

# Mixed messages: IMF loans and the green transition in Pakistan



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**T**his case is part of a comparative study analysing the extent to which recent IMF loan agreements can support a green transition and just recovery. Pakistan was selected to illuminate the complex interplay of acute macroeconomic challenges and climate-related risks. The country has a long history of IMF involvement (22 programs since 1950), features in the top 30 for global greenhouse gas emissions, and is among the most vulnerable to the impacts of climate change. The current program involves a significant transfer of IMF resources (\$6 billion), representing an important case study for examining whether the IMF is fulfilling its rhetoric on addressing climate-related issues. The program has also been subject to intense controversy since it resumed in 2021, and is currently being renegotiated for 2022. Pakistan civil society advocates have already voiced concerns over how the program has insufficiently navigated complex trade-offs relating to energy sector reform, tax policy, and adequate protection of the needs of the most vulnerable in society.

## Economic Context

Pakistan is a lower-middle income country with a sizeable \$345.5 billion economy, equating to income per capita of \$1,534

(World Bank 2022a). Between 2015 and 2018, Pakistan achieved consistent economic growth rates of around 4-6% (World Bank 2021c). The Covid-19 pandemic and accompanying containment measures led to a collapse in economic activity, with the economy estimated to have shrunk by 1.0% in the 2019/20 fiscal year (World Bank 2022b). Half the working population saw either job or income losses, with workers in the informal sector facing the strongest contraction in employment (World Bank 2021b).

To revive the economy, the Imran Khan-led government introduced a stimulus package worth 2.9% of GDP, which entailed increasing public health spending, expanding the Benazir Income Support Program, introducing subsidies to reduce food and oil prices to ensure essential items remained affordable, and providing relief on electricity and tax bills (IMF 2020a). The State Bank of Pakistan also lowered its policy rate—thereby allowing banks to lower their interest rates—and expanded refinancing schemes to support lending (IMF 2021c). These measures contributed to a rapid recovery, with the economy growing by 5.6% in the 2021 fiscal year (World Bank 2022b).

Table 1. Key economic indicators for Pakistan

	2018/19	2019/20	2020/21	Estimates
				2021/22
Economic growth / Real gross domestic product growth (%)	3.1	-1.0	5.6	4.3
Balance of payments: Current account balance (% of GDP)	-4.2	-1.5	-0.6	-4.4
Foreign exchange reserves (months of imports)	1.7	2.4	2.7	3.2
Public debt (% of GDP)	85.3	87.6	83.6	82.0
Primary budget balance (% of GDP)	-3.6	-1.8	-0.6	0.0 (-2.0*)
Inflation (% of consumer price index, period average)	6.8	10.7	8.9	9.4

Sources: World Bank (2022b) and IMF (2022e). Notes: \* Projection prior to implementation of a supplementary budget is in parenthesis. Fiscal year runs from 1 July to 30 June.

These positive-seeming headline figures on economic growth belie the severe economic—and political—crisis that Pakistan is currently facing. As economic activity rebounded following the acute phase of the pandemic, the economy began to experience high levels of inflation (Khan, Nazar, and Janssen 2021), reaching a year-on-year rise in the consumer price index of 12.7% in March 2022 (World Bank 2022b). Global rising food and energy prices have diminished the purchasing power of households, disproportionately affecting poorer households that spend a larger share of their budget on these items. This fuelled public anger, directed at Imran Khan for the perceived economic mismanagement of the country, and generated momentum for his ousting in a no-confidence vote in April, with Shehbaz Sharif replacing him as prime minister.

