. The thrust of the IMF reforms focused on liberalization, privatization and deregulation. Government has undertaken 167 transactions amounting Rs. 476.421 Billion in last twenty years and it was highly targeted in sectors of Banking and Capital, Telecom, Industrial and energy as sector wise privatization details are given in table 4(Annexure). Privatization and deregulation of non-financial sector also met significant success as government exited business such fertilizer, cement, telecoms and textile. However, privatization of entities in energy, transport and steel sectors made little or no progress.

Fiscal Performance

Despite fiscal consolidation being a key element of IMF's program with binding targets in shape of quantitative targets and structural performance criteria, the country's overall fiscal performance during the review period remained weak with fiscal deficit averaging 6.3 percent of GDP during the 29 year period which is shown in Chart 2. (**The shaded region in all charts shows the period under IMF programs and**

the non-shaded period reflect without IMF program duration. All the charts are made by the data taken from State Bank of Pakistan.)

Chart 2: Huge fiscal deficits (% of GDP) over the years

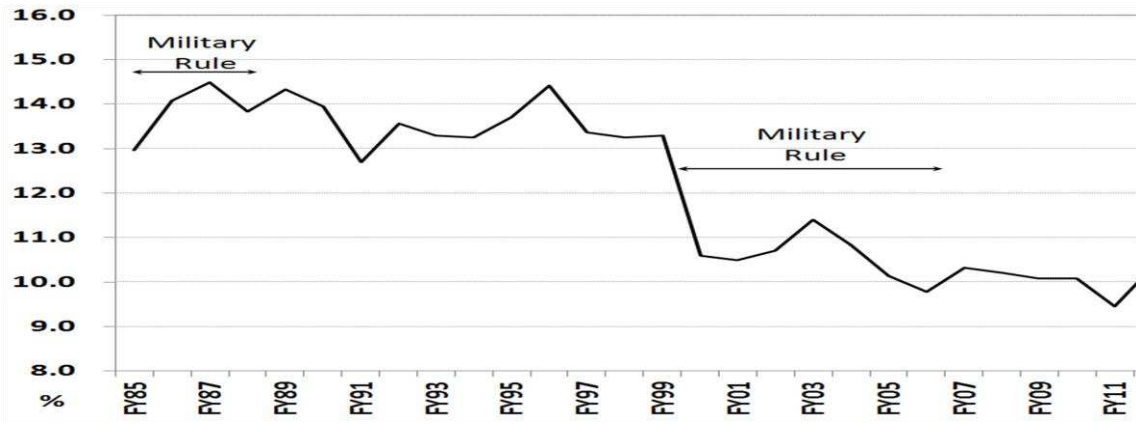


Source: State Bank of Pakistan

The only exception was an 8 year period (FY2000-07), when the fiscal deficit shrank to an average of 4.0 percent of GDP. This improvement seems less related to any radical changes in IMF program design from its earlier versions, but more to do with political factors. A strong military regime was in place during this period while the country witnessed huge influx of private Foreign exchange flows post 9/11 and improved relations with the US. The lower debt servicing costs, record low interest rates and international lower oil prices helped bring down fiscal deficit.

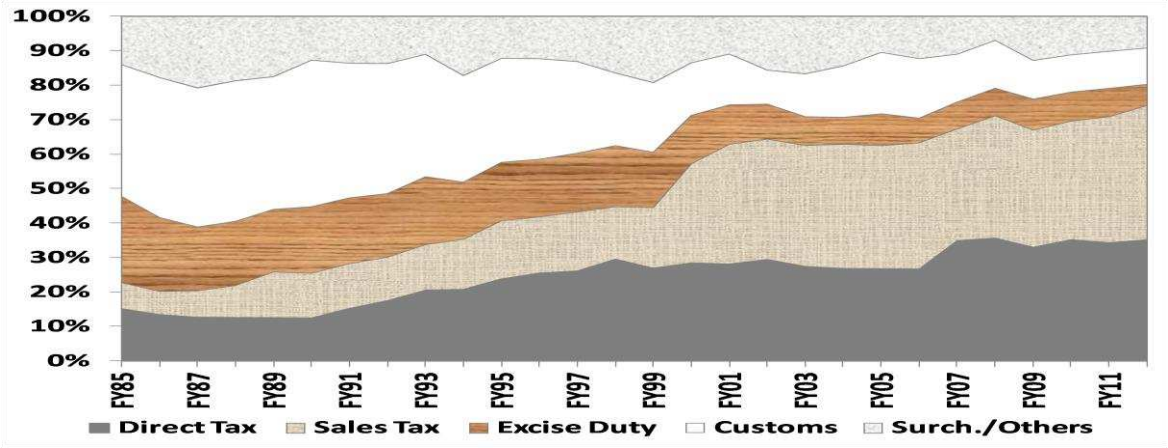
While fiscal reforms were a major component of each IMF program, it failed to increase the country's resource mobilization. The country's tax/GDP ratio given in Chart 3 gradually declined from an already modest level of 14 percent in late 1980s to around 10 percent in 2000s, which is one of the lowest tax/GDP ratios in the world. It is evident that tax/GDP ratio of 14 percent could not be maintained despite successive IMF agreements.

Chart 3: Declining Tax/GDP ratio



However, two additional points are worth mentioning. Firstly, there was a radical change in the composition of taxes. As part of trade liberalization and deregulation, import tariffs and excise duty rates witnessed dramatic reductions during the review period. Consequently, the share of customs duty and excise duty in total taxation shrunk markedly and direct taxation started increasing which is shown in Chart 4.

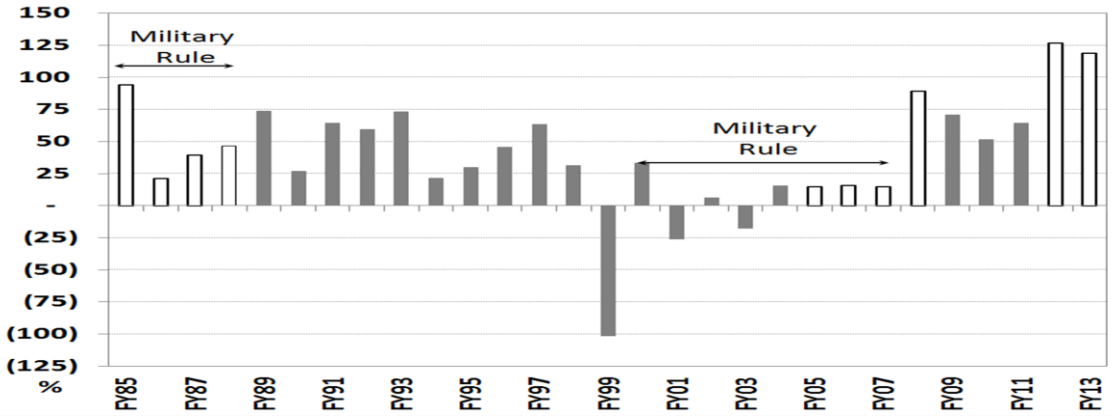
Chart 4: Trade liberalization impact on Tax mix (Shares)



Source: State Bank of Pakistan

Moreover, the consolidated share of tariffs and duties also remained low under IMF program period as it is evident from Chart 5. Trade liberalization made significant progress in reducing import tariffs and duties which was brought down from an average of 225 % in 1980s to 35 % by early 2000s. Likewise, government did get away with support price mechanism for several agriculture commodities such as cotton and rice.

Chart 5: Trade liberalization impact on Tariffs and Duties.



