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IMF mission in Pakistan

International Monetary Fund (IMF) staff mission arrived in Pakistan on Monday and detailed discussions on the precise time-bound prior and during programme conditions based on shared data have begun. Prime Minister Imran Khan met with the IMF Managing Director Christine Lagarde while on his four-day visit to China to attend the second Belt and Road Forum and his spokesman released the following statement to Pakistan's official media team: "The Prime Minister identified areas of reform and initiatives being undertaken by his government to stabilise the economy, control inflation and achieve fiscal balance. The two sides also agreed on the need for a social safety net for vulnerable groups of society. After the meeting, the IMF director, in a social media post, said that she was glad to meet the Pakistani premier where a comprehensive policy package was discussed to alleviate Pakistan's economy."

The official version maybe challenged on three counts. First and foremost, Lagarde is not the Director of the IMF but the Managing Director. Secondly, heads of multilaterals are not prone to issuing statements on social media but on their official website. In February 2019, Prime Minister Khan met Lagarde in Dubai and the Fund uploaded her statement on its website the same day: "I reiterated that the IMF stands ready to support Pakistan. I also highlighted that decisive policies and a strong package of economic reforms would enable Pakistan to restore the resilience of its economy and lay the foundations for stronger and more inclusive growth. As emphasized in the new government's policy agenda, protecting the poor and strengthening governance are key priorities to improve people's living standards in a sustainable manner." Lagarde's statement does not dwell on specific conditions, as those would be thrashed out between the Fund mission and Pakistan authorities, and while the Fund would support poverty alleviation programmes, including Prime Minister Khan's Ehsaas and Sehat card programmes, yet it would insist on reducing the budget deficit to sustainable levels; and in the event that the administration refuses to slash current expenditure or raise revenue to levels required then the axe would fall on development expenditure - be it for physical or social sector infrastructure or on poverty alleviation programmes.

Thirdly and equally importantly, it is impossible for a Fund bailout package for any country with a projected budget deficit of over 7 percent (as is the case with Pakistan today) not to insist on the following time-bound structural benchmarks: (i) ensuring cost recovery of utilities which in the event that governance does not improve significantly would imply ever higher electricity and gas rates; true the Khan administration recently raised rates significantly yet the reduction in theft claimed by Omar Ayub, the relevant Minister, is a little over 50 billion rupees while the circular debt, the Fund target for reduction, is around 1.5 trillion rupees; (ii) privatisation as a means to not only generate revenue but also to reduce the annual budgeted outlay that stands today at over a trillion rupees. Privatisation is invariably resisted by the employees, a situation that