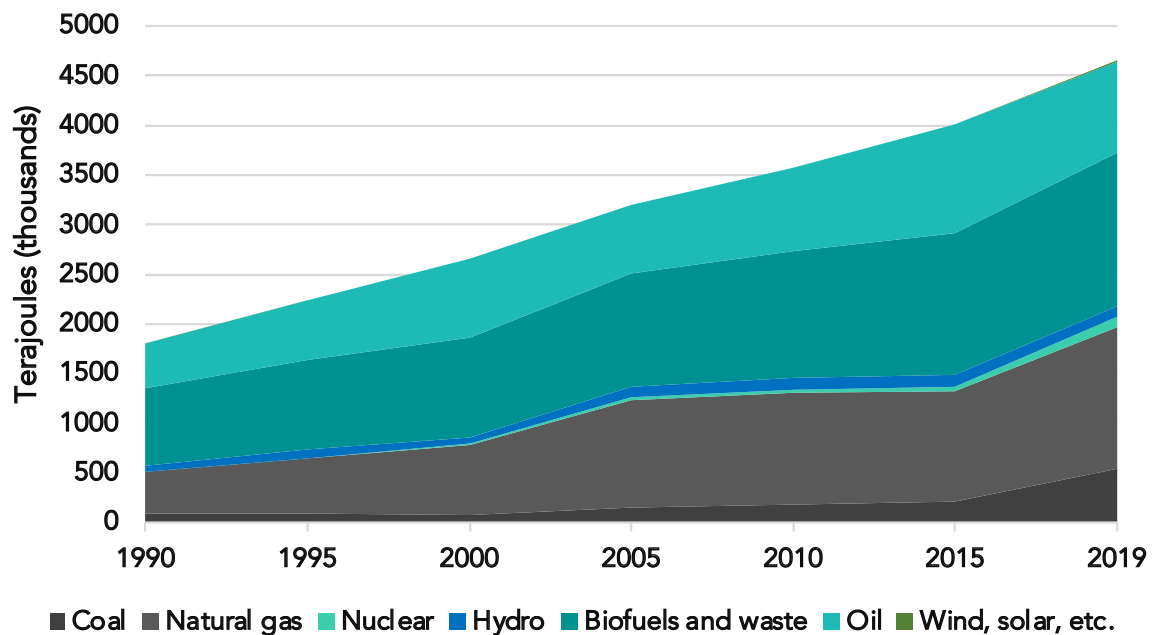
Urgent balance of payments issues—a sign of an impending financing crisis that compels countries to turn to the IMF for financial support—also arose from the Covid-19 pandemic because of sharp declines in exports, as well as a temporary loss of market access from outflows of non-resident holdings of domestic treasuries (IMF 2020a). Initially, Pakistan was able to meet these external financing needs under an emergency IMF loan (not a typical IMF program requiring the implementation of policy reforms) and fresh resources from the World Bank and the Asian Development Bank. However, higher global commodity prices have now contributed to a surge in the cost of imports (but without a commensurate increase in the value of exports), which has depleted Pakistan's foreign exchange reserves—for a time covering less than two months of imports and prompting fears that the country may default on its foreign debt (Rachman, Bokhari, and Parkin 2022). These factors have also resulted in a fall in the value of the Pakistan Rupee by 20% over the

past year, reinforcing domestic inflationary pressures (World Bank 2022b).

## Climate Mitigation

Pakistan has developed a series of institutional arrangements to mitigate global greenhouse gas emissions, including the Climate Change Act of 2017, the Alternative and Renewable Energy Policy of 2019, and the National Electric Vehicle Policy of 2019 (Government of Pakistan 2017, 2019b, 2019a). The government also announced a moratorium on new coal-fired power generation at the December 2020 Climate Ambition Summit. These policies culminated in the country's highly ambitious Nationally Determined Contributions (NDC), in compliance with the reporting requirements of the Paris Agreement (Government of Pakistan 2021). The NDC targets an overall 50% reduction of its projected emissions by 2030, of which 15% will be funded from the country's own resources and an additional 35% subject to international financial support. To reach this target, Pakistan committed to generate 60% of all energy produced in the country from renewable resources by 2030, ensure that 30% of all new two- and three- wheelers as well as heavy vehicles sold in the country are electric by 2030, issued the moratorium on new coal power plants from 2020, and planned to completely ban imported coal. To put these ambitions in context, Pakistan—a population of 225 million—contributes 0.9% of global greenhouse gas emissions. These emissions are dominated by the energy sector at 46% and agriculture at 44%, followed by land-use change and forestry (6%), industrial processes (2%), and waste (2%) (World Resources Institute 2021). As shown in Figure 1, approximately 62% of Pakistan's energy needs are currently being met by fossil fuels, primarily from natural gas (30.6%) and oil (19.7%) (IEA 2022b). The contribution of coal to the energy mix has also grown since 2015, reaching 11.7% in 2019.