Source: State Bank of Pakistan

Although more reforms were introduced in direct taxation and sales tax (a form of value added tax), these were unable to raise the overall tax/GDP ratio. Secondly, no government whether military or civilian, was strong enough to broaden the tax base. This may be because the ruling elite itself was the amongst the tax evaders or did not want to give up tax exemptions and also did not want to take the risk of ticking off voters by widening the tax base. So, weak resource base resulted in lower government spending on health, education and infrastructure which in turn adversely impacted the country's investment and growth performance. Moreover, the high fiscal deficit meant that the government remained the biggest borrower from the banking system, which resulted in crowding out the private sector.

Governments have failed to bring powerful and rich people under tax net, neither they enhanced the tax to GDP ratio over last 25 years. Governments need to take action against lawmakers who donot pay taxes. According to one estimate almost 12 percent of lawmaker does not have National Tax Number (NTN) even and half of lawmaker does not pay taxes which clearly indicates government failure to bring rich and powerful under tax net.

One million out of one sixty five million don't pay taxes so meaningful tax reforms, taxation on agriculture income, stock market, real estate is required beside broadening tax to GDP ratio. VAT mostly faced resistance from business community which is well equipped with evading and abusing GST so oppose it due to the fear that VAT may tighten the supply chain of value addition and making refunding and evasion claims difficult. The lack of agreement in provincial governments at the allocation of sharing and collection of VAT on services and resistance from trading community and political interest were the primary elements for non-implementations. FBR is performing both duties of tax collection and making of tax policy and that's why it is

not able to do justice either one of these whereas success of programme is based on the collection of targeted revenue and bring high level lawmakers under tax net.

All the sectors need to bring under tax net including agriculture and services. Similarly all people with given level of income should be taxed equally without considering the income's origin. Moreover people with higher income should be forced to pay higher proportion of tax. All the loop holes, exemptions, concessions should be eliminated to broaden the tax base. Reforming the tax administration and removing tax corruption is vital to achieve fiscal objective of economy. It may require some constitutional amendments and rearrangement of fiscal federation to undertake reform for protecting economy. Even in that case it should not be avoided as constitution has already amended number of times to protect political and personal interests.

Monetary management

The transformation of monetary management from a system based on direct controls to a market based indirect system has been one of the key highlight of the IMF programs. Prior to reforms, monetary management was characterized by direct controls such as fixed interest rates, credit ceilings, direct interest rate restrictions in the form of floors on deposit rates and ceilings on lending rates, subsidized credit and direct involvement of government in formulation of monetary policy. The transitional process of financial market included replacement of tap system having fixed interest rate instruments with auction-based government debt management, abolishment of bank-wise credit ceilings set by SBP, rationalization of subsidized credit schemes, removal of caps on maximum lending rates of banks and strengthening SBP's role in formulation and implementation of monetary policy (SBP financial Assessment report,2002).

The financial reforms in market of T-bills converted the primary market of GTRs (government treasury deposit receipts) and Treasury Bills into more competitive secondary market followed by the introduction of 3-Day Repo facility by abandoning discount window to support this transformation. Similarly the privatization of banks reduced the non-performing loans in the market guided with abolishment of credit ceilings which allowed banks to extend their credit for more productive use in private sector. Meanwhile these reforms raised the autonomy of SBP and contributed for Independent monetary policy formulation and implementation. Moreover, the modification of introducing Open Market Operation (OMOs) as major

instrument in 1995 is considered to be important development towards financial restructuring. (SBP financial Assessment report, 2002).

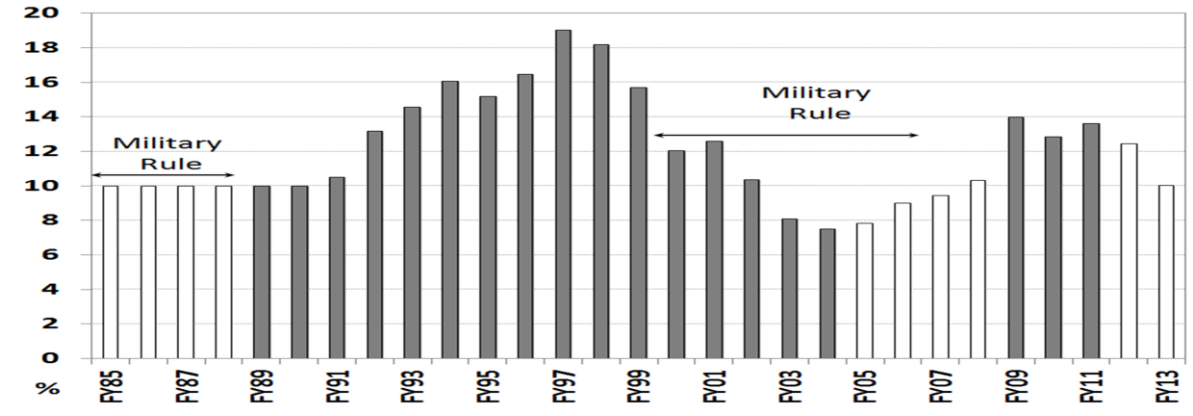
IMF has occasionally showed concerns over SBP monetary policy e.g. After accumulating huge budget deficit, SBP injected money with the help of reserves open market operations and provided facilitation to commercial banks in investment in government papers. IMF believed that it will generate inflation at the end of fiscal year and rated as "Ballot Monetary Policy".

IMF has to make sure to implementation of 1977 SBP Act, which provide autonomy to SBP and enforces government to limit its borrowing from SBP, where the authorities always disregarded this act and continued its borrowing at every front. Meanwhile taking a risk of default at Pakistan's payment is considered to be a better option then keep restructuring of new loans without any meaningful policy actions.

Interest rates

Under the IMF programs, discount rate has been used as an effective tool for achieving monetary tightening and keeping inflation under control. IMF prescriptions such as increasing prices and adjusting PKR/USD on market demand and supply have potential to lead to inflationary pressures. This made IMF to propose monetary tightening through rise in interest rate to overcome inflationary pressures. This clearly indicates in Chart 6 where interest rate remained high under IMF program durations shown by shaded lines.

Chart 6: Higher discount rates under IMF

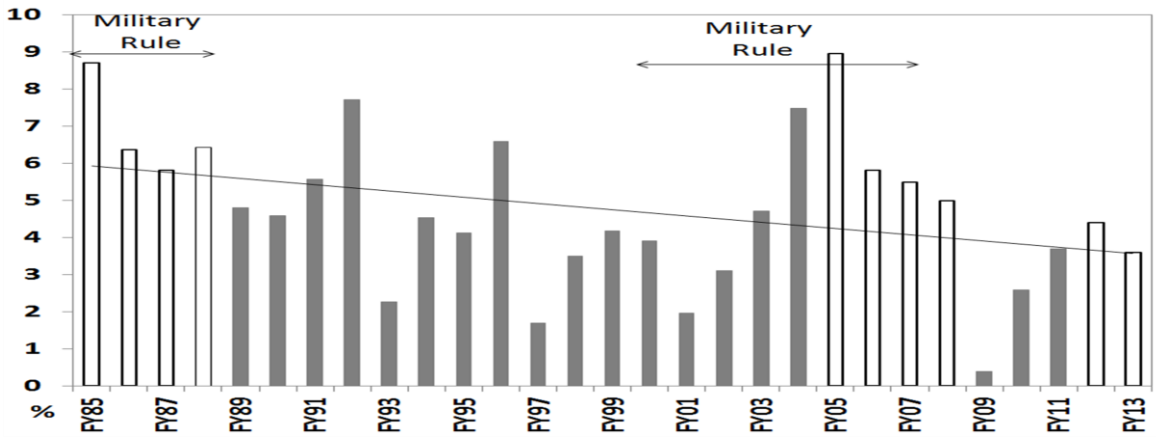


Source: State Bank of Pakistan

Real GDP growth Rate:

Pakistan's real economic growth rate has not improved during the past 30 years despite being under IMF programs for long periods. There are a lot of factors which are responsible for this downward trend such as high population growth, natural disasters (floods), security issues, energy crisis, political disputes and corruption. On the contrary, growth was impressive under military regimes as the growth rate of late 1980s and Musharraf's government was above average due to lower political instability and strong technocratic administration. Moreover the average growth rate under IMF was lower than without programs as shown for review period in Chart 7.

