

PAKISTAN'S PERENNIAL CRISES AND LESSON FOR DEVELOPMENT

Atif Mian (Princeton)

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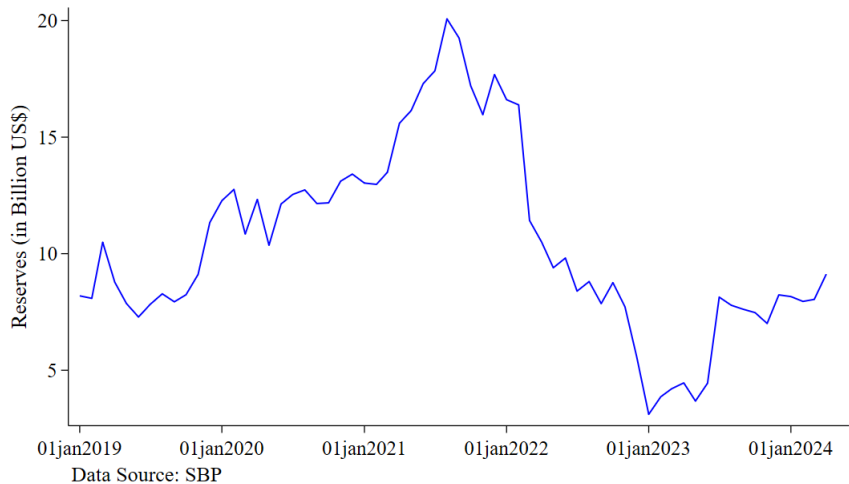
PAKISTAN'S IMF PROGRAMS

Program #	Facility	Date of Arrangement	Date of Expiration	Amount Agreed
1	Standby Arrangement	Dec 08, 1958	Sep 22, 1959	25,000
2	Standby Arrangement	Mar 16, 1965	Mar 15, 1966	37,500
3	Standby Arrangement	Oct 17, 1968	Oct 16, 1969	75,000
4	Standby Arrangement	May 18, 1972	May 17, 1973	100,000
5	Standby Arrangement	Aug 11, 1973	Aug 10, 1974	75,000
6	Standby Arrangement	Nov 11, 1974	Nov 10, 1975	75,000
7	Standby Arrangement	Mar 09, 1977	Mar 08, 1978	80,000
8	Extended Fund Facility	Nov 24, 1980	Dec 01, 1981	1,268,000
9	Extended Fund Facility	Dec 02, 1981	Nov 23, 1983	919,000
10	Standby Arrangement	Dec 28, 1988	Nov 30, 1990	273,150
11	Structural Adjustment Facility Commitment	Dec 28, 1988	Dec 27, 1991	382,410
12	Standby Arrangement	Sep 16, 1993	Feb 22, 1994	265,400
13	Extended Fund Facility	Feb 22, 1994	Dec 04, 1995	379,100
14	Extended Credit Facility	Feb 22, 1994	Dec 13, 1995	606,600
15	Standby Arrangement	Dec 13, 1995	Sep 30, 1997	562,590
16	Extended Fund Facility	Oct 20, 1997	Oct 19, 2000	454,920
17	Extended Credit Facility	Oct 20, 1997	Oct 19, 2000	682,380
18	Standby Arrangement	Nov 29, 2000	Sep 30, 2001	465,000
19	Extended Credit Facility	Dec 06, 2001	Dec 05, 2004	1,033,700
20	Standby Arrangement	Nov 24, 2008	Sep 30, 2011	7,235,900
21	Extended Fund Facility	Sep 04, 2013	Sep 30, 2016	4,393,000
22	Extended Fund Facility	Jul 03, 2019	Oct 02, 2022	4,268,000
23	Standby Arrangement	July 12, 2023	April 11, 2024	2,250,000
24	Negotiations In Process	?	?	?