Figure 1. Total energy supply in Pakistan, by source



Outside of fossil fuels, hydropower is the main source of energy in the country. Within Pakistan's legal and regulatory context (e.g., Government of Pakistan 2019b), it is not considered renewable—although at present the Government of Pakistan is including hydropower to claim progress on the renewables target in the NDC. Historically, Pakistan's experience with hydropower has been neither green nor just, having resulted in severe social dislocation, extensive greenhouse gas emissions, disruption of regional hydrological patterns, as well as causing inter-provincial disputes due to the drying up of river delta in lower riparian provinces (Abbas and Hussain 2021). Hydropower is also vulnerable to climate change because it is directly affected by changing patterns in rainfall and temperatures. This includes the greater frequency and intensity of heat waves and droughts currently being experienced by Pakistan (described in the next section), which will leave less water available to generate power.

In terms of renewable energy, solar entered the mix from 2015, driven by the coming online of large-scale solar power parks of

independent power producers, as well as by small-scale solar uptake in the residential sector and farming communities. With regard to the latter, solar photovoltaic (PV) installations are a cost-effective solution for remote rural regions that are off the power grid, where they can be used for powering tube wells, water purification systems, and water pumps for irrigation. Approximately \$2 billion worth of solar PVs has been imported in the country since 2014 (Government of Pakistan 2019b). Yet, despite the growth of off-grid solutions, more than 40 million people still remain without access to electricity (IEA 2022b).

Nearly one-third of Pakistan's energy resources are imported, primarily in the form of oil, coal, and liquefied natural gas (Asian Development Bank 2019). This depletes foreign exchange reserves, as well as exposing the country to inflationary pressures due to international fossil fuel price shocks. In the 2017-18 fiscal year alone, the value of energy imports increased by 32% (from \$10.9 billion to \$14.4 billion), with three-quarters of this increase due to higher energy prices and only one-quarter due to increased volumes (Asian Development

Bank 2019). Further energy price increases—such as those currently experienced in the world energy market—represent a major economic risk in the future, as these price shocks move down the supply chain and translate into higher costs of living and of conducting business. The increase in energy prices is also expected to be highly socially regressive, hurting poorer households and small businesses the most (ILO 2022).

## Climate Adaptation

Pakistan faces significant physical risks from climate change, ranking 151<sup>st</sup> of 182 countries in the ND-GAIN index in terms of its exposure, sensitivity, and ability to adapt to the impact of climate change (Notre Dame Global Adaptation Initiative 2021). The country is already experiencing a greater frequency and intensity of large-scale flooding, especially along the Indus River where the majority of the population resides. Floods have cost the economy an estimated \$1.7 billion annually since 2010, and damages are projected to increase to \$5.8 billion per year by 2030 (World Bank and Asian Development Bank 2021). This predicted risk is currently coming to pass, with ongoing floods since June 2022 resulting in a humanitarian crisis that has left over a thousand people dead, a million people homeless, and caused \$30 billion in economic damages (Associated Press in Islamabad 2022). Climate change is also increasing the incidence of severe droughts in Pakistan, disproportionately affecting the livelihoods of the 38.6% of the workforce in the agricultural sector, most of whom are poorer subsistence farmers (World Bank and Asian Development Bank 2021). Furthermore, heat waves—such as the one experienced in April of this year—will increase in frequency and intensity due to climate change, resulting in deaths from heatstroke and related illnesses, reduced crop-yield and desertification, critical water shortages, floods from rapidly melting glaciers, and economically debilitating power cuts due to increased use of air conditioning (Aftab 2022; Ellis-Petersen and Baloch 2022). Because the poor are more exposed to climate risks and have fewer resources with

