
IMF Financing, Pakistan's Economic Growth, and Islam

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Abstract: *The International Monetary Fund acts as the ultimate source of financial assistance for all nations. Since 1958, Pakistan has regularly availed of IMF loans. However, its economic status has not advanced sufficiently enough to be classified as one of the industrialised nations. The study seeks to analyse the influence of an IMF loan on Pakistan's economic progress. The study intends to investigate the influence of IMF loans on the improvement of socio-economic dynamics in Pakistan. The study seeks to ascertain if IMF interest-based funding enhances or impedes the development of Pakistan's economy. Qualitative research methodology is used subjectively to develop a conceptual framework using an inductive paradigm. IMF loans to Pakistan are thought to have impeded economic progress and worsened the plight of economically disadvantaged individuals by undermining their rights to health, food, and quality of life. The loans are interest-based, which goes against Islamic Shariah rules and the country's Islamic identity. Pakistan faces particular costs in obtaining IMF loan funding with interest.*

Keywords: Financial Firms, Banking Sector, Pakistan, Customers

Introduction

Pakistan is an independent nation established in 1947 with the aim of establishing an Islamic welfare state guided by Islamic Shariah laws (Ziring, 1984). Pakistan is a sovereign state founded on Islamic principles that gained independence as a nation (Martin, 2012). Pakistan became a member of the International Monetary Fund in the 1950s. Pakistan entered into its first credit deal with the International Monetary Fund (IMF) in 1958 (Investopedia, 2015). Pakistan has entered into 22 loan agreements with the IMF by 2019. Pakistan has availed IMF programmes on 23 occasions. However, economic problems continue in the nation. Every government has focused on short-term goals or solutions to obtain electoral benefits. Therefore, they have turned to interest-based foreign loans instead of following economic strategies in line with Islamic Shariah and Pakistan's worldview. The IMF's conditional loans to assist Pakistan's economic problems have affected millions of residents living below the poverty threshold. Millions of people in Pakistan have transitioned from being above the poverty line to falling into poverty as a result of the infringement of their social and economic rights. Pakistan is currently experiencing the most serious economic and financial crisis in its history.

The International Monetary Fund (IMF) has been accused of acting against growth and against the underprivileged of the country (Investopedia, 2015). There is a distinct divide between ethics and economics, and the two cannot be combined since they are diametrically opposed to one another. As is the case in the society we live in today, the economic crisis is considered to be the only difficulty that people in this globe face. The primary goal of people living in today's secular world is to satisfy their own self-interest, maximise their profits, and satisfy their own unpleasant cravings. As a result, economic systems that are founded on interest have resulted in the emergence of additional economic difficulties, and certain regimes require strong foundations of religion in order to manage economic problems successfully. Furthermore, the dependency theory presupposes that developed countries have been implicated in the exploitation of poor countries or underdeveloped countries even up to the

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present day (Angotti, 1981). This exploitation is carried out by developed countries through the use of indebtedness, unfair commercial ventures, and the pseudonym of foreign aid. It is against the Islamic foundation of Pakistan to enter into an agreement with the International Monetary Fund (IMF) in order to obtain interest-based debt financing. This is also affirmed by constitutional declarations that aim to abolish or eradicate interest. This is due to the fact that it is against divine decree, which could not result in Barakah in terms of economic prosperity in the country. The constitution of Pakistan from 1973 stated that the state will make it possible for the people of Pakistan to conduct their lives in accordance with the principles of Islam and that no law but the teachings of the Quran and Sunnah shall be regarded compatible with or superior to those teachings. As a result, Pakistan is currently experiencing an economic crisis due to the fact that the global financial system, which is dependent on interest, has been becoming increasingly unstable. Following the introduction and the background information, the following subsections are the literature review, the methodology, the discussion, and the conclusion of the current study.

Significance of the Study

The article is important for comprehending the complex factors that influence Pakistan's economic environment. The article explores how IMF financing, economic growth in Pakistan, and the impact of Islamic values on economic policies contribute to the country's development trajectory. The article provides a valuable analysis of the effects of international financial aid on Pakistan's economy, the efficacy of previous economic strategies, and the incorporation of Islamic precepts in economic decision-making. This detailed research enhances academic discussions and provides valuable insights for policymakers and stakeholders dealing with the intricate economic issues and prospects of Pakistan, especially within the context of its Islamic character.

The rationale of the Study

The article explores the complex relationship between international financial institutions, Pakistan's economic growth, and Islamic economic policies. The article addresses critical questions about the sustainability, inclusivity, and ethics of economic development in a predominantly Muslim country by examining how IMF financing affects Pakistan's economic trajectory and whether economic policies are compatible with Islamic principles. The article bridges the gap between conventional economic analysis and Pakistan's socio-cultural context, providing policymakers, economists, and scholars with valuable insights into the country's economic development and Islamic values.

