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Policy Brief

Does Pakistan have an Option other than the IMF?

Dr Aneel Salman
Maryam Ayub

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Executive Summary

Pakistan received USD7 billion in the Extended Fund Facility (EFF) in the 25th arrangement of IMF. Since independence, Pakistan has received financial assistance from the IMF twenty-five times, resulting in temporary short-term stability. However, the austerity measures proposed by these programs have only resulted in the deepening of the already existing structural vulnerabilities. The IMF interventions have temporarily stabilised the economy, but the cost of this short-term stability is difficult to bear, further deteriorating the growth capacity of the country. However, the question is, does Pakistan have an alternative to the IMF? To end this recurring dependence on the IMF, the government must focus on developing short-term to long-term policies targeted towards sustainable growth levels, while addressing the structural vulnerabilities of the country. To achieve these, the government may collaborate with the private sector to advance towards sustainability. Leverage development programs with the World Bank and ADB to enhance the infrastructure of country. Additionally, the government facilitate the economic advancement by promoting trade with Bangladesh, China and UAE, broadening the tax base and simplifying the regulatory framework.

Policy Recommendations

To achieve these short- and long-run reforms, the government may:

- Strengthen collaboration between customs, FIA, and SBP to identify individuals using illegal remittance channels through the NADRA database, while encouraging the formal inflows by offering remittance-backed saving and investment initiatives for overseas Pakistanis.
- Advance economic cooperation and collaboration with Bangladesh, China and UAE through trade and labour exchange programs in the agriculture and manufacturing sectors, aimed at enhancing the skills of Pakistani labourers.

Does Pakistan have an Option other than the IMF?

Introduction

Since 1958, Pakistan has turned to the IMF 25 times for financial support, with each arrangement providing temporary stability but leaving structural vulnerabilities unaddressed. This recurring dependence raises a critical question: Is there no alternative? This article examines the socio-economic impact of IMF programs and explores viable pathways for Pakistan to achieve sustainable economic growth without relying on external bailouts.

On 25th September 2024, Pakistan received approval for USD 7 billion, a 37-month Extended Fund Facility (EEF) under the IMF 25th agreement, after accepting 40 conditions. The conditions imposed by the IMF include austerity measures, fiscal consolidation, privatisation, and monetary tightening. The first review of this arrangement held in March 2025, when the IMF team met with multiple governmental institutions. Since, the government of Pakistan has requested IMF assistance in its fight against climate change by seeking USD 1.5 billion from the IMF's Resilience and Sustainability Facility (RSF). On 24th March 2025, a four-member team met with provincial representatives to discuss green budgeting, climate spending tagging and reporting[1]. Concluding the mission led by Mr. Nathan Porter, IMF has approved USD 1 billion tranche by imposing new conditions totaling to 50. These conditions include implementation of new agricultural income tax by provinces, establishment of platform for taxpayer's identification and registration, and rebasing the annual electricity tariff.

These IMF programs helped Pakistan achieve short-term stability, regaining investors' confidence and bolstering foreign reserves. Pakistan was on the verge of default due to post-COVID-19 economic conditions, soaring external debt, floods and political instability, but was saved at the last minute by a USD 3 billion IMF bailout. Additionally, these bailout

[1] Amin, Tahir." First review of $7bn EFF programme: Protracted IMF-govt talks likely" 26 February, 2025. Available at: https://www.brecorder.com/news/40350085/first-review-of-7bn-eff-programme-protracted-imf-govt-talks-likely

programs helped restore the confidence of international lenders and investors, reflected in the performance of the Pakistan Stock Exchange.

However, austerity measures like cutting down subsidies for food, electricity and fuel, coupled with high tax rates, have the most immediate impact on the vulnerable classes of the country. This has led to a decline in domestic consumption and adversely affected the business environment for both local and foreign investors. Increased taxation and reduced public spending, combined with fiscal consolidation, have only resulted in the deepening of existing structural vulnerabilities, worsening poverty, and increasing income inequalities and unemployment, directing the country towards elite capture. These measures, in particular, constrain the country's growth capacity by prioritising increased tax revenue and debt servicing, leaving no room for development expenditure.

To control inflation, as per the conditions set by the IMF program, the SBP continued with contractionary monetary policy, keeping the policy rate as high as 22%, this high interest rate translated into increased cost of borrowing, resulting in low investment levels in Pakistan. Historically, IMF arrangements have favoured the privatisation of government-owned entities to reduce prices and fiscal deficits and to improve efficiency. However, these objectives were never realized for Pakistan. The key objectives outlined by the IMF in the 25th arrangement remain similar to those in past arrangements.

Alternatives of IMF for Pakistan

IMF programs have provided Pakistan's economy with short-term stability, at the cost of deepening the country's economic vulnerabilities. However, the IMF should not be solely blamed for the current state of the economy. Rather, the structural issues entrenched in the economic and political setup of Pakistan have led us to this state of affairs. A report states that the government footprint in Pakistan is more than 67% of GDP, surpassing the government's expenditure[2]. This extensive control implied market interventions like price setting and a regulatory framework that pushes aside the private sector despite its potential to bring investment.