which to adapt, they are more vulnerable to climate change (Anjum 2022). And while poverty rates have fallen dramatically in the country over the past decade—in 2007, 44% of Pakistan's population lived below the national poverty line, declining to 22% by 2018 (World Bank 2020)—the collapse in economic activity in response to the Covid-19 pandemic reversed some progress. Contractions in employment as a result of widespread lockdowns to control the spread of Covid-19 in its first wave resulted in an additional 5.8 million people falling below the national poverty line and at least 40% of households suffering from moderate to severe food insecurity (Nazar et al. 2022; World Bank 2021c). The Pakistan government adopted a more localised approach to lockdowns in subsequent Covid-19 waves and increased spending on the national cash transfer program—the Benazir Income Support Program—by 80% in order to reach more households.

The expansion of social safety nets helped to alleviate the adverse effects of the pandemic on poverty incidence in Pakistan (World Bank 2022a), but even with this expanded scale and scope will not be sufficient vis-à-vis the actions required to ensure the readiness of local communities to a prolonged climate emergency. In recognition of these realities, Pakistan has already embarked on efforts to reduce the country's vulnerability to climate impact, including the Ten Billion Tree Tsunami Program, the Ecosystem Restoration Fund, and the Recharge Pakistan initiative, as well as implementing the aforementioned Alternative and Renewable Energy Policy, National Electric Vehicle Policy, and coal moratorium. The country's NDC also outlines actions to improve the resilience of communities—such as climate smart agriculture, water management, and afforestation projects—and commits to integrating these adaptation measures through the development of a National Adaptation Plan by 2023, which will establish a framework for guiding the mainstreaming of climate change concerns into national

sectoral policies and programs (Government of Pakistan 2021).

## Relationship with the IMF

Since joining the IMF in 1950, Pakistan has been a regular recipient of IMF loans, participating in 22 programs in total, its first a 12-month program commencing December 1958. In recent years, the country's record of IMF program performance has been mixed. For example, Pakistan participated in a 23-month IMF program commencing November 2008 to obtain access to a \$7.6 billion loan. The program aimed to restore economic stability and confidence by reducing the fiscal deficit and tightening monetary policy; and to ensure social stability and adequate support for the poor (IMF 2008). But in 2010 the government failed to fulfil conditions on implementing a value added tax, reigning in the general budget deficit, and reducing government borrowing from the central bank, resulting in a suspension of the program (IMF 2010a).

Against a backdrop of massive flooding, the IMF then approved the disbursement of \$451 million under an emergency IMF loan in September 2010 to enable the government to provide urgently needed food, shelter, and health services (IMF 2010b). Following a two-year hiatus from IMF lending the

government entered into a 36-month program for \$6.7 billion in September 2013 that aimed to address economic instabilities and enact structural policies that would bolster market confidence, as falling capital inflows had led to a large reduction in foreign exchange reserves (IMF 2013). The program was successfully completed and the entire loan was drawn.

In July 2019, the IMF approved a 39-month program for Pakistan, unlocking access to \$6 billion over the course of eight reviews. The aim of the program was to tackle, in the IMF's words, "macroeconomic imbalances" including large fiscal deficits, loose monetary policy, and defence of an overvalued exchange rate (IMF 2019e). Even in these early stages, the program was not without controversy, as market and wholesale merchants went on strike across the country over steps to boost tax revenues (Hassan 2019). These protests failed to stall the program, and its first review was completed on schedule in December 2019. The program remained on-track until March 2020, at which point the government deviated from it to develop a policy response to the unfolding Covid-19 pandemic, which was in part funded by a separate emergency IMF loan of \$1.4 billion in April 2020 (IMF 2020a).

### Box 1. Timeline of IMF engagement in Pakistan since 2005

- November 2008: IMF approves Standby Arrangement loan for \$7.6 billion over 23 months.
- July 2010: Program suspended due to failure to implement conditions and never resumes.
- September 2010: IMF approves an immediately disbursing Emergency Natural Disaster Assistance loan for \$451 million.
- September 2013: IMF approves Extended Fund Facility loan for \$6.7 billion over 36 months.
- September 2016: Program completed.
- July 2019: IMF approves Extended Fund Facility loan for \$6 billion over 39 months.
- March 2020: Program suspended due to deviations in policy objectives linked to Covid-19 pandemic.
- April 2020: IMF approves an immediately disbursing Rapid Financing Instrument loan for \$1.4 billion.
- March 2021: Program resumes.
- February 2022: Program suspended due to failure to implement conditions.
- June 2022: Program resumption imminent.