The objective of the Research

The article aims to evaluate how IMF financing affects Pakistan's economic growth while considering Islamic principles. It seeks to understand how adherence to Islamic values can impact economic policy decisions and shape the country's development path.

Literature Review

The IMF functions as a global lender that provides financial assistance and manages economic crises in various countries (Clift, 2018). The primary function of the lender of last resort is to offer a guarantee for loans in specific situations to prevent the worsening of financial turmoil. The central bank acts as a lender of last resort by providing significant loans at high-interest rates to discourage enterprises with access to market funds from borrowing. The lender of last resort possesses the authority to generate currency. The lender of last resort has two main functions: providing emergency loans during crises and supervising crisis resolution. An international lender of last resort is crucial for providing financial assistance and managing crises in countries experiencing solvency issues that

necessitate foreign currency payments. A worldwide organisation that offers urgent financial aid could fulfil this need. During global financial crises, the IMF has acted as an international lender of last resort, providing financial assistance and managing crises. The IMF acts as a lender of last resort to countries, which may impact their sovereignty. The IMF provides loans to indebted countries contingent upon specific economic criteria (Dreher, 2009). Pakistan's policy rate has been raised to 12.25% following recommendations from the IMF. Pakistan has raised its interest rate to 17% following the IMF's suggestion. Pakistan's policy rate has risen from 17% to 20%, marking its highest level since 1996, coinciding with a peak in inflation. In 2018, Khan announced that the IMF funds would not be allocated to settle the debt related to the China-Pakistan Economic Corridor project (Tribune, 2018). The State Bank of Pakistan must adhere to IMF standards for its independence to receive continued financial support promptly. This entails reducing government intervention in the State Bank and ensuring that the autonomy of state banks complies with international norms, specifically IMF requirements. Several countries, especially Korea, acknowledge that the reserves-to-short-term external debt ratio is a key factor in determining the likelihood of a financial crisis. The IMF should have the authority to create its own currency, and countries should contribute monies in their respective currencies based on their quotas to build reserves for the IMF. International agreements could increase reserves by allocating Special Drawing Rights (SDRs) to address the need for additional resources during recurring financial crises (Andrews, 2021). The IMF created the Supplemental Reserve Facility (SRF) in 1997 to offer crisis-stricken countries significant short-term loans at high penalty interest rates. SRF loans were given to selected countries under the condition that they adhere to particular economic strategies. Pakistan's current debt-to-GDP ratio stands at 87%. The interest rate has been decreased to 7% in response to COVID-19, despite the country's inflation rate being approximately 11.10% (Shahid & Ali 2020). The country's jobless rate has exceeded 6.65 million. Government expenditure on development has decreased to 2% of Gross Domestic Product (GDP) over the past decade. Currently, almost 85 million people in Pakistan are living in poverty, up from 55 million in 2016.

Interest, when used in relation to debt, is a potent mechanism for controlling civilizations and draining resources from their economy. According to Bagehot's rules, the IMF should provide loans to countries that meet specific requirements, particularly related to their banking systems. Foreign banks should be permitted to operate in these countries, and loans should be approved based on collateral. In the past, specialists were employed and authorised by the League of Nations to assess the debt of indebted countries. Their role was to ensure that these countries were paying more than they could earn and to suggest increasing taxation within the economy to cover interest payments. Sir Otto Niemeyer, appointed in 1922 as the financial committee member of the League of Nations and a board member of the Bank for International Settlements, actively promoted economic policies in countries such as Brazil, Australia, New Zealand, and India. His approach involved raising taxes and reducing living standards for the residents of these nations. Since World War One, 26 conventional central banks have been founded in various countries to guarantee the payment of interest on national or international obligations, with many of them established based on recommendations by Sir Otto Niemeyer. Debt obtained from foreign lenders with interest is the primary cause of political disruptions on a global scale. Central banks, in carrying out their duties, can lead to depression, unemployment, insolvency, loan defaults, budget deficits, and social and political unrest, thereby destabilising governments. Islam has established the interest rate at zero per cent, and any rate above zero is considered usurious.