[2] Haq,Ul Nadeem. & Ulla, Rafi Raja. "What is the Size of the Government Footprint on Pakistan's Economy?", PIDE, 2021. Available at: https://pide.org.pk/research/what-is-the-size-of-the-government-footprint-on-pakistans-economy/

However, the question now arises: Does Pakistan have an alternative to the IMF? The IMF interventions have temporarily stabilised the economy, but the cost of this short-term stability is difficult to bear, further deteriorating the country's growth capacity. The government must focus on developing short-term to long-term policies targeted towards sustainable growth levels while addressing the country's structural vulnerabilities. This objective may be realised by working on the following strategies:

Short-Term Strategies:

- **Leveraging Remittances:** Workers' remittances in Pakistan for June 2025 were recorded at USD 2.948 billion.[3] The government may leverage the rise in remittances by encouraging overseas Pakistanis to invest by introducing initiatives like remittance-backed savings and investment policies with low interest rates. It may attract remittance-backed investment in green projects, real estate and development initiatives through investor-friendly policies.
- **Regional Alliances**: Pakistan, instead of relying on the IMF, can leverage regional alliances, including OIC, SCO and CPEC, to move the economy towards the path of sustainability. This may be done by engaging in more trade agreements with other member countries and by collaborating with other countries instead of taking loans. Regional alliances like ASEAN have greatly facilitated the advancement of intra-regional trade among member countries. Pakistan may capitalise on the existing initiative, i.e. SATFA and increase trade with member countries by addressing the issue of customs procedures and regulatory matters. Strong communication networks may be established with countries including China, Bangladesh, UAE and Saudi Arabia. Pakistan may capitalise on the economic advancement of Bangladesh, China and the UAE by promoting trade, and exchange programs in the agriculture and manufacturing sectors, where Pakistani labourers may develop professional skills. Additionally, government engagement in dialogues with these countries can facilitate the Overseas Pakistani labour,

[3] "Seasonally Adjusted Worker's Remittances", State Bank of Pakistan. Available at: https://www.sbp.org.pk/ecodata/homeremmit/Remittance.pdf

especially in the UAE and Saudi Arabia, where, in the recent past, sanctions were placed on Pakistani workers.

Long-Term Strategies:

- **Infrastructure Development:** Instead of going to the IMF, the government may leverage development programs with the World Bank and ADB more effectively for the country's infrastructure development. The country's infrastructure needs to be developed to improve industrial capacity and advance the economy towards digitalisation. Infrastructure enhancement in the country will eventually contribute to the GDP.
- **Trade reforms**: Pakistan needs a shift from the consumption-led growth model to export-led growth through targeted trade policies. Diversifying the export basket and entering untapped international markets are critically needed. On the export market penetration index, Pakistan is ranked 9th lower than peer countries like Vietnam (15th), turkey (28th) and china (58th).[4] Despite this low ranking, Pakistan's export remain heavily concentrated in traditional markets including United States, China and Europe. Therefore, to achieve sustainable export growth, it is crucial to shift focus to new markets, including those in African and GCC countries, Philippines, Bangladesh, and Vietnam. It is also crucial to capitalise high potential sectors including blue economy, information technology (IT), sports goods and green technologies. This may be done by revamping the industrial sector and facilitating the industrialists specializing in import substitution and those specializing in export commodities. Pakistan's exports remain dominated by textile and apparels with low-value addition. In Contrast, Bangladesh by focused on developing its industrial capacity, becoming the second-largest exporter of high-value Ready-Made Garments. Additionally, the government should capitalise on the potential of the IT sector. Economies like India and the Philippines have developed a well-performing IT sector by investing in education, human capital,

[4] "index of Export market Penetration", World Integrated Trade Solutions.2022.Available at:https://wits.worldbank.org/CountryProfile/en/Country/MYS/StartYear/2017/EndYear/2022/Indicator/NDX-XPRT-MKT-PNRTTN

infrastructure development and targeted government initiatives. Improving manufacturing quality, diversifying products, upgrading industrial machines, investing in R&D, and complying with international standards can enhance industrial competitiveness. Moreover, there is a need to check the illicit trade happening at the Pak-Afghan and Pak-Iran borders. By signing barter trade agreements with our neighbouring countries, the trade imbalances may be improved, directing towards more employment opportunities, generating economic growth, along addressing the structural inequalities present in the country.