After lengthy deliberations between the IMF and domestic officials, the program resumed following the completion of the second-through-fifth review in March 2021, which gave the government access to \$0.5 billion. The delay was in large part due to the government resisting IMF recommendations to increase electricity prices and impose additional taxes, given the widespread unpopularity of these measures among the population. The program was also given a new focus to reflect pandemic-related challenges. It now contained five key objectives: 1) achieving fiscal discipline over the medium-term, while mobilizing revenues and controlling spending to make space for more infrastructure and social spending; 2) fostering disinflation through monetary policies; 3) preserving the market-determined exchange rate and continuing to replenish foreign exchange reserves; 4) restoring the financial viability of the energy sector; and 5) advancing structural reforms, including in state-owned enterprise governance (IMF 2021c).

There were further delays before the completion of the sixth review in February 2022, linked to apprehension by the Khan government over General Sales Tax reforms and the removal of fuel subsidies, which were eventually enacted, enabling the release of the next \$1 billion tranche under the program (described in detail in the next section). Completion of the seventh review—which commenced March 2022—has also been delayed over the reversal of expenditure cuts incorporated in a supplementary finance bill that was adopted at the IMF's behest (IMF 2022d). Khan reintroduced a \$1.5 billion subsidy on fuel and electricity to reduce inflationary pressures, and the new Sharif-led government was initially reluctant to remove them for risk of stoking public anger with Pakistanis struggling with the increasing cost of living. IMF staff view the subsidies as fiscally unsustainable and will not resume the program until the subsidies are abolished (IMF 2022c). In June 2022, the government finally surrendered to IMF demands by

removing fuel subsidies, resulting in a 29% hike in fuel prices (Press Trust of India 2022).

## Impact of the IMF Program

To what extent is the IMF program consistent with enabling Pakistan to transition away from dependence on fossil fuels? Are such efforts aligned with a just transition that safeguards the rights and needs of the poorest in society? We examine these questions based on analysis of the loan documentation (IMF 2021c, 2022e), focusing on key conditions and recommendations since the program resumed in March 2021.

### Tax reforms

Pakistan's progress on achieving its climate commitments will be affected by several conditions aimed at reducing the fiscal deficit. In the second-through-fifth program review in March 2021, the IMF called for a cumulative fiscal consolidation of 3.3% of GDP by the 2023 fiscal year, to be achieved by increasing revenues through taxes and no quantitative changes on expenditures, which would instead undergo reprioritization toward health and social spending. The government's 2022 budget, approved in June 2021, departed from these objectives on taxation. In the program's sixth review (concluded February 2022), the IMF called for a cumulative fiscal consolidation of 2% of GDP in order to achieve an underlying primary balance of 0% of GDP for the 2022 fiscal year (see Table 1) through revenue mobilisation. This objective was underpinned by quarterly performance criteria on the government primary budget deficit, indicative targets on tax revenues collected by the Federal Board of Revenue, and a prior action requiring the National Assembly to adopt a supplementary finance bill, which the President signed into law on 15 January 2022.

Tax reforms incorporated in the IMF-backed supplementary budget represent a fundamental threat to Pakistan transitioning away from fossil fuel dependence and achieving their climate commitments. They also contradict the IMF's own climate



strategy, which states that “adaptation and resilience building to climate change ... require substantial investments, which can complicate fiscal management and impair debt sustainability ..., [such as] significant changes to tax regimes” (IMF 2021b). The budget reformed the General Sales Tax by removing various goods from tax zero-rating, discounted tax rates, and other forms of tax exemptions, instead shifting to the standard sales tax rate. As a result, a 12% increase in sales tax was implemented for imported electric vehicles, and a 20% tax was introduced on solar panels, wind turbines, and other renewable energy technologies (Moulvi 2022). While the government has since announced a reversal on solar panel taxation, it has not done so for other renewable technologies.