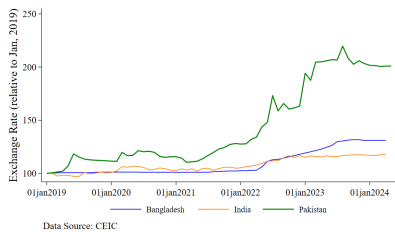
PAKISTAN'S 2022-24 ECONOMIC CRISIS

- The current crisis arguably the worst in history
 - The pandemic eased Pakistan's chronic bop issues
 - March 2020 - Aug 2021:
reserve buildup, ER stable, easy monetary policy
 - Large fiscal and liquidity stimulus during the pandemic
 - Demand surge as pandemic recedes
- Reserves fall to just one month's import in late 2022
ER collapse, inflation at 40%, extreme import restrictions
- A severe sudden stop

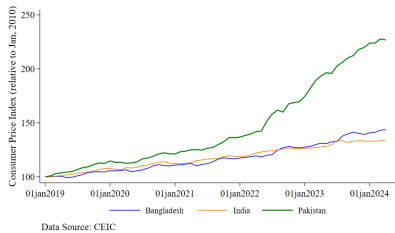
RESERVES



EXCHANGE RATE AND INFLATION



(a) Exchange Rate

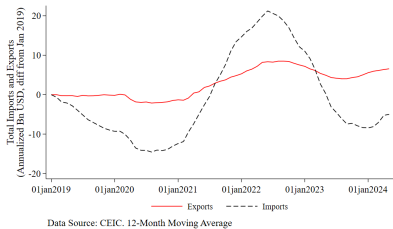


(b) Inflation

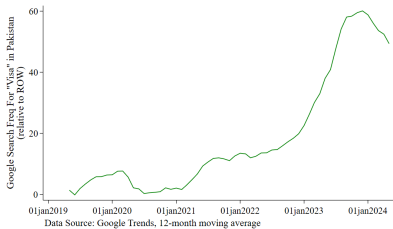
“PAKISTAN BEATS NETFLIX”

- Political economy is always central to understanding crises
 - Civil-military tussle over power
 - PTI helped in 2018 - relationship sours by 2021
 - Vote of no-confidence as bop worsens
 - PTI slashes fuel prices - giving subsidies!
 - Government toppled
 - ex-PM accuses Army chief and USA of conspiracy
 - Street protests, constitutional crisis with a divided judiciary
 - Army chief extension / next appointment
 - New FM actively opposed from the inside by ex-FM

