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PAKISTAN'S DEBT CRISES: BETWEEN IMF DEPENDENCE AND PERMANENT AUSTERITY*

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Key Takeaways

- **Chronic IMF Dependence:** Since 1958, Pakistan has entered into 25 IMF loan arrangements. The Pakistan-IMF relationship has remained constant across both military and democratic governments. Interest surcharges alone cost Pakistan an estimated US$65 million between 2018 and 2020, with surcharge payments for 2021-2028 projected at US$392 million.
- **Structural Economic Weaknesses:** The economy has shifted from agriculture towards services while manufacturing has stagnated at 12-13% of GDP. The country's tax-to-GDP ratio remains critically low at 10.5% (2023), with regressive fiscal burdens on the salaried classes.
- **Debt-Driven Policy Conditionalities:** IMF programmes have consistently mandated mass privatisation, elimination of essential subsidies, dramatic utility price hikes, austerity and other policies with long-term structural implications for the economy and citizens of Pakistan.
- **Socio-Economic Devastation:** Conditionalities have reduced pension benefits, mandated privatisation of primary schools and health services, and triggered crackdowns on political opposition. Climate-induced flooding in 2022 heightened default risk perceptions, leading to sovereign credit rating downgrades and restricted capital market access.

Introduction

Pakistan has a long and complex history of sovereign indebtedness. Between 1958 and 2026, Pakistan received a total of 25 loan packages from the International Monetary Fund (IMF) and maintains an ongoing IMF programme. As of April 2026, Pakistan's total external debt is estimated at $92 billion[1]. Since 2022-23, Pakistan's balance of payment constraints have heightened and foreign exchange reserves have been declining, often being unable to cover a month's imports. In the year ending 2025, total liquid foreign exchange reserves stood at $ 19,269 million including US$14,506 million held by the State Bank of Pakistan and approximately US$ 4,763 million held by commercial banks[2]. The country's external debt has doubled between 2015 and 2025 (See Figure 1). The recent drivers of debt escalation in the country are exogenous: the 2020 COVID-19 pandemic, the global impact of conflicts such as the Russian invasion of Ukraine and the US- Israeli attacks on Iran 2025-2026, compounded by an energy crisis in response to Iran's defensive blockade of the Strait of Hormuz. However, beyond these immediate shocks, Pakistan's economy suffers from several structural constraints which lie at the intersection of the national and international levels of analysis. These constraints include a lack of economic diversification, a phenomenon of deindustrialisation, the poor design and implementation of fiscal policies and political volatility. The cyclicality of debt has led the government to extend its IMF- Extended Fund Facility (EFF)'s arrangements several times. These arrangements, when combined with principal and interest payments plus IMF surcharges (additional interest rates) have been a major source of drain on the economy. Research has shown that Pakistan was one of the top sources of IMF surcharge payments. Sources estimate that Pakistan paid the IMF US$65 million in surcharges from 2018 to 2020[3] and conservative projections for the period 2021-2028 are around US$392 million[4].

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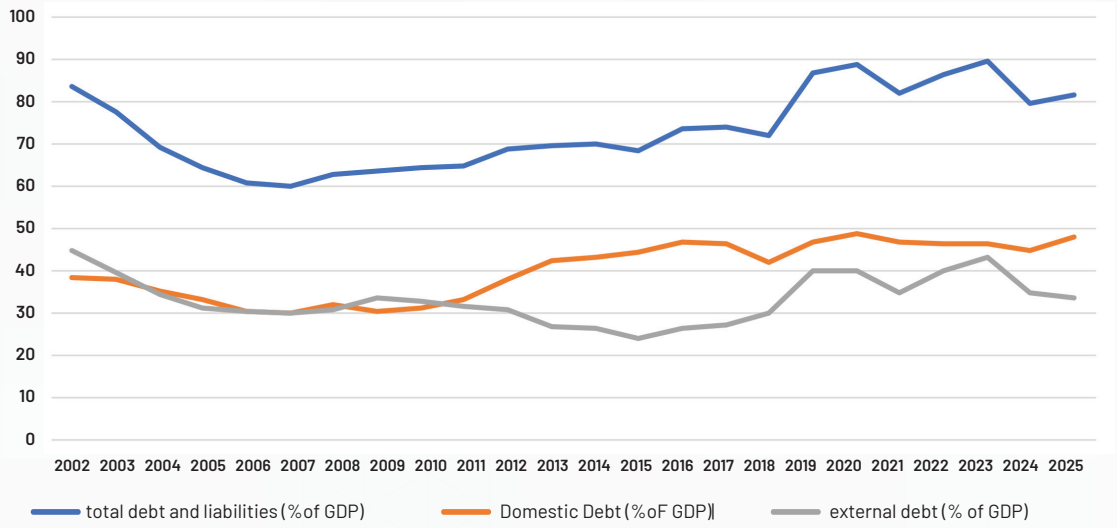
[1] Ministry of Information and Broadcasting, Government of Pakistan (2026). Press Release. Pakistan's External Debt Profile Remains Predominantly Concessional and Long-Term Islamabad: February 22. https://pid.gov.pk/site/press_detail/32017.