Chart 7: Worsening Economic Real GDP growth rate



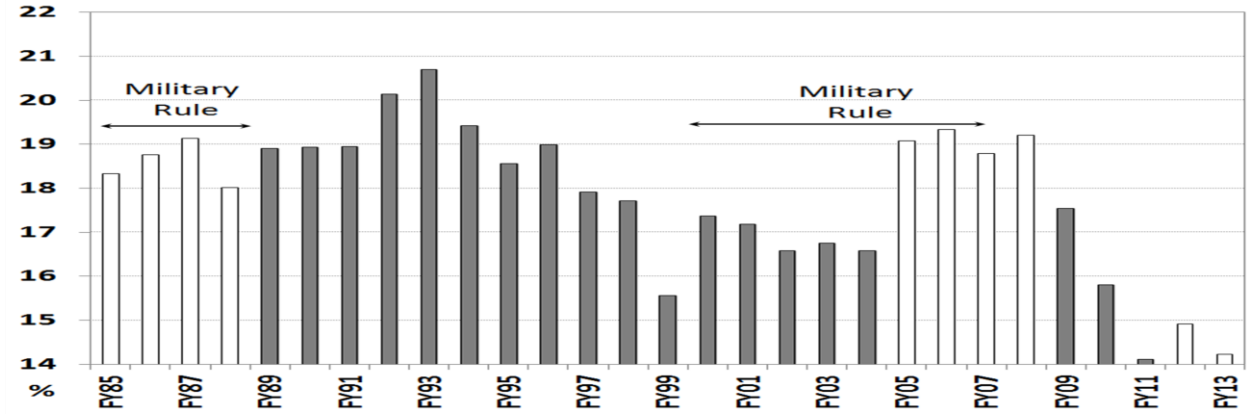
Source: State Bank of Pakistan

Investment

Due to IMF conditionality criteria, Governments were more focused towards reducing trade and fiscal deficit while ignoring the level of Investment at the same time. Moreover non-mobilization of fiscal resources low tax to GDP ratio not only deprived funding for infrastructural development but also led to higher domestic borrowings. The rise in government borrowing rate to finance budgetary deficit forced SBP to increase discount which crowded out private sector spending and investment to GDP ratio started falling. Beside these reasons, some exogenous factors also contributed to dampening investment such as security problems, nuclear

test, conflict with India, military coups further aggravated the adverse impact. These measures eventually led to sudden fall in Investment/GDP ratio which is shown in Chart 8.

Chart 8: Declining Investment/GDP Ratio



Source: State Bank of Pakistan.

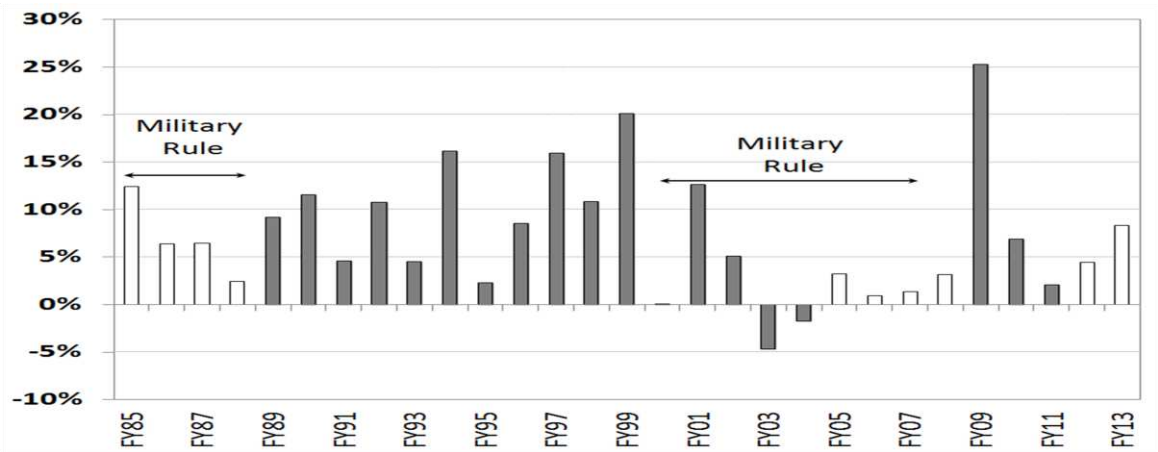
Exchange Rate

The major development in foreign exchange market has been the transition from fixed to floating exchange rate regime. Foreign exchange market was heavily regulated by SBP through a system of exchange controls. SBP had the responsibility of formulating exchange rate policy and conducting daily management of exchange regime. To manage the transactions between suppliers and users of foreign exchange, a system of authorized dealers and authorized money changers was in place. In the exchange rate regime, a new mechanism was introduced in July 1998, comprising of: a) official exchange rate, and b) floating inter-bank exchange rate (FIBR). While the official exchange rate was fixed by SBP, FIBR was determined in the inter-bank market. The turnaround in the exchange rate policy witnessed on 21st July 2000, when the Rupee was put to float with a view to achieve market-oriented and more flexible exchange rate policy. Apart from these major steps towards liberalization of foreign exchange market included permission to resident Pakistanis to open Foreign Currency Accounts (FCA) with banks leading to capital flight in the country and removal of restrictions on capital inflows and outflows(SBP financial Assessment report, 2002).

IMF programs have prescribed minimum intervention of central bank in foreign exchange market and PKR adjustment based on market demand and supply. Devaluation destroys the local value of currency which not only hurts forex reserves, unemployment rate but also hitches up the cost of production and living.(Khan.A.H,

2013). Government faces tradeoff whenever central bank tries to defend the local currency or preserve foreign exchange reserves. As part of conditionality, IMF put emphasis on devaluation of local currency for raising export competitiveness and building foreign reserves to payback repayments and expenses for imports. It is evident that higher PKR devaluation (relative to previous year) has been a prime feature during these programs as illustrated in Chart 9.