SUDDEN STOP

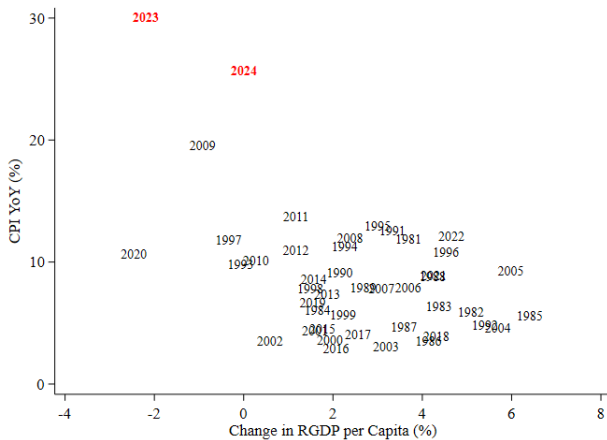


(a) Imports and Exports



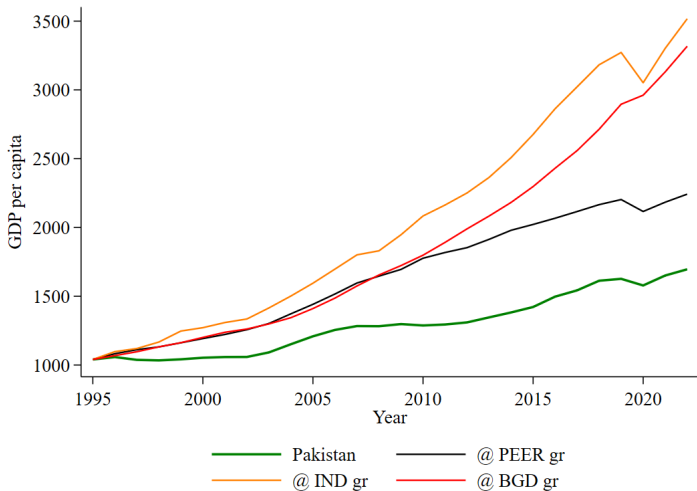
(b) Google Visa Searches

THE WORST CRISIS IN RECENT HISTORY

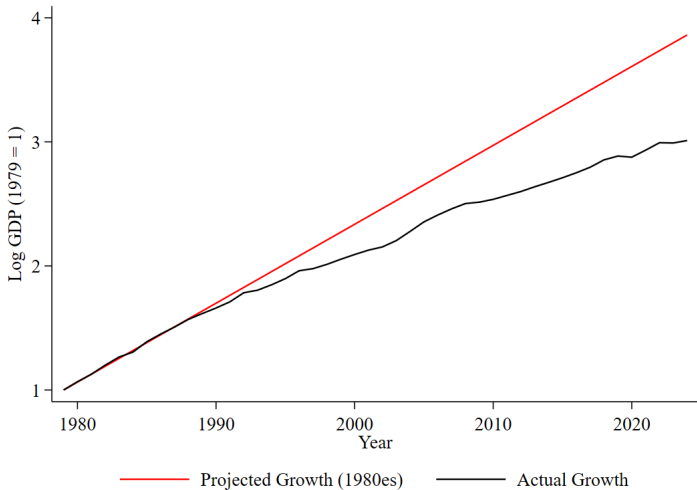


STRUCTURAL ROOTS OF PAKISTAN'S CRISES

PAKISTAN'S GROWTH TRAJECTORY VERSUS OTHERS



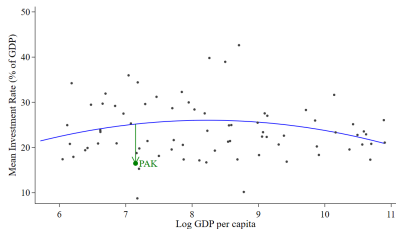
PAKISTAN'S GROWTH TREND



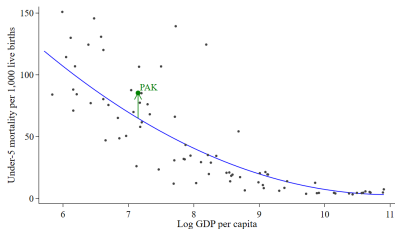
WHY IS PAKISTAN DIFFERENT FROM OTHERS?

SUPPLY-SIDE

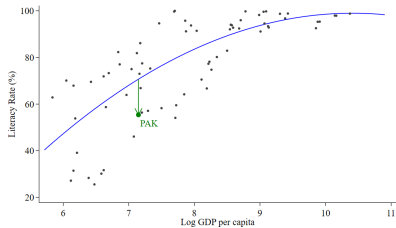
WHY IS PAKISTAN DIFFERENT FROM OTHERS?