[2] State Bank of Pakistan (2026). Foreign Exchange Reserves April 16, https://www.sbp.org.pk/dfmd/ferm.asp

[3] Global Action for Debt Cancellation https://debtgwa.net/sites/default/files/2022-10/Explainer_Food%2C%20Climate%2C%20Debt.pdf

[4] IMF website https://www.imf.org/external/np/fin/tad/extforth.aspx?memberKey1=760&date1key=2026-01-31&year=2027&schedule=exp

Figure 1: Evolution of Total Debt and Liabilities - Pakistan (% of GDP)



Source: Annual report, State Bank of Pakistan (various years)

1. Brief History and drivers of Sovereign Debt

Pakistan joined the IMF in 1950, just three years after its independence from British colonial rule and a difficult partition from India. The 1971 secession of East Pakistan, which led to the formation of a new state coined as Bangladesh, further exacerbated the volatility of the young state. Pakistan's external lending intensified in the wake of East Pakistan's secession and successive global oil shocks first initiated in 1973. Soon after, Pakistan became a recipient of US grant aid as well as military funding support to counter the Soviet threat in neighbouring Afghanistan. The 1980s Global debt crisis impacted Pakistan as it did many other Global South countries. By 1999, Pakistan had entered into at least nine loan agreements with the IMF under different governments. The country became further embedded in the US model of grants and assistance following the 2001 US War on Terror campaign. Each successive government actively pursued policies of rapid privatization, liberalisation and escalated austerity, most of which were linked to IMF loans. These policies incentivised different political parties to focus on short-term benefits whilst leaving structural transformation unaddressed. One major consequence was that as Pakistan transformed from a predominantly agriculture economy to one with a larger share of the service sector which rendered it incapable of sustaining investment in large scale manufacturing and pursuing economic diversification through industrialisation.

While agriculture contributed 43.5 percent of Pakistan's GDP in 1960, this share had declined to 23 percent of GDP by 2022[5] while the service sector expanded from 36.0 percent of GDP in 1960 to over 50 per cent in 2024[6]. Finance and the insurance sector emerged as one of the most dominant drivers of growth in services. In the industrial sector, manufacturing's share of GDP has stagnated around 12-13 per cent since the mid-2000s, peaking at 18.5 per cent in 2010[7].

Moreover, the privatization of the energy sector, a result of IMF and World Bank conditionalities, created a long-lasting legacy of circular domestic debt in which government, power producers, and consumers fell into a complex web of reciprocal financial obligations. Circular debt indirectly exacerbates sovereign debt payments as major energy contracts with tariffs and debt repayments are indexed to the US dollar. This means that costs are ultimately passed onto the consumers and the state while frequent power outages and expensive electricity have effectively impeded industrialization.

[5] State Bank of Pakistan. Agriculture statistics. https://www.pbs.gov.pk/agriculture-sector-of-pakistan-importance-role-key-statistics/

[6] World Bank Data. https://data.worldbank.org/indicator/NV.SRV.TOTL.ZS?locations=PK

[7] State Bank of Pakistan. Various years report. https://www.sbp.org.pk/index.html