The tax on electric vehicles undermines mitigation efforts in Pakistan’s NDC and elaborated upon in the National Electric Vehicles Policy to reach sales penetration of 30% for several vehicle classes by 2030. When a tax break scheme came into effect in July 2021 to incentivise the development of a fledgling import market for electric vehicles (Mukhtar 2021), the government was unequivocal on how integral such breaks would be to the successful implementation of the policy: “The initial years of EV [electric vehicle] penetration in Pakistan are not possible without governmental support as EVs still cost much higher than [fossil fuel-based] counterparts” (Government of Pakistan 2019a:vii). The government also appealed to the fact that “governments around the world give subsidies, incentives and tax breaks for EV adoption” and that this short-term cost “pays for itself with the savings in fuel import bill, reduction in emission related expenses, usage of idle electricity capacity and income from charging revenues” (Government of Pakistan 2019b:vii). In this light, the IMF-mandated tax reforms appear short-sighted and raises questions around the propensity of the organization to prioritize short-term fiscal sustainability—typically up to three years—

over a long-term future that can be both fiscally and environmentally sustainable.

Similarly, by effectively increasing the price of renewables, the 20% tax on renewable energy technologies disincentivizes investor uptake, including from existing fossil fuel-based producers, self-generating agriculturalists, and industrial consumers, who may instead opt for existing fossil fuel-based arrangements. Indeed, the tax hikes extend to inverters, batteries, and other installation equipment, significantly raising upfront capital expenditure for renewable projects and increasing energy generation costs (Moulvi 2022). The government has since announced their intention to reverse solar panel taxation, but not related technology (Ali 2022). Yet, the frequent oscillation between imposing and withdrawing such taxes also renders long-term planning difficult, eroding investor confidence and fomenting uncertainty in the market regarding the profitability of the technology. This undermines the country’s emerging solar and wind energy market and threatens the goal of generating 60% of energy from renewable resources by 2030. Integral to achieving this target is the displacement of entrenched fossil fuels through the integration of renewables into off-grid solutions, private contracts, and rural energy services (Government of Pakistan 2019b), but this is less likely to occur given the changes to the incentive structure by the IMF-mandated budget.

The tax reforms also fail to safeguard the rights and needs of the poorest in society. Thus far, major beneficiaries of the growth in solar and wind energy since 2015 have been poorer subsistence farming communities that remain without grid access. These typically remote and sparsely populated rural villages constitute one of the most vulnerable populations in Pakistan. By thrusting higher costs onto these communities—which are also likely to be the most impacted by climate change—the tax reform will jeopardise the goal of achieving a

socially just transition to a low-carbon future. It may also deprive these communities of any access to electricity and thereby undermine achievement of the internationally agreed-upon Sustainable Development Goal Target 7.1 of universal access to affordable, reliable, and modern energy services by 2030, since extending the grid to them is unlikely to be economically feasible—the government plans to extend access on-grid from 77% to 97% by 2030, with 3% of the population still requiring access off-grid (IMF 2022e)—and they may be priced out of solar and wind energy solutions.

### Energy sector reforms

Another key pillar in the IMF's plan to reduce the fiscal deficit is through energy subsidy and pricing reforms, which is part of a comprehensive energy sector restructuring through the Circular Debt Management Plan. The energy sector suffers from long-standing deficiencies related to circular debt—a complex form of public debt accruing due to unpaid government subsidies to distribution companies, who in turn cannot pay independent power producers, thereby affecting the entire power and gas chain. To address this issue, the IMF set a series of energy sector conditions in the second-through-fifth and sixth reviews. In effect, two reforms are occurring conjointly that have raised costs to the end-user but reduced government expenditures: energy price reform, which seeks to bring electricity and gas prices in line with cost recovery along prescribed formulas and procedures in the amended National Electric Power Regulatory Authority Act and the Oil and Gas Regulatory Authority Act; and energy subsidy reform, which seeks to target energy subsidies to a smaller group of consumers on a more progressive tariff structure.