Since the establishment of the IMF and central banks, poverty and inequality among the general population have increased (Biglaiser et al., 2022). The history of IMF loans has significantly impacted economic indicators and altered regulatory frameworks, therefore affecting countries like Pakistan in both beneficial and detrimental ways. Privatising government enterprises leads to proper resource allocation and economic efficiency, resulting in a positive influence on the economy. IMF loans have promoted trade liberalisation, leading to specialisation and

narrowing imbalances in the Balance of Payments (BOP), as well as reducing the government's budget deficit. Furthermore, to maintain stability in foreign exchange reserves by settling international import invoices. By assisting the government in enhancing revenue through the adoption of a new tax culture and lowering needless expenditure, strengthening the country's credit ratings, boosting investors' confidence in the money and capital markets, and stabilising Pakistan's currency. However, it adversely impacts the country by raising unemployment, increasing interest rates, elevating the poverty rate, imposing central excise duty on the agricultural sector and services, devaluing Pakistan's currency, and reducing public sector expenditure on development programmes. Terminating the subsidies on gas and electricity would adversely impact the general public. Consistency is needed in the exchange rate of the dollar between the open market and the interbank market. Government financial intervention in the stock market is expected to result in a fall in GDP growth rate and other economic indicators when IMF money is infused into the economy. Banks and interbank transactions require high-interest rates. No more funding should be allocated to government departments. The IMF emphasises that the government should adjust its spending in response to inflation caused by rising fuel prices. In Pakistan, inflation is mostly caused by cost-push factors. Utilising interest-based debt funding from the IMF serves as a significant signal for other international creditors like the World Bank. It also helps accumulate ample reserves of dollars to repay foreign debt and necessary imports.

Methodology

Qualitative research methodology is used to investigate the subjective impact of IMF loans on Pakistan's economic development. The inductive paradigm is utilised to provide a conceptual framework for analysing how IMF loan financing through interest impacts the economy of Pakistan, either fostering or hindering its economic progress. Considering Pakistan's economic situation, it is evident that IMF assistance is contingent on specific terms, which hinders economic progress in Pakistan and influences the government's actions to enhance the socio-economic well-being of its citizens. Hence, the country should reduce its dependence on interest-based debt financing from international lending organisations in order to uphold the Islamic principles of the nation both in theory and practice.

Comparative Analysis and Discussion

Since its inception, Pakistan has encountered various challenges. Nevertheless, over the past few decades, it has consistently encountered economic and financial challenges. Factors including but not limited to poverty, inadequate infrastructure, substandard healthcare, trade deficits, discrepancies between savings and investment, terrorism, natural disasters, and a deteriorating educational system that is outdated significantly contribute to the perilous imbalance of Pakistan's economy (Irfan, 2007). Then, Pakistan's economic difficulties began to emerge. Pakistan obtained foreign loans in 1951 with the dual objectives of bolstering economic development and addressing the budget deficit. Despite having originated in the early years of independence, the nation is currently mired in a severe debt quagmire. Pakistan incurred foreign debt amounting to USD 80 billion as of June 2017. Pakistan annually confronts the challenge of a budget deficit and resorts to obtaining substantial loans as a means of mitigating this issue. Taking on debt as a solution to the country's economic problems only serves to exacerbate the country's economic predicament. Interest on debt is the most malevolent concept and possesses an inherent malevolence. When a creditor extends credit to a borrower in exchange for interest, a distinct and negative relationship develops between the creditor and the borrower. Interest is a pervasive societal issue that extends beyond the realm of economics. The existence of an exploitative relationship in interest-based financial arrangements not only impacts society but also entails the cost of exploiting the rights of debtors. Due to the United States of America's pivotal role in global economics, financial arrangements, and exchange rates, any alteration in US interest rates likewise has repercussions in other nations. Nevertheless, the majority of Pakistan's international transactions are conducted in

US dollars; consequently, the volatility of the US dollar exposes the Pakistani economy to risk (ULLAH et al., 2012). An increase in interest rates in the United States will have a corresponding impact on the value of Pakistan's external debt and the cost of servicing that debt, notwithstanding the absence of any new borrowing by the nation.

In contrast, if interest rates are low in the United States, Pakistan must increase interest rates significantly and add a risk premium in order to attract foreign investors. At 13.25%, Pakistan imposed the highest interest rate. Pakistan has the highest interest rate in the region at 12.25%, while its currency has depreciated the least among South Asian nations. Pakistan was likely on the verge of reaching an economic milestone in the 1960s. However, the present-day dependence of nations on interest-bearing debts as a solution to economic challenges has 87 per cent influenced the financial decisions of the government in a way that benefits the citizens of the state. The nation is currently grappling with budget deficits amounting to Rs. 2.12 trillion. Total reserves stand at USD 18,105.1 million, of which borrowed funds account for a greater proportion than earned funds (Arslanalp et al., 2021). Furthermore, for the fiscal year 2020-2021, the nation is obligated to pay 41% of the total budget as interest on debt repayment rather than on behalf of Pakistani citizens. The allocation of government funds towards the welfare of the populace is virtually non-existent, resulting in an excessive tax burden on the people of Pakistan. The aggregate debt owed by each Pakistani citizen increased from Rs. 153689 in February 2020 to Rs. 175,000 in February 2021. The reinstatement of the extended loan facility by the IMF is contingent on Pakistan's monetary policy being guided by an inflation target as opposed to a growth target. While the IMF agreement serves as a mechanism to safeguard the geopolitical objectives of the United States in Pakistan, Pakistan continues to approach the IMF after a few years due to the inability of its subsequent governments to effectively manage the country's economy. Documents pertaining to unconventional warfare conducted by Army special operations forces and leaked by WikiLeaks in September 2018 provide evidence that the United States employs the International Monetary Fund (IMF) and World Bank to advance its regional and political objectives. The selection of central bank governors from critical positions at the IMF or the World Bank has historically served to advance the vested interests of Western lobbying efforts rather than prioritising the welfare of the Pakistani people.