Chart 9: Higher PKR/USD devaluation under IMF

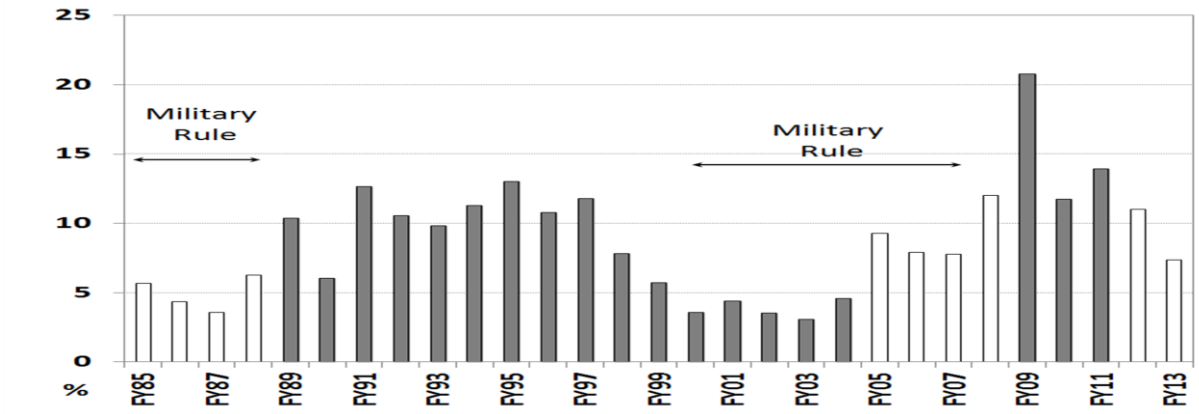


Source: State Bank of Pakistan

Inf

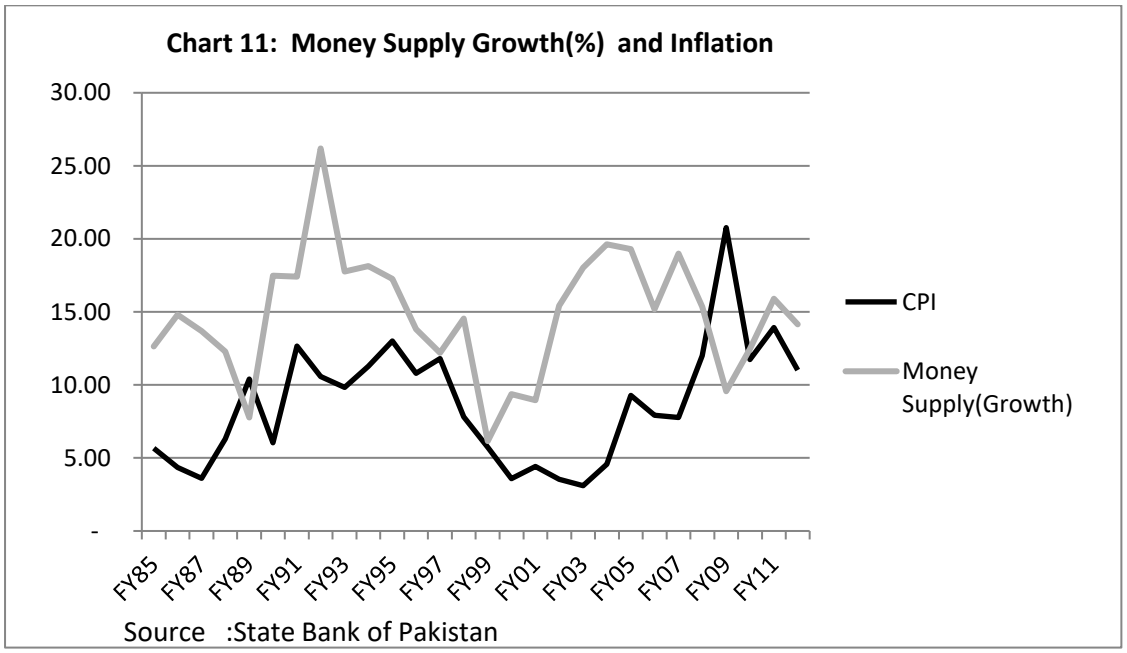
Inf e IMF programs with prescriptions pertaining to price rationalization and PKR devaluation has usually led to onetime adjustment in inflation every time which caused rise in prices during program period which is shown in Chart 10. However, measures relating to fiscal and monetary tightening have helped in controlling inflation.

Chart 10: Inflationary pressures under IMF period



Source: State bank of Pakistan

On the other side, the average money supply growth is 13.87 percent under IMF programs whereas the average for without program years is 16.76 percent. This clearly indicates that IMF conditionality target of using restrictive monetary policy of reducing money supply and increasing interest rate played an important role for controlling inflation. The chart 11 shows that money supply growth declined in 1990s and brought down inflation with it. The co movement in both the series is same apart from 2006 onwards where inflation was mainly caused by global oil price shock in 2007, excessive devaluation and due to heavy floods in 2010.



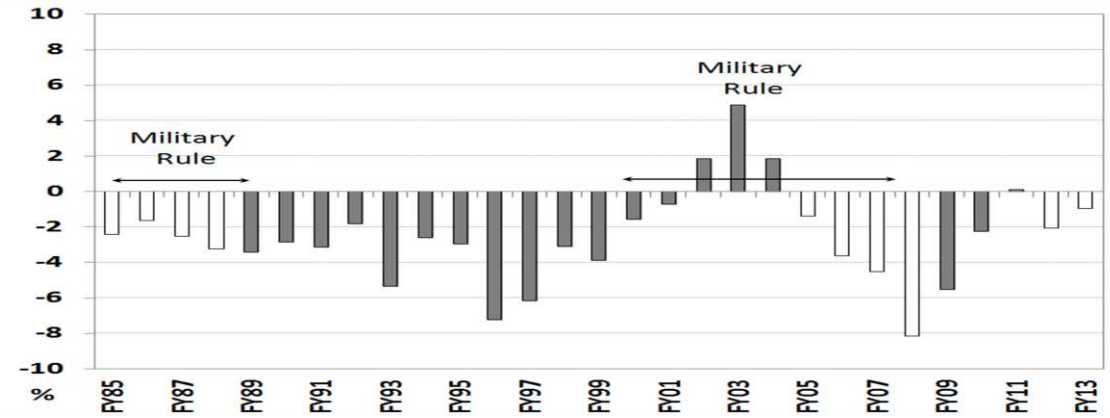
The paramount importance should be given to stop government borrowing from SBP. Meanwhile the issues of extensive money creation and adjusting monetary overhang has to be addressed to bring inflation down and to stabilize the existing economic mess. The policies followed during 2000-08 were expansionary, specifically monetary policies which ultimately became the reason of inflationary pressure in the economy when the lagged effects were observed lately. At the same time, oil price and food prices shocks further worsened the level of inflation.

Fund makes a strong case of depreciating local currency and generating additional public debt without even borrowing which subsequently becomes the reason of creating inflation. In case of Pakistan rising prices of fuel, electricity, furnance oil and POL products is primary ingredient of power theft which cause a significant reduction in the revenue of power generating companies and contributes in re-emergence of Circular Debt.

External Account

One of the primary objectives of seeking IMF programs is to support external account pressures and building foreign exchange reserves. A rise in the ratio of current account deficit to GDP is generally associated with large external inflows in form of remittances as shown in Chart 12. Current account deficit was usually observed due to deficit in trade balance and high service payments. Pakistan's external accounts have been secured by IMF loans and have allowed the country to run high deficits as evident in 1990s and previous civilian regime. The surplus in Military regime was entirely dependent on high foreign worker remittances after 9/11.