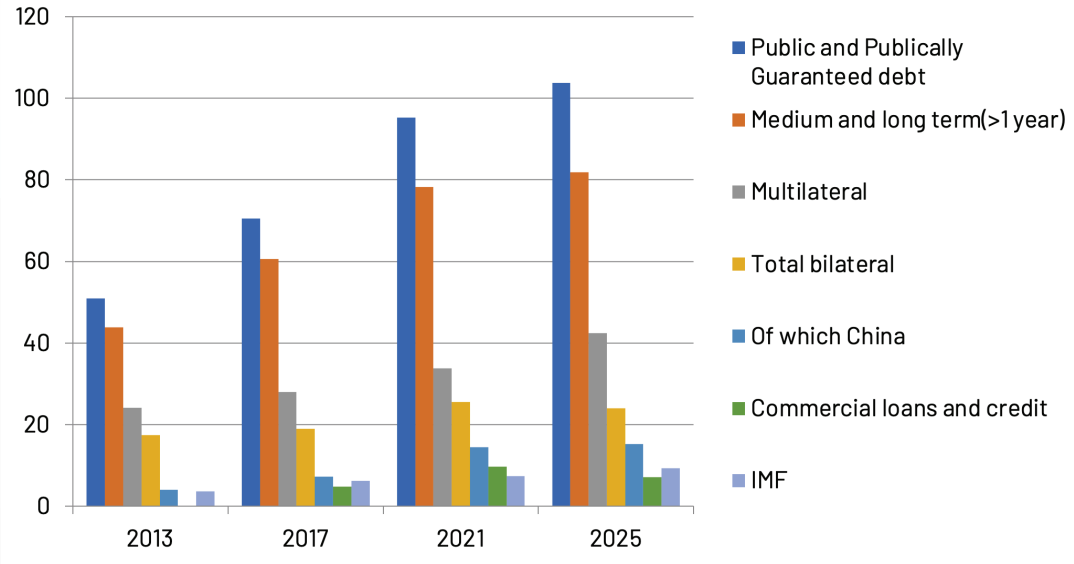
In addition, the country's revenue sources are squeezed by lender demands for debt repayments, while tax policy is inadequate both in design and implementation. In 2023, the tax-to-GDP ratio was 10.5%[8]. The design of the tax system relies heavily on withholding taxes and income tax from the salaried classes, whose tax liability has surged by exponentially since FY22. Wealth taxes on individuals, high value property ownership and powerful actors have not been a key target. Meanwhile, consumption taxes on essential goods have had a regressive impact on existing inequalities[9].

In the absence of export growth and domestic revenue, remittances became central to Pakistan's economy. These remittances amount to nearly half of the import bill and bridge the deficit in the trade in goods account. However, in the absence of adequate and consistent domestic investment, remittance revenue remains an unstable source of long-term strategy due to its reliance on external conditions and shocks like the Covid-19 epidemic.

2. Pakistan's Relationships with the IMF

Pakistan is primarily indebted to multilateral and bilateral public creditors. While Pakistan's relationship with the IMF has persisted, the rise of commercial and private creditors, multilateral and bilateral creditors has transformed this relationship. In recent years, China has become as Pakistan's largest bilateral creditor, with Gulf states and multilateral organisations such as the Asian Infrastructure and Investment Bank (AIIB) also emerging as additional sources of financing[10]. China's long-term commitment to China-Pakistan Economic Corridor (CPEC), formally announced in 2015, has enabled the Pakistani government to seek alternative sources of financing. However, the country's reliance on short-term IMF stabilization and adjustment packages remains unchanged (See Annex).

Figure 2: External Debt Profile for Select Years (2013-2025) (US$ billions)



Source: Compiled from State Bank of Pakistan

[8] OECD (2025) Revenue Statistics in Asia and the Pacific, Pakistan https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/06/revenue-statistics-in-asia-and-the-pacific-2025-country-notes_0a069779/pakistan_f7330e74/e3565533-en.pdf

[9] Gallien, M.; Javed, U. and van den Boogaard, V. (2025) Public Support for Wealth and Progressive Taxes in Pakistan, ICTD Policy Brief 17, Brighton: Institute of Development Studies, DOI: 10.19088/ICTD.2025.038 https://www.ids.ac.uk/publications/public-support-for-wealth-and-progressive-taxes-in-pakistan/

[10] For more detailed discussion, see Sial, F., Jafri, J. and Khaliq, A. (2023) Pakistan, China and the Structures of Debt Distress: Resisting Bretton Woods. Dev Change, 54: 1226-1263. https://doi.org/10.1111/dech.12798

Mainstream economics and political economy approaches would consider IMF's repeat lending packages to Pakistan as the result of poor policy choices, since Pakistan has consistently failed to meet major IMF conditionality targets. However, such an approach privileges certain metrics and indicators, which do not account for changes in the Pakistani economy predicated by the adoption of IMF and World Bank programmes. In this context, the success of IMF restructuring cannot be measured by the extension of lending packages or issuance of new ones. Every loan package has led Pakistan towards draconian policy decisions which are anti-developmental[11]. Pakistan's recent IMF program is illustrative of this relationship. In 2024, Pakistan narrowly avoided sovereign debt default through yet another IMF bailout which allowed Pakistan to secure US$7 billion through its Extended Fund Facility (EFF) over 27 months. This bailout was tied to another series of IMF conditionalities, which included demands for increased privatization, energy price hikes, an end to essential subsidies for citizens living without social protections as well as implementing a regressive tax regime which has had negative impacts on the salaried classes.

3. Socio-economic Consequences of IMF Lending

The following is a outline of recent conditionalities implemented under IMF's lending packages. As Box 1 shows, a reversal of these conditionalities and reform in domestic regulation is at the heart of Pakistani civil society's demands.