The selection of central bank governors from key positions at the IMF or the World Bank has historically served to advance the vested interests of Western lobbying rather than prioritising the welfare of the Pakistani people. Dr Raza Baqir, a former official member of the International Monetary Fund (IMF), was appointed as the new governor of the State Bank of Pakistan in May 2019. Additionally, Dr Abdul Hafeez Shaikh, another former IMF official, advised the Finance Ministry on obtaining bailout packages from the global lender. Consequently, the de facto Finance Minister and the central bank governor of Pakistan are both IMF officials. Pakistan, similar to numerous developing and least developed nations, has depended on IMF financing as the largest financial institution in the world. To date, Pakistan has utilised IMF financing on eighteen occasions in an attempt to reduce poverty and boost economic growth. However, despite having received debt financing from the IMF on numerous occasions, the country has been confronted with economic crises. While corruption, unfavourable political conditions, and terrorism may also contribute to the issue, Pakistan is currently seeking an IMF loan to address the balance of payments concerns, strengthen the economy, and increase exchange rates. The IMF extends loans to countries in order to fulfil their financing needs, but only after imposing specific conditions and demands on their monetary and fiscal policies. To stimulate international capital flow, the IMF particularly focuses on inflationary policies. In order to facilitate trade liberalisation and privatise public institutions, tariffs and non-tariff barriers should be reduced (Advocate, n.d.). The International Monetary Fund (IMF) has assumed control of Pakistan's government and economy due to the fact that it is a political institution in addition to an economic one; thus, it has appointed its astute personnel to key positions in Pakistan. The IMF bailout preconditions for Pakistan consist of tax increases

and currency devaluation, both of which impose significant burdens on the general populace of Pakistan. By approving a bill of autonomy for the SBP in accordance with IMF conditions and subsidising the government's responsibility to formulate the country's economic policies, Pakistan is effectively entrusting its sovereignty to SBP officials who will not be held accountable. In addition, the World Bank and IMF have been debating the autonomy of the Pakistani central bank. The primary cause of Pakistan's challenges stems from the nation's heavy reliance on interest-bearing foreign loans to finance its economic activities. This is primarily attributable to the country's adherence to a Riba-based economic system, which is contrary to both the Islamic ideology of Pakistan and the principles of Shariah.

In contrast, the Islamic financial system adheres to the principles of real economic activity and disapproves of riba while emphasising risk-reward management in order to foster wealth distribution that is fair and equitable. Urgent action is required to implement reforms that will expedite the repayment of existing foreign debt and to establish economic policies that adhere to the Shariah principles of Islam. Over the course of seventy-two years, a nation's reliance on interest-based debt to resolve economic issues has not yielded any significant results on an international stage; rather, it has exacerbated the afflictions of that nation. Pakistan has yet to achieve successful implementation of its economic, social, legal, cultural, financial, and educational systems in accordance with the principles of Islam, thereby undermining and undermining the fundamental tenets of its Islamic ideology. Thus, witnesses undermined the country's human capacity, infrastructure, and economic development.

Conclusion

The IMF serves as the last resort lender to countries. Interest is applied when utilising the IMF borrowing facility. Islamic Shariah prohibits interest-based debt financing. It is a constitutional requirement not only to refrain from interest-based financial transactions but also to promptly eliminate interest from the economic and financial matters of the country. IMF finance in Pakistan has exacerbated the country's hardships instead of serving as a saviour to ensure lasting economic progress. Pakistan has effectively secured its physical borders but has not yet managed to defend its spiritual and ideological borders. Each successive government relies on interest-based debt financing to achieve economic needs and socio-economic development goals in order to gain political support from the public. This culminated in additional economic turmoil for the nation. A viable strategic mechanism must be developed to implement economic policies as an alternative to debt financing based on interest. Each government acquires foreign debt to cover its budget deficit and pay interest. Implementing interest-free financing based on participatory mechanisms in accordance with Islamic Shariah is the sole approach Pakistan can use to address its economic difficulties permanently. To address Pakistan's economic issues effectively, implementing an interest-free financial system in accordance with Islamic principles is essential. This will create opportunities for Sharia-compliant businesses to thrive, leading to Pakistan's overall prosperity.

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