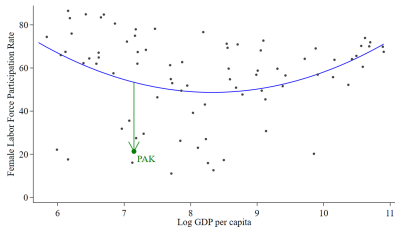
Panel A



Panel B

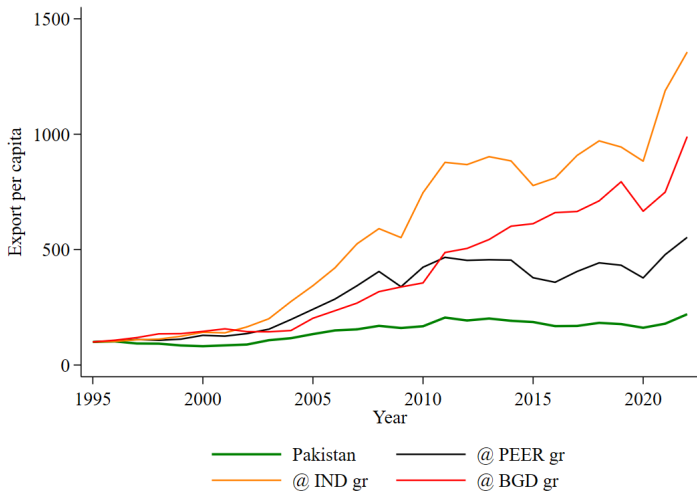


Panel C

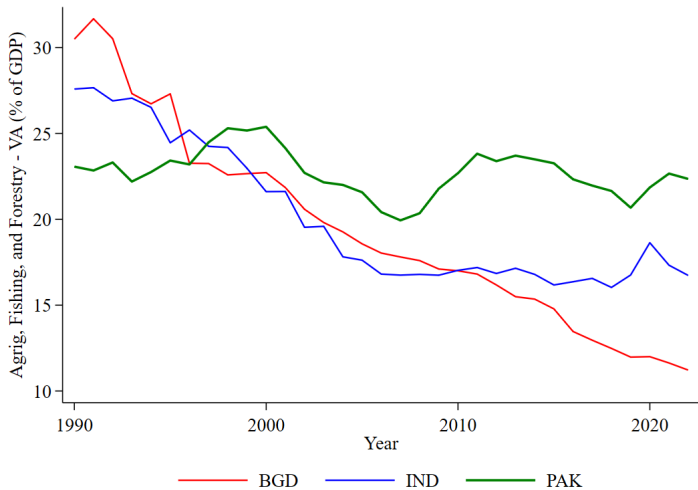


Panel D

PAKISTAN'S EXPORT PERFORMANCE



MISSING STRUCTURAL TRANSFORMATION



THE POLITICAL ECONOMY ROOTS

- The development of a *rentier elite* versus a more productive elite
 - Why?
 1. Studwell (2014) - East Asian conglomerates got preferential access, but constrained to compete on productivity. Pakistan nationalized conglomerates in '70s, the new post-nationalization private sector focused on domestic rent-seeking
 2. Geo-political rents - e.g. “easy money” during Afghan war
 3. Rise of religious extremism - domestics control and geo political reasons. Major supply-side effects
 4. The unstable civil-military dynamics

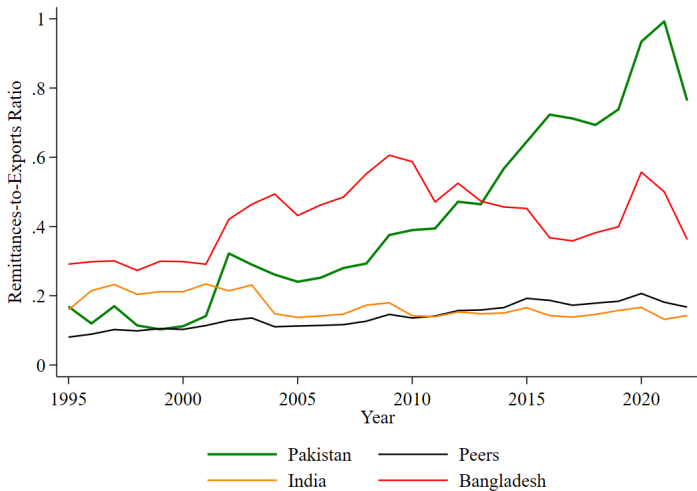
HOW RENTIER ELITE DISTORT POLICY

1. Land as an instrument - “Henry George theorem” (Arnott and Stiglitz (1979) in reverse - Pakistan versus China
2. Sugarcane sector
3. Auto sector
4. Energy sector

HOW IS RENTIER CONSUMPTION SUSTAINED?