Chart 12: Current account Position (% of GDP)

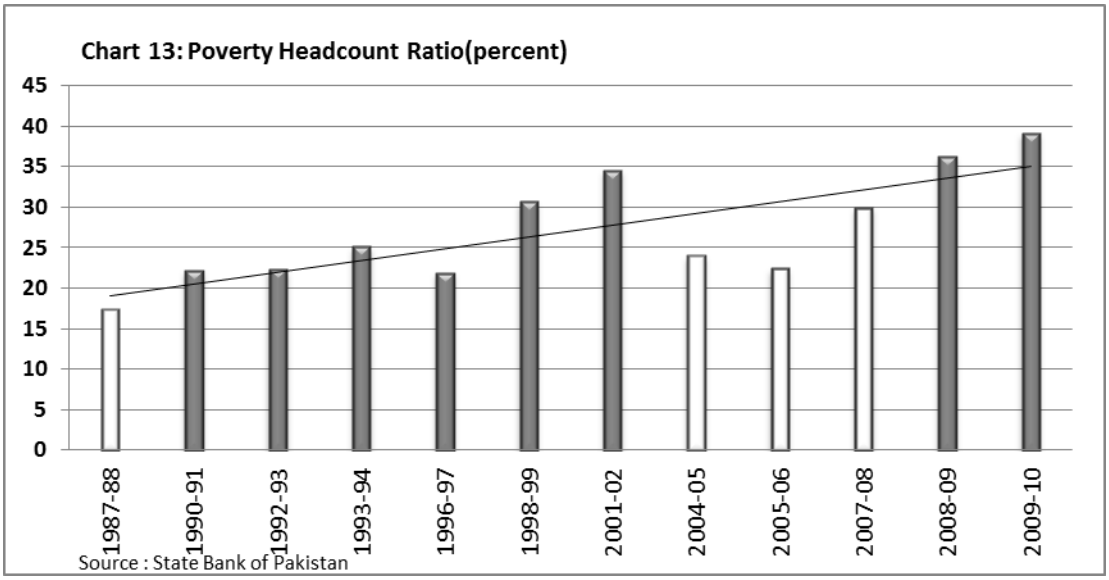


Source: State Bank of Pakistan

Poverty

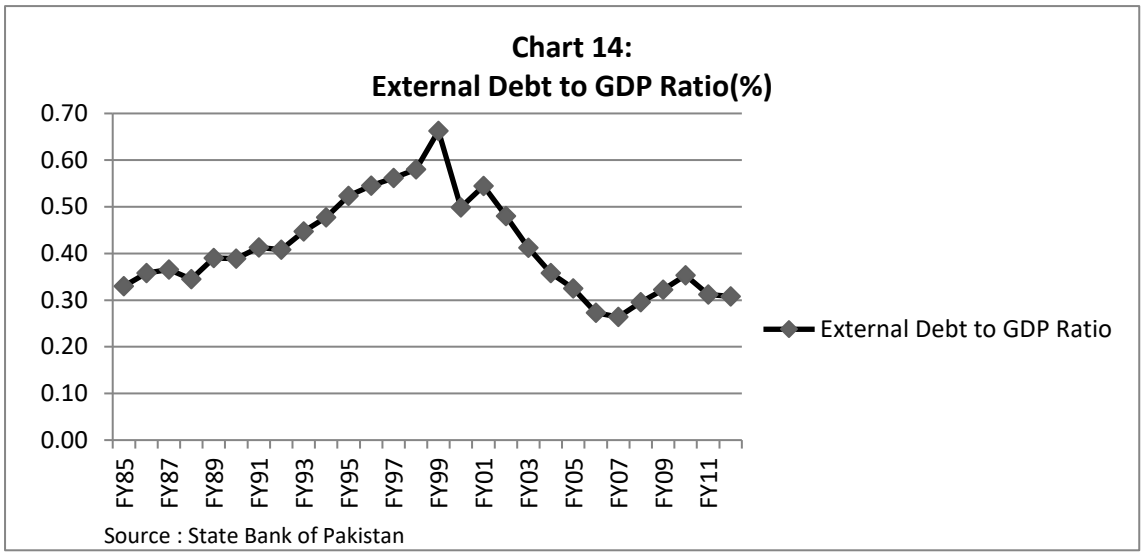
Like other developing countries, the level of poverty in Pakistan depends on economic growth. The decade of 1990s remained stagnant for poverty due to low GDP and agriculture growth (agriculture growth reduced from 5.4 percent of GDP in 1990 to 2.2 percent in 1999). The conditionality measures of raising cost of borrowing and taxes, elimination of subsidies and rise in prices of public utilities further aggravated the adverse impact on poor. The exception is military government in 2000 when poverty reduced by 11 percent in 4 years but the trend line reflects an average rise in poverty over the period as shown in Chart 13 .The IMF poverty reduction strategy paper (PRSP-II) and other controlling measures in 2008, failed to prevent the

subsequent record rise in poverty after two years. Rising inflation with no social protection pushed a lot of families below poverty line followed by poor governance and exogenous price shocks.



External Debt

The level of external debt substantially increased during the review period however it declined after the international sanctions in 1998 compounded by the sound economic policy of military regime which further reduced the level of external debt by strong mobilization of domestic resources. During the review period, external debt to GDP increased in first half which indicates the excessive level of borrowing by the governments which reached up to 70 per cent in 1998 which is given by chart 14. After the military government in 1999 the ratio started declining and according to IMF, this was one of the remarkable achievements of this military regime.



This analysis indicates that the economy made substantial improvement under the military rule as compared to civilian regime. The decade of muddling 1990s represent the period of political unrest and macroeconomic indicators deteriorated. However the major achievement of this decade was the implementation of far reaching reforms especially financial structural reforms, banking sector regulations and exchange rate liberalization. Economic reforms for money market allowed country to move towards market based interest rate and economy. Similarly, all the government in this decade was focused towards liberalization, privatization, and deregulation. On the other side the dismal picture in terms of low GDP growth, high fiscal deficit, rising poverty, low saving and Investment, weakening social indicators and unemployment remained primary concerns under this political regime accompanied by some exogenous shocks of nuclear test, rift with India and Afghan crisis which further stagnated the economic developments of this decade.

On the other hand the reforming military regime of Musharraf after 1999 was the period of rapid economic growth averaging 7 percent. The accelerated growth was based on sound economic management and continuation of structural reforms policy. During this period the country achieved short-term macroeconomic stability with huge reduction in poverty. The fiscal performance showed reasonable improvement in collection of revenue and as tax collection doubled with reduction in debt on the country. In 1999, the level of debt was 99 percent of GDP which was brought down to 56 percent of GDP in 2007. In the same way level of Investment and agriculture growth showed positive trend. The significant part of this period was trade liberalization which increased up to three times and fiscal deficit reduced to 4 percent of GDP. Moreover the

current account showed surplus for the first time in last three decades due to instant rise in remittances compounded by the foreign aid after 9/11 which allowed government to undertake unpopular decision for transforming economy. The weakness for this period was the lack of concentration on long term stability policies, measures and non-recognition of emerging energy crisis which depressed the economy in recent years.

Empirical Analysis:

Data and Methodology:

The study carries out the empirical analysis to see the impact of various IMF programs on different macroeconomic variables of Pakistan. For this purpose, the study includes Gross domestic product growth as dependent variable and consumption expenditure, Net exports, Investment and inflation as independent variables. Beside checking the impact of IMF agreements impact on the GDP, the other goal is to observe the impact of IMF conditionality on all independent variables at the same time. The impact of IMF agreements is captured via introducing the dummy for IMF which undertakes the value of 1, if country in under IMF program otherwise, 0. The fixed capital formation is used for Investment. This study utilizes the 50 year annual data from 1970 to 2020 to notice significant changes due to IMF agreements. The data for the respective variables are taken from World Bank and International Financial Statistics.

The analysis follows the standards of time series techniques where the stationarity is checked, beside applying diagnostics. The cause and effect relationship among variables is captured through Enger Granger Causality and the same method is used to find out about the direction of causality, especially with respect to dummy variable.

Econometric Specification:

The method of Ordinary least squares (OLS) is utilized to study the impact of various variables, in particular the policy dummy variable. The econometric model is given below

$$\mathrm{GDP}_t = \beta_0 + \beta_1 Consump_t + \beta_2 FCF_t + \beta_3 Inf_t + \beta_4 Trad_t + \beta_5 Dum + \varepsilon_t$$

GDP=Gross Domestic Product Growth

Consump= Final Consumption expenditure

Trad = Trade

FCF= Fixed Capital formation

Inf = Inflation (Consumer prices)

Dum= Dummy (Takes value of 1 , if country is under IMF program otherwise 0)

In time series analysis, this study utilizes the Augmented Dicky Fuller (ADF) test to test the stationarity of the individual series. β_0 is constant and carry no economic value here, whereas ε_t is the white noise term.