- The International Monetary Fund required Pakistan to amend its central bank statute as part of a $6 billion, 39-month loan approved in July 2019. In 2022, this policy was institutionalized and became legally binding through amendments to the State Bank of Pakistan Act, prohibiting any direct lending to the government and any purchases of government-issued securities on the primary market.
- In 2022, Pakistan suffered from catastrophic floods which caused large-scale devastation and impacted the country's ability to service its debts. In climate negotiations, Pakistani government demanded climate reparations, but this demand was not heeded. Climate-induced shocks restricted Pakistan's access to capital markets, as the flooding heightened perceptions of default risk, leading credit rating agencies such as Fitch and Moody's to downgrade Pakistan's sovereign ratings.
- In 2025, the government set out to gradually privatise most of the existing over 200 State-Owned Enterprises as part of its agreements with the IMF. This includes key state assets such as Pakistan International Airlines (PIA), Pakistan Steel Mills (PSM), National Highway Authority (NHA), Pakistan National Shipping Corporation (PNSC), Utility Stores Corporation, Pakistan Broadcasting Corporation (PBC), and the Pakistan Post.
- The government has also enhanced its regressive policies of implementing additional taxes on low- and middle-income groups leading to a record Rs1.7 trillion.
- Social security is also deeply impacted. Pension benefits of retired personnel have been reduced drastically, while primary schools, health services, solid waste management programmes are to be privatised in various provinces.
- Government has implemented crackdown on political workers, constricted basic civil liberties in response to demands of revoking IMF conditionalities.

Box 1: Selected Demands by the Pakistani Civil Society

- Establishment of Parliamentary Debt Audit Commission.
- Repudiation of odious part of public debt.
- Curtail Debt-to-GDP ratio at 60%.
- Parliamentary approval of loan contracts above US$500 million.
- Introduce progressive taxation system to tax wealthy citizens.
- Ensure social protection for the marginalized people.

[11] Sial F., Hickel J., Sylla N. S. (2025) Repudiation of global south debt to meet human need, *BMJ*: https://doi.org/10.1136/bmj.r3249

Conclusion

Pakistan's sovereign debt trajectory provides a cautionary tale for other Global South countries. After decades of continuous IMF engagement and loan programmes, the country has not made any significant progress in reducing its debt dependency or achieving structural transformation and fiscal stability. Instead, each lending cycle has reinforced a pattern of short-term crisis management while deepening long-term vulnerabilities including deindustrialisation, regressive taxation, energy sector dysfunction, and erosion of social protection.

This brief challenges mainstream economic metrics that would frame repeated IMF lending as "policy failure" from the Fund's perspective. Rather, it argues that IMF programmes have been institutionally "successful" in imposing draconian, anti-developmental policy shifts including privatisation, central bank independence, and subsidy removal on basic goods and services that serve creditor interests while systematically undermining Pakistan's productive capacity and social welfare. The cyclical nature of this relationship suggests a structural lock-in rather than a series of discrete policy errors. Without fundamental restructuring, Pakistan will remain trapped in a debt regime where each successive "bailout" creates the very conditions that necessitate the next. Given Pakistan's historical and current context, it is difficult to predict a future in which IMF lending could be sustainable. While Pakistan can focus its attention on enhancing domestic resource mobilisation to some extent, a global context of tariffs, war and energy crisis would likely impede such efforts. Sovereign indebtedness is a crisis for more than 50 Global South countries. Pakistan's debt problems should be addressed at a different level, and a South-South coalition of debtor countries seeking collective debt repudiation could be the basis for new alternatives.

Annex

Table 1: Select IMF Programmes

Government	IMF Facility
1958 - 71 1958 Military coup d'état 1962 - 69 Presidential republic 1969 - 71 Martial law	Stand-by Arrangement 1958, 1965, 1968
1971 - 77 Democratic government	Stand-by Arrangement 1972, 1973, 1974, 1977
1977 - 88 Second military era — General Zia-ul-Haq	Stand-by Arrangement 1980, 1981, 1988 Structural Adjustment Facility Commitment 1988
1988 - 99 Democratic government	Stand-by Arrangement 1993 Extended Fund Facility 1994 Extended Credit Facility 1994 Stand-by Arrangement 1995 Extended Credit Facility 1997 Extended Fund Facility 1977
1999 - 2007 Third military era — General Pervez Musharraf	Stand-by Arrangement 2000 Extended Credit Facility 2001
2008 - 19 Democratic government	Stand-by Arrangement 2008 Extended Fund Facility 2013 Extended Fund Facility 2019
2020 - 2025 Democratic government	Rapid Financing Instrument 2020 Stand-By Arrangement 2023 Extended Fund Facility 2024 (ongoing 2025-2026)

Source: Author's compilation based on IMF (2025)

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