On the surface, these energy sector reforms could support climate objectives by raising the price of fossil fuels to the end-user, thereby reducing demand and offering greater incentives to invest in energy efficient production capacity or to

shift to off-grid renewable sources such as solar PV. Yet, while a dozen or so pages of the loan documentation are dedicated to energy sector reforms, Pakistan's NDC commitments are never mentioned, despite the sector's centrality to them. If the country's mitigation pledges are to be achieved, then a wholesale reordering of the energy sector toward renewables will be required. Against this backdrop, IMF advice risks further entrenching fossil fuel architecture, by restructuring it into a more economically efficient—but still environmentally destructive—form. As with the tax reforms, more ambitious reforms to the energy sector are overlooked because the IMF's recommendations are guided by short-term fiscal expediency, rather than considering climate concerns that will impact macroeconomic fundamentals in the long run. Indeed, the potential for cheaper renewable energy could allow for a financially viable long-term solution to addressing the sector's recurrent deficiencies.

The recent turmoil in Pakistan over increasing food and energy prices attests to the fact that these reforms are not politically palatable, especially among vulnerable populations. Fuel and power price hikes burden poorer households the most because such goods constitute a large proportion of their spending—and energy prices in Pakistan were already three times higher relative to other countries in the MENAP (Middle East, North Africa, Afghanistan, and Pakistan) region. Pakistan's energy subsidy amounts to only 0.5% of GDP compared to over 3.5% in MENAP (Parry, Black, and Vernon 2021). Recognizing this issue, the IMF calls for such households to be compensated through the expansion and better targeting of social support schemes like the Benazir Income Support Program, supported in the IMF program by quarterly indicative benchmarks that set a cumulative floor on targeted cash transfers spending. As yet, it is unclear whether a time-sensitive rollout of the Benazir Income Support Program will be possible, although steps to facilitate the

enrolment of beneficiaries and improve its targeting (i.e., to ensure it is reaching the poorest households and not higher-income groups) were incorporated in a structural benchmark to update the National Socio-Economic Registry.

### Climate risk and green transition

If the IMF program is to facilitate green transition and just recovery priorities, it will need to consider the physical risks of climate change and transition risks associated with a low-carbon future. But despite IMF claims of “embrac[ing] the transition to the new climate economy—one that is low carbon and climate resilient, that helps fight the causes of climate change and adapt to its consequences” (Georgieva 2021), the program contained no conditions explicitly relating to climate change and the green transition, and the broader program documentation contained negligible coverage of physical or transition risks. In the second-through-fifth review, the section devoted to energy sector policies referred to the reduction of greenhouse gas emissions once in describing “a range of ongoing reforms [that] seek to gradually reduce commercial and technical losses, power generation costs, and greenhouse gas emissions; improve governance; and introduce competition”, and noted that the Circular Debt Management Plan would incorporate savings from the coming-on-stream of cheaper renewable energy production (IMF 2021c). In a subsequent section on structural policies, the IMF noted that discussions were held around implementing policy related to the sale of electric vehicles “with the aim to reduce Pakistan’s greenhouse gas emissions and fuel import bill, and promote industrial growth and job creation through new investments and the introduction of new technologies” (IMF 2021c). No further details were provided on this discussion, although it appears that the IMF did not prioritize reductions in greenhouse gas emissions given the ensuing reversal of tax breaks on electric vehicles in the supplementary budget adopted as a prior action for completion of the sixth review.

The sixth program review fleetingly recommended “a modern electricity policy that [...] tackles the poor and expensive generation mix, including a wider use of renewables” in relation to the Circular Debt Management Plan. It also contained a paragraph describing the extent to which Pakistan is affected by climate change, as “among the 10 countries worldwide with the largest damages from climate-related disasters since 2000 [...], hav[ing] caused an estimated US\$22 billion in material damages, left more than 55 million people affected and 11 thousand killed” (IMF 2022e). In the same paragraph, the IMF noted that the country is “in the group of 20 largest emitters worldwide on an absolute basis” (IMF 2022e). However, the IMF did not draw any links between Pakistan’s climate vulnerabilities and high emissions on the one hand, and its own lending program on the other (for instance, by considering the trade-offs involved between the program and climate adaptation and mitigation objectives).