Moreover, Augmented Dicky Fuller (ADF) test is used to remove the problem of presence of unit root, if any. ADF allows to check about the level of stationarity in the data. Dicky and Fuller(1981) proposed the unit root ADF test for analysis of time series data. The general form is given below:

$$\Delta W_t = \delta + \alpha t + \gamma W_{t-1} + \sum P_z \Delta W_{t-z} + \omega_t$$

$$\Delta W_{t-1} = W_{t-1} - W_{t-2}$$

$$\Delta W_{t-2} = W_{t-2} - W_{t-3} \text{ etc}$$

W_t shows the time series for testing unit root and t represents the time trend and ω_t is the white noise term. ADF equation keeps on including the lagged term of dependent variable until the error term become white noise. Meanwhile the ADF uses the LM test to check about the presence of autocorrelation. The null hypothesis of ADF unit root test states that , series is non-stationary ($\gamma = 0$) whereas the alternative hypothesis states that series is stationary ($\gamma < 0$).

Key Results

Descriptive analysis allows us to investigate the characteristics of variables and the summary statistics includes the information about measures of central tendency as well as measures of dispersion in the data. Meanwhile, the details for skewness and Jarque-Bera test for normality is also given in table 5(Annexure). The correlation matrix is given in Table 6(Annexure) and shows the level of correlation among all variables. GDP growth has positive correlation with all variables except inflation.

The OLS output proves significantly positive impact of trade on GDP growth which supports the intuition of national income identity which states higher the net exports causes GDP growth to rise. Likewise, Investment also carry positively significant impact on growth as rise in investments induces GDP to rise. On the other hand, the role of IMF agreements becomes negatively insignificant to effect GDP growth. It is evident from the probability value of dummy variable which is insignificant at 5% and 10% significance level. IMF programs have often been criticized for its negative consequences for the Pakistan's economy. OLS output is given in Table 7(Annexure). The coefficient of determination shows that the regressors only explain 19 percent deviation in regressand which means more then 80 percent deviation is explained by other factors being ignored. Once , the same model is estimated without policy variable of dummy, the coefficient of determination remains same, almost. It shows that inclusion of dummy does not cause much deviation in model make it less important.

The diagnostic analysis includes the ramsey reset test which shows that model is well specified as the null hypothesis in accepted through the use P value which states that model is correctly specified and model is properly identified. The output of ramsey reset is given in Table 8(Annexure). The evidence of no serial correlation is validated through Bruesh-Godfrey LM test which concludes that model is not affected by any serial correlation.

Likewise for the structural stability evolution of model , cusum test is used to test about the stability of the parameters and it is evident from the chart 15(Annexure) that the plot cusum of squares lies within 5 percent critical bounds of significance which proves the stability of parameters of the model, overtime.

The result of ADF is given in Table 10(Annuxure) which concludes that variable trade is non-stationary at level but stationary at first difference, GDP growth is stationary at level, Growth in capital formation is non-stationary at level but stationary at first difference, Inflation is non-stationary at level but stationary at first difference and Consumption is non-stationary at level but stationary at first difference.

In the same way, to investigate the causality between variables the technique of Enger Granger Causality is utilized which estimates bivariate autoregressive processes for GDP growth and all independent variables. The reason to use this technique is to find the cause and effect relationship and its significance with respect to dummy variable. The result is based on 5 percent and 10 percent significance level for meaningful conclusion. The table 11(Annure) provides the causality information of dummy with all variables in model and GDP growth proves to be an important factor that causes dummy which means that fall in gdp growth may potential be the reason for the governments to approach IMF for financial assistance. Likewise, Dummy causes investment to change which means that IMF agreements have been successful to attract investments for the various national governments.

Discussion and Conclusion:

Pakistan spent almost 2/3rd of the 50 year review period (FY1970-FY2020) of this study under various IMF programs including a 16 year period (FY89-04) without any breaks and thirty years in total. The analysis of the country's economic performance during the review period suggests that IMF programs did not entirely fail or fully succeed and as such, the binary conclusions are perhaps not as important. What is more relevant is to

identify the specific areas where IMF programs yielded positive results and those where it did not meet the desired results.

In a nutshell, Pakistan's economy witnessed radical transformation during the review period from being a state-dominated, highly regulated and largely closed economy to a private sector led, largely free market based and open economy. One can argue that this transformation may have happened even without IMF programs but under the needs of changing global economic trends, IMF programs did contribute substantially in accelerating the transformation through its program conditions in the shape of structural benchmarks.

The key successes of IMF programs were in reforming the financial system, trade liberalization and privatization/deregulation. In the financial sector, the country gradually moved away from direct monetary controls to market based interest rates and indirect controls, from fixed change rate to a floating exchange rate regime and from a highly public sector dominated banking sector to a predominantly private sector banking sector. The transmission mechanism of monetary policy, exchange rate regime and banking sector regulation, all of which fall under the regulatory domain of the central bank did broadly achieve the program conditions and can be termed successful aspects of IMF's conditionality.

Despite deregulation of industries, trade liberalization and flexible exchange rate regimes, the country did not manage to achieve a sustainable external account position with balance of payments crisis kept recurring and the country resorted to multiple debt defaults/restructuring between FY98-02.

IMF programs were least effective in bringing about sustainable improvement in the country's fiscal policy regime. The country's Tax/GDP ratio remained on a slippery slope from an already modest level of low-teens to just around 10%, which is one of the lowest in the world. The inadequacy of fiscal resources has kept critical spending on health, education, poverty and infrastructure development low while also keeping overall fiscal deficit at unsustainably high levels. Excessive government spending continued to crowd out private sector borrowing while high interest rates remained a big disincentive for banks in lending to the private sector.

Empirically the dummy variable has been insignificant to cause an noticeable changes the mostly variables incorporated in the model .Although GDP growth is not a direct target for any IMF program, the stabilization and reform programs are indirectly aimed at raising the growth envelope of the borrower country. However, Pakistan's growth trend line remained downward sloping through the review period.

Fiscal decentralization, power reforms and tax reforms were to be taken seriously if government wanted to get something out of these programmes. Lack of political support from provincial governments and political parties accompanied by resistence from private sector became the major hindrance in the structural Adjustment of fiscal side. Whatever Pakistan has achieved under privatization, central bank autonomy, exchange and interest rate flexibility, open market operations is definitely the blessing of IMF conditionality. Whereas government has been expert at providing amnesty schemes and exemption which is the primary reason of corrupt and dysfunctional fiscal system of the country.

To recapitulate, IMF programs achieved relative success in financial sector liberalization (monetary policy, exchange rate and banking), deregulation, privatization and trade liberalization. However, it failed to improve the country's fiscal position while also being unhelpful in achieving sustainable external account and higher GDP growth rate. However, political factors have been bigger stumbling blocks to fiscal reforms which in turn contributed to lower growth and weak external account.

In terms of program implementation, the performance was generally weaker during civilians ruled the country and relatively better when the military regimes were in place. Pakistan's relations with the western world, especially the US, seems to have a significant role in programs' financing amounts and conditions.

Contribution of the Study:

The main contribution of this study is to check impact of IMF programs on structure of the economy which concludes that Pakistan made considerable improvement in changing the financial sector due to IMF driven economic reforms. Similarly, other money market and monetary reforms allowed the country to move towards exchange rate liberalization and free market economy. The economic and institutional reforms were properly followed in military regime of 2000 as well which also pushed economy towards increasing trade liberalization.

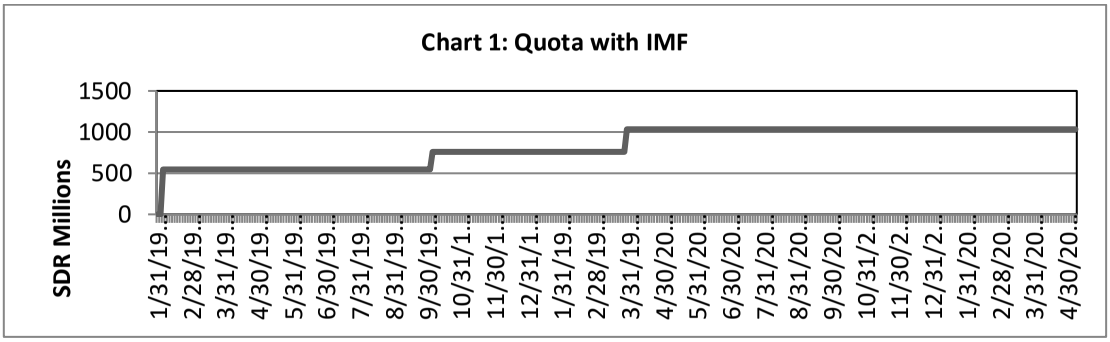
Annexure:

Table 1. *Summary of Studies*

Study	Time Period	Number of Programs	Number of Countries	Method[a]	Effects on[b]			
					Balance of payments	Current account	Inflation	Growth
Reichmann and Stillson (1978)	1963–72	79	...	Before-after (2-year)	0	...	0	+
Reichmann (1978)	1973–75	21	18	Actual-versus-target	+	...	+	+
Connors (1979)	1973–77	31	23	Before-after	0	0	0	0
Donovan (1981)	1970–76	12	12	With-without	...	...	−	+
Donovan (1982)	1971–80	78	44	With-without	+	+	−	−
Killick (1984)	1974–79	38	24	Before-after	0	0	−	0
Zulu and Nsouli (1985)	1980–81	35	22	Actual-versus-target	...	0	−	−
				Before-after	...	+	−	0
Goldstein and Montiel (1986)	1974–81	68	58	Before-after	−	−	−	−
				With-without	−	+	−	+
				Generalized evaluation	−	−	+	−
Gylfason (1987)	1977–79	32	14	With-without	+	...	0	0
Pastor (1987)	1965–81	...	18	Before-after	+	0	0	0
Khan and Knight (1981)	1968–75	...	29	Comparison of simulations	+	+	−	−
Khan and Knight (1985)	1968–75	...	29	Comparison of simulations	+	+	−	−
Loxley (1984)	1971–82	38	38	With-without	0	0	−	−

[a] Comparison over one-year periods, unless otherwise noted.
[b] Direction of change; (+) indicates positive effect, (−) indicates negative effect, 0 indicates no effect.

Source : Mohsin. S. Khan(1990)



Source: International Monetary Fund

Table 2: Agreements with IMF

S.N.	Facility	Date of Arrangement	Initial date of Expiration	Actual date of expiration	Amount (SDR Million)		Percentage
					Agreed	Drawn	Drawn
1	SBA	8-Dec-58	7-Dec-59	22-Sep-59	25.0	-	-
2	SBA	16-Mar-65	15-Mar-66		37.5	37.5	100.0
3	SBA	18-May-72	17-May-73		100.0	84.0	84.0
4	SBA	11-Aug-73	10-Aug-74		75.0	75.0	100.0
5	SBA	11-Nov-74	10-Nov-75		75.0	75.0	100.0
6	SBA	9-Mar-77	8-Mar-78		80.0	80.0	100.0
7	EFF	24-Nov-80	23-Nov-83		1,268.0	1,079.0	85.1
8	SAF	28-Dec-88	27-Dec-91	15-Dec-92	382.4	382.4	100.0
9	SBA	28-Dec-88	7-Mar-90	30-Nov-90	273.2	194.5	71.2
10	SBA	16-Sep-93	15-Sep-94	22-Feb-94	265.4	88.0	33.2
11	ESAF	22-Feb-94	21-Feb-97	13-Dec-95	606.6	172.2	28.4
12	EFF	22-Feb-94	21-Feb-97	13-Dec-95	379.1	123.2	32.5
13	SBA	13-Dec-95	31-Mar-97	30-Sep-97	562.6	294.7	52.4
14	PRGF	20-Oct-97	19-Oct-00		682.4	265.4	38.9
15	EFF	20-Oct-97	19-Oct-00		454.9	113.7	25.0
16	SBA	29-Nov-00	30-Sep-01		465.0	465.0	100.0
17	PRGF	6-Dec-01	5-Dec-04		1,034.0	861.4	83.3
18	SBA	24-Nov-08	23-Oct-10	30-Sep-11	7,235.9	4,936.0	68.2
	TOTAL				**14,002.0**	**9,327.1**	**66.6**

Source: International Monetary Fund (www.imf.org)

Table – 3: IMF programs during FY1985 – 2013

Facility	Date	Agreed	Drawn
SAF	28-Dec-88	382.4	382.4
SBA	28-Dec-88	273.2	194.5
SBA	16-Sep-93	265.4	88.0
ESAF	22-Feb-94	606.6	172.2
EFF	22-Feb-94	379.1	123.2
SBA	13-Dec-95	562.6	294.7
PRGF	20-Oct-97	682.4	265.4
EFF	20-Oct-97	454.9	113.7
SBA	29-Nov-00	465.0	465.0
PRGF	06-Dec-01	1,034.0	861.4
SBA	24-Nov-08	7,235.9	4,936.0
Total (SDR Million)		**12,341.5**	**7,896.6**

Source: International Monetary Fund (www.imf.org)

Table-4: Privatization

Sector	PKR (Million)
Banking & Finance	174,147
Energy	51,756
Telecom	187,360
Industrial Units	60,924
Autos	1,102
Cements	16,177
Chemicals	1,643
Engineering	183
Fertilizer	40,281
Ghee	842
Rice	236
Roti Plants	91
Textile	371
Others	2,234
TOTAL	**476,421**

Source: Privatization Commission, Government of Pakistan

Table-5 (Descriptive Analysis)

	GDPGROWTH	TRADE	CONSUMP	GFCF	INFLATION
Mean	4.750832	31.19436	88.61819	15.63960	8.868390
Median	4.832817	32.40673	89.05063	16.34300	7.844265
Maximum	11.35346	38.49932	94.58940	19.23542	26.66303
Minimum	0.468373	15.82134	82.60073	11.43511	2.529328
Std. Dev.	2.393015	4.892030	3.611937	2.028059	5.109687
Skewness	0.297920	-1.225651	-0.187243	-0.339558	1.554051
Kurtosis	3.114023	4.681454	1.752733	1.915779	5.680613
Jarque-Bera	0.782056	18.77686	3.603819	3.478057	35.79771
Probability	0.676361	0.000084	0.164984	0.175691	0.000000
Sum	242.2924	1590.912	4519.528	797.6195	452.2879
Sum Sq. Dev.	286.3261	1196.598	652.3044	205.6512	1305.445
Observations	51	51	51	51	51

Table: 6 (Correlation)

	INFLATION	CONSUMP	GDPGROWTH	TRADE	GFCF
INFLATION	1.000000	0.122861	-0.127903	0.332955	-0.071891
CONSUMP	0.122861	1.000000	0.008860	-0.047477	-0.276498
GDPGROWTH	-0.127903	0.008860	1.000000	0.066929	0.252158
TRADE	0.332955	-0.047477	0.066929	1.000000	0.550545
GFCF	-0.071891	-0.276498	0.252158	0.550545	1.000000

Table: 7

Without Policy

Dependent Variable: GDPGROWTH
Method: Least Squares
Date: 08/11/21 Time: 00:53
Sample (adjusted): 2 51
Included observations: 50 after adjustments

Variable	Coefficient	Prob
C	-8.635145	0.324
DCONSUMP	0.111896	0.2016
DGFCF	0.266207	0.0922
INFLATION	-0.098354	0.1295
FTRADE	0.281643	0.0106

R-squared	0.188196
F-statistic	2.608028
Prob(F-statistic)	0.048031

With Policy

Variable	Coefficient	Prob.
C	-7.702333	0.3921
DCONSUMP	0.104409	0.2429
DGFCF	0.256833	0.109
INFLATION	-0.088758	0.1906
FTRADE	0.26368	0.0229
DUM	-0.342538	0.6031

R-squared	0.193224
F-statistic	2.107615
Prob(F-statistic)	0.082347

Table: 8(Ramsey RESET Test)

Ramsey RESET Test
Equation: UNTITLED
Omitted Variables: Squares of fitted values
Specification: GDPGROWTH C DCONSUMP DGFCF INFLATION FTRADE DUM

	Value	df	Probability
t-statistic	1.119940	43	0.2690
F-statistic	1.254265	(1, 43)	0.2690
Likelihood ratio	1.437582	1	0.2305

Chart 15: Cusum of Squares

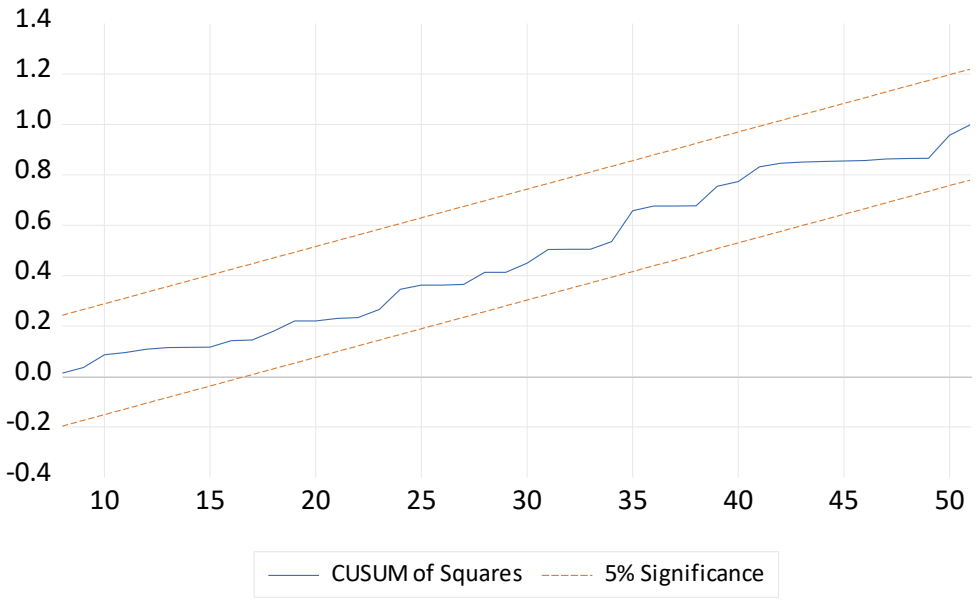


Table: 9

Breusch-Godfrey Serial Correlation LM Test:
Null hypothesis: No serial correlation at up to 1 lag

F-statistic	2.094213	Prob. F(1,43)	0.1551
Obs*R-squared	2.322041	Prob. Chi-Square(1)	0.1276

(Table:10) ADF output.

Level	Test Statistics	P-value	Decision
Trade	-0.081591	0.6506	Non Stationary at level
GDP growth	-2.61298	0.01	Stationary at level
GFCF	-0.3857	0.5401	Non Stationary at level
Inflation	-1.471317	0.1305	Non Stationary at level
Consump	0.268811	0.76	Non Stationary at level
Difference	**Test Statistics**	**P-value**	**Decision**
D(Trade)	-7.035337	0	Stationary at first difference
D(GFCF)	-5.531915	0	Stationary at first difference
D(Inflation)	-6.930953	0	Stationary at first difference
D(Consump)	-7.6182	0	Stationary at first difference

Table : 11 (Granger Causality results)

Pairwise Granger Causality Tests
Date: 08/11/21 Time: 01:04
Sample: 1 51
Lags: 1

Null Hypothesis:	Obs	F-Statistic	Prob.
DUM does not Granger Cause GDPGROWTH	50	0.51786	0.4753
GDPGROWTH does not Granger Cause DUM		9.01884	0.0043
DUM does not Granger Cause DCONSUMP	49	0.57248	0.4531
DCONSUMP does not Granger Cause DUM		0.90583	0.3462
DUM does not Granger Cause DGFCF	49	4.62149	0.0369
DGFCF does not Granger Cause DUM		0.00018	0.9894
DUM does not Granger Cause INFLATION	50	0.01138	0.9155
INFLATION does not Granger Cause DUM		0.57217	0.4532
DUM does not Granger Cause FTRADE	49	0.00952	0.9227
FTRADE does not Granger Cause DUM		0.57309	0.4529

History of IMF and Role of IMF

IMF is one of the International Financial Institutions which primarily follow the objective of promoting stability in global monetary system. IMF was founded in 1944 as part of Bretton Woods Exchange system and the goal was to prevent crisis like Great Depression as well as to address the rising concerns of limited international monetary cooperation and fall in world trade (IMF, 2013a). A lending facility was initiated with an idea of short-term lending for short run balance of payment problems and managing the fixed exchange rate arrangements between countries. In 1960, Special Drawing rights (SDR) were introduced by IMF due to increasing concerns over global liquidity. It is an international reserve asset and its value is based on major international currencies of US Dollar, Japanese Yen, British Pound and Euro (IMF SDRs factsheet, 2013b). This attempt of new reserve asset became controversial due to suspension of gold-convertibility of the dollar by US because of some internal and external factors such as inflation, trade deficit and Vietnam War. In 1973, a system of floating exchange rate was formed on the basis of the demand and supply of the currencies in the foreign exchange market (IMF, 2013c). IMF started formalizing this system in 1978 by the amendment in IMF article of agreement. While having 188 member countries, the total quota of IMF is $ 360 billion with additional resources of $1 trillion (IMF, 2013d). IMF provides financial support as well as policy advice for developing world to overcome economic problems and to achieve long-term stability and growth. IMF's role changed after fall in fixed exchange rate system in 1973.

According to the IMF's article I of the Articles of Agreement (2011a), the primary goals of IMF are promoting and facilitating international trade, encouraging exchange stability, helping in the initiation of open system of international payment, upgrading monetary cooperation as well as giving financial help to low income countries to make them deal with balance of payment problems, high inflation and low growth (Khan,1990).

IMF conditionality usually include some fiscal and monetary measures such as increase in taxation, reducing expenditures, increase in interest rates and administered prices, reducing debt burden and promoting wage

policies, efficiency and trade liberalization. IMF uses restrictive demand management policies in conditionality, the reason is that higher demand at domestic level creates problem such as current account deficit, inflation, low growth rate, high debt burden and fall in competitiveness.

The role of IMF changed in 1950s and the focus towards third world started increasing. The initial purpose of Fund was to provide short-term loans for balance of payments crisis but its role evolved and IMF started using lending facility as structural adjustment in borrowing countries. IMF started performing twin role, financing and adjustment. Mexico Peso crisis in 1995, debt crisis of African and Asian countries in 1980 initiated the debate of IMF involvement in developing world (Bird, 1996).

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