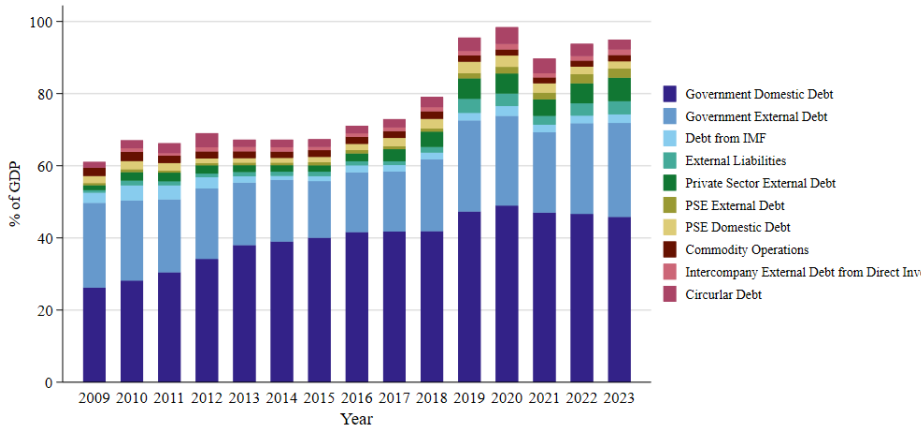
- Privilege is used to extract rents from a closed/protected domestic economy
- An over-valued exchange rate raises the purchasing power (in dollars) of rentier elite
- A rentier economy naturally prefers a trade deficit - how can that be sustained?
- 11 million emigrant workers - ticket out of country best employment opportunity - government actively promotes it
- Low tax revenue, especially from unproductive rent-seeking sectors, high subsidies through tax expenditure