While there was engagement elsewhere with how climate change risks may impact the program in a risk assessment matrix, the analysis was too vague to be of substantive use. Higher frequency and severity of natural disasters is simply flagged as a potential cause of severe economic damage. Some reference to the economic costs of previous instances of environmental disasters, such as the 2010 flooding or recent droughts, could have provided much-needed context to the risk analysis in terms of estimating the potential financial needs.

In addition, there is another area within the IMF’s remit that did not factor in climate considerations: risks to the banking sector from changes in carbon-intensive asset values. There is high potential for asset stranding given the country’s ambitious NDC mitigation commitments and the energy sector’s centrality to it. For instance, while the IMF advised the State Bank of Pakistan to unwind the mandatory target on banks

to double to 5% the share of their lending portfolio to the housing and construction sectors (out of concerns for financial stability and efficiency), it missed an opportunity to consider equivalent measures to incentivize green investment (or disincentives for emission-intensive lending), which may be justified on the basis of financial stability and efficiency if transition risks are taken into account. The IMF does plan to extend support to countries for such costing through surveillance and technical assistance activities, but it is unclear how (or if) this will be incorporated into lending programs (IMF 2021b; Kentikelenis and Stubbs 2021a, 2021b). Furthermore, the debt sustainability analysis did not include any climate-related stress tests, even though the IMF is capable of delivering them (e.g., IMF 2021d), thereby failing to quantify benefits of environmental policy measures vis-à-vis the country's debt profile. There was also no coverage of the potential trade-off between Pakistan's policies to increase electric vehicles and solar PVs—which at present need to be imported because there are no domestic producers—and the depletion of foreign exchange reserves. A concerted examination of such an issue could have brought out the need to invest in or incentivize domestic renewable production.

The sixth review also contained some alarming contradictions. IMF staff commended the national electric vehicle policy, despite removing the tax breaks contained within it. Staff also recommended prioritization of what they called “no-regret measures” (IMF 2022e)—measures that simultaneously deliver on the objectives of economic growth, development, and climate change—such as enhancing early warning systems for communities living in flood- and drought-prone areas. And staff advised authorities to “accelerate efforts to meet their international GHG reduction commitments... [by] reforming energy prices, subsidies, and taxes” (IMF 2022e). Not only

do these comments fail to recognize how fiscal constraints prescribed by the program impede efforts to invest in new infrastructure and incentives for adaptation and mitigation efforts, but they also retrofit these fiscal consolidation measures as climate policy.

## Conclusion

The IMF program lacks a serious consideration of Pakistan's climate-related objectives, despite its clear relevance in relation to the tax and energy sector reforms, and in terms of the physical risks to livelihoods and transition risks to the economy presented by climate change. While the fiscal consolidation plan did demonstrate some sensitivity to the potential impact on the poorest segments of the population by counterbalancing measures with targeted social safety net approaches, these fall short of the ambitions set out by Pakistan in its NDC as well as by the IMF's leadership on fostering a green and just transition. Indeed, the IMF gave little-to-no weight to the existing climate-related commitments that Pakistan has made, at least as reflected in the program objectives and related documentation.

Our analysis shows that IMF reforms tend to be short-sighted and reactive to recent economic crises. Moving forward, the IMF will need to extend its vision much further into the future, as avoiding balance of payments issues in 20 years time may stem from actions taken today. In this light, it is well within the IMF's remit to consider structural reforms that are better suited to new climate realities. In the Pakistan context, for instance, this means considering how to shift toward an economic model that is less reliant on the Indus Basin Irrigation System, which will struggle to support water-thirsty crops, and that considers how communities will be able to make a living outside of flood-prone areas, which they will need to relocate from. These now represent core macroeconomic and social risks that could plausibly benefit from IMF analysis.

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