- **Addressing Systemic Challenges**: To end the dependency on the IMF and set the economy on long-term growth, the systemic challenges need to be addressed. Outsized role of government continues to limit private sector participation through large institutional ownership, restrictive regulatory framework and market interventions. Achieving long-term stability requires balancing the role of the public sector in setting the policies and the private sector serving as the key driver of growth. Reducing the government footprint is essential for growth. There is a need for a stable taxation framework that remains applicable for the long term. In Pakistan, every 4-8 months, the taxation policies are revised, and new taxes are imposed just to achieve the targeted level of tax revenue. This practice not only adds to the burdens of the general public but also discourages investors. The regulatory environment of the country stifles investment, resulting in a low investment-to-GDP ratio of 13.14% in 2024. For setting up an industrial setup, 28 NOCs are required from different organisations, which is not only worrisome for foreign investors but also discourages local investors. There is a need to facilitate investors by removing bureaucratic procedures, introducing initiatives like a "one-stop-shop" across the country and providing taxes competitive at the regional level. This can be done by increasing the private sector's involvement in the economy.

Conclusion & Policy Recommendations

Under the 25th arrangement, Pakistan received an approval of USD 7 billion in an Extended Fund Facility (EFF). IMF programs helped in achieving short-term stability, regaining investors' confidence, and increasing foreign reserves but structural issues remain unaddressed. Conditional austerity measures by the IMF, combined with fiscal consolidation, have increased income inequalities, poverty, and unemployment. The IMF interventions have temporarily stabilised the economy, but the cost of this short-term stability requires short-term to long-term strategies. Political commitment towards long-term planning, enhanced governance, and a simplified regulatory framework is required to implement these measures. Additionally, the public-private partnership in key sectors is crucial. Planned investment in education, healthcare, and industrial setup is needed. An integrated economic model with targeted policies for improving agricultural productivity, revamping the manufacturing sector for export-led production, and strengthening the services sector by advancing towards digitalisation. To achieve these short- and long-run reforms, the government may:

- Reorient the industrial capacity by investing in productivity-enhancing technologies like digital tools, automation and energy-efficient systems. While complementing this shift with industry-specific infrastructure, skill development, and diversification into emerging sectors like blue economy, sports goods, IT, and value-added agriculture products.
- Broaden the tax base by incorporating informal businesses, traders, real estate, and the agriculture sector through the digitalisation of the taxation system using the central NADRA database.
- Strengthen collaboration between customs, FIA, and SBP to identify individuals using illegal remittance channels through the NADRA database, while encouraging the formal inflows by offering remittance-backed savings and investment initiatives for overseas Pakistanis.
- Advance economic cooperation and collaboration with Bangladesh, China and UAE through trade and labour exchange programs in the agriculture and manufacturing sectors, aimed at enhancing the skills of Pakistani labourers.
- Initiating dialogue with countries that have imposed sanctions on Pakistani citizens to address and resolve issues affecting their mobility and employment opportunities.

Action Matrix

Problem/Issue	Pathways to Solution	How to Implement Each Solution	Actors Responsible	Implementation Timelines
Lack of Export Competitiveness	▪ Industrial reorientation	▪ investing in technologies like automation, digital tools, and energy-efficient systems. ▪ Tapping into sectors like blue economy, IT, sports goods, and value-added agriculture products. ▪ Invest in research to explore the global market trends. ▪ Reorientation of the industrial sector by equipping labour with industry-specific skills through vocational training.	Ministry of Commerce	2-3 years
Tax Revenue	▪ Establishing a stable and long term taxation frame	▪ Broaden the tax by incorporating informal business, trader community,	FBR	5 years

		agriculture and real estate. ▪ Digitalisation of taxation system to incorporate informal business and increase tax revenue using the NADRA database.		
Hawala/Hundi	▪ Collaboration between institutions. ▪ Encouraging overseas Pakistanis to use banking channels to transfer money.	▪ Using the NADRA database, customs, SBP, and FIA can identify individuals using illegal exchange channels. ▪ Spreading awareness about the illegal exchange channels. ▪ Introducing remittance backed saving and investment products.	Customs, FIA, NADRA, SBP and commercial banks	2-3 years
Low labour productivity	▪ Advance Economic cooperation and collaboration with countries like China, Bangladesh,	▪ Introducing labour exchange programs in agriculture and manufacturing sector to improve skill set of labours.	MOFA	2-3 years

	Philippines and Vietnam.			

About the Authors

Dr Aneel Salman holds the distinguished OGDCL-IPRI Chair of Economic Security at the Islamabad Policy Research Institute (IPRI) in Pakistan. As a leading international economist, Dr Salman specialises in Monetary Resilience, Macroeconomics, Behavioural Economics, Transnational Trade Dynamics, Strategy-driven Policy Formulation, and the multifaceted challenges of Climate Change. His high-impact research has been widely recognised and adopted, influencing strategic planning and policymaking across various sectors and organisations in Pakistan. Beyond his academic prowess, Dr Salman is a Master Trainer, having imparted his expertise to bureaucrats, Law Enforcement Agencies (LEAs), military personnel, diplomats, and other key stakeholders furthering the cause of informed economic decision-making and resilience.

Maryam Ayub holds an M-Phil in Economics and Finance from PIDE. Her areas of expertise are Macroeconomics, Climate Finance and Development Economics.