RELIANCE ON REMITTANCES

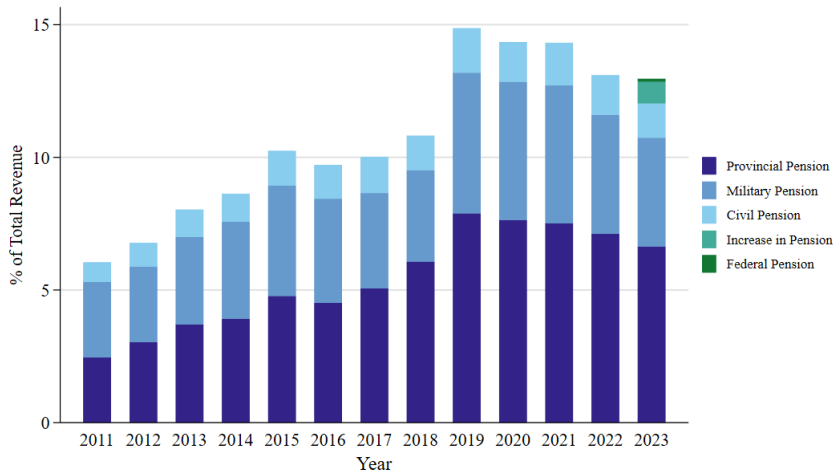


DEFICIT AND DEBT CONSEQUENCES

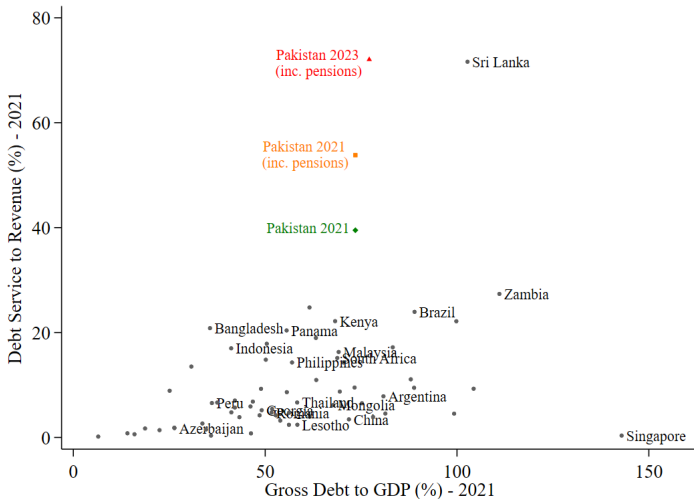
PAKISTAN'S TOTAL DEBT



UNFUNDED PENSION LIABILITIES



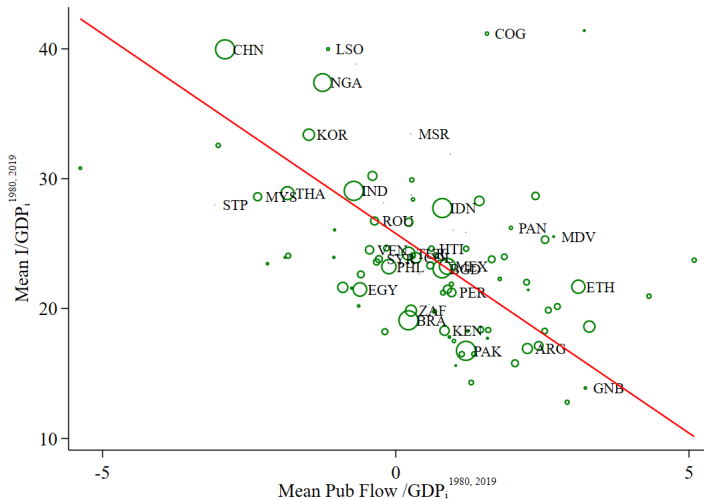
DOMESTIC DEBT SUSTAINABILITY



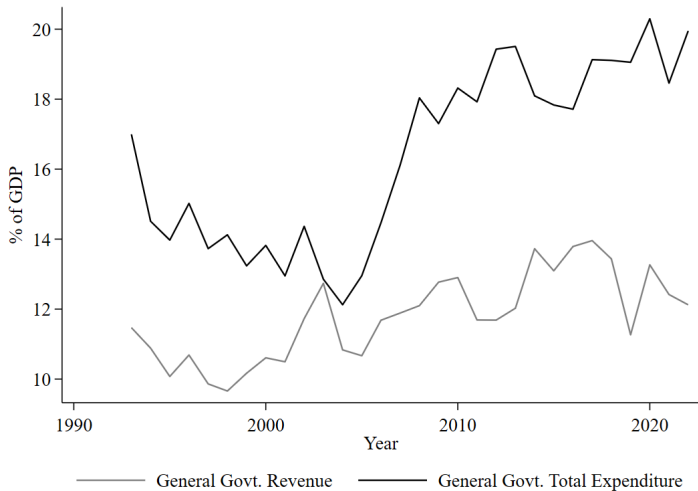
THE WAY FORWARD AND CONCLUSION

- Pakistan is in a high-debt low-growth trap
- Way forward requires coordination and commitment to be credible:
 1. New political equilibrium
 2. Fiscal consolidation path - double GDP growth to 5% with 2.5% of GDP fiscal drag, tax-growth elasticity, dynamic scoring on spending
 3. External account sustainability
 4. Growth and industrial policy

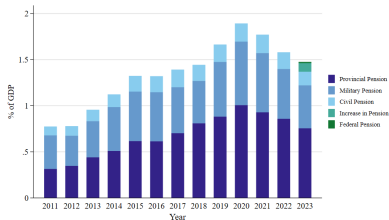
SOVEREIGN BORROWING AND INVESTMENT



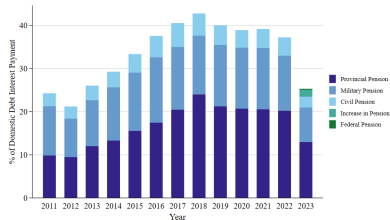
TAX REVENUE VERSUS EXPENDITURE



UNFUNDED PENSIONS - ALT SCALE



(a) Imports and Exports



(b) Google Visa Searches

PROVINCIAL SHARE OF TOTAL REVENUE

