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Asad Umar's exit

Intense speculation spanning a number of weeks on the possible removal of Asad Umar as the finance minister were finally laid to rest by Prime Minister Imran Khan on Thursday - speculation that was further contributing to uncertainty in the market which, in turn, was seen as a major impediment to investment inflows - domestic and foreign. Be that as it may, there seems to be a consensus that the timing of the change was inappropriate as the country is currently in the final stages of negotiating an International Monetary Fund (IMF) package and the budget is due to be announced by the third week of May; the fate of the amnesty scheme, sources in the finance ministry told Business Recorder may well hang in the balance after Umar's departure; or in other words, Umar's successor Dr Hafeez Sheikh has not been given sufficient time to familiarize himself with macroeconomic indicators, begin negotiations with the Fund as well as prepare the budget and review and support (or not) the amnesty scheme that envisages higher tax collections and tax filers.

Umar in his farewell press conference stated that policy agreement has been reached with the Fund though he acknowledged that the technical details need to be worked out - a contention that is baffling given that the devil is in the detail and there is a compelling need to negotiate on the precise prior conditions as well as time-bound structural benchmarks that the country would have to adhere to under a Fund programme which would determine the impact of the package on the general public as well as on the Prime Minister's major flagship programmes, for example, Ehsaas and housing for the poor.

According to credible sources, the Prime Minister firmly believes that the lack of support for the diaspora bonds (Pakistan Banao Certificate) to-date, which he claimed would be oversubscribed given his knowledge of the Pakistani diaspora's support for him personally, premised on his integrity and personal commitment to reform the government, was due to their lacklustre promotion by the ministry of finance. While economists would agree that the success or otherwise of the diaspora bonds, a form of debt equity, may be partly attributed to their effective promotion based on the prime minister's personality, yet they would add that the success of such an instrument would depend on market perception of the reforms under implementation. Sadly, reforms that one would assume were recommended by over 10 task forces that were set up by the prime minister soon after he took oath (so far the task forces' output has not been shared with the public) have not yet been visibly implemented; this may account for the markets awaiting an agreement with the IMF given its strict monitoring regimen when a country is on its programme.

True that the Medium Term Economic Framework (MTEF), consisting of 40 equations (econometric model) giving precise revenue measures and expenditure allocations with associated budget containment has been shared with the Fund but it is unclear whether the Fund has reviewed and accepted the MTEF. One would hope that Dr Sheikh clarifies his views on the MTEF once he gets a copy.

Dr Hafeez Sheikh, unlike his predecessor, is a qualified economist and has prior experience as the minister of finance as he succeeded Shaukat Tareen as the country's finance minister in 2010 during the Asif Zardari-led government. During Musharraf's tenure, he was the Privatisation and Investment Minister and may understand the Board of Investment better than his predecessor.

However, Dr Sheikh's critics would no doubt refer to the fact that during his tenure as finance minister, the IMF suspended the remaining last two tranches of the three-year (beginning September 2008) Stand-By Arrangement for failure to implement the agreed time-bound structural benchmarks with respect to tax and power sector (two sectors that remain the major source of concern today); and he reduced the food component of consumer price index (CPI) by 6 percent thereby reducing the inflation rate from over 20 percent to under 12 percent by one stroke of the pen. But Sheikh's achievements were two-fold: (i) his engagement with the stock market players culminating in an agreement that would have enabled the government to gradually generate resources from the stock market comparable to what other neighbouring countries generate (a deal that was overturned by Ishaq Dar); and (ii) while he was unable to openly oppose or resist the political decisions taken by the PPP leadership, he nonetheless delayed their implementation by setting up committees bringing to mind the old proverb a camel is a horse designed by a committee.

To conclude, one would urge the Khan administration to heed the advice of Dr Hafeez Sheikh because not doing so would defeat the very purpose of inducting a technocrat.

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