

# CYCLICAL TROUBLES: ON IMF BAILOUT FOR PAKISTAN

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After 10 days of talks with the Pakistan government, an IMF delegation left Islamabad on February 9 without a concluding statement either on its review of an existing \$7 billion loan programme or on a fresh tranche of loans to help the distressed economy. The Shehbaz Sharif-led government insisted that this was standard process and that the country would expect a loan tranche after the IMF's completed its internal process were complete but the desperation was also evident in the government reportedly agreeing to fresh taxes, reducing subsidies and increasing levies on fuel consumption to meet the IMF's expectations. Economic distress is deepening — power blackouts persist even in urban areas, annual inflation was at 27.5% in January (its highest since 1975), the Pakistani rupee has fallen to nearly 270 a dollar and forex reserves have fallen below \$3 billion, the lowest since February 2014, threatening a balance of payments crisis. The effect of last year's debilitating floods continues to weigh on the economy with thousands still homeless, agricultural land destroyed and many people without adequate food. The perilous state of the economy explains the desperation for yet another IMF bailout, which would be the sixth such facility the agency extended since 2000, and which seems inevitable as this would stave off the balance of payments issues, with complementary support from traditional allies in West Asia and also China.

The effect of the COVID-19 pandemic and the floods notwithstanding, the cyclical nature of the economic issues and the country's repeated reliance on IMF packages during crises point to a failure of governance. While import dependency, low export competitiveness and poor fiscal management are proximate reasons for the recurring crisis in a shock vulnerable economy, it must also be said that this is an indirect outcome of the absence of an unrestrained run of power for civilian democracy in a country where the military has a preponderant role. With elections due later this year, little trust remaining between the key political parties and the military seeking to meddle in the political process, things do not forebode too well for the country. Unless the governance structures refocus themselves to addressing long-term structural weaknesses in the economy and find ways to improve relations with neighbours such as India, the cyclicity of the economic problems will remain. But for that to happen, the military establishment has to take a back seat: a bleak prospect in the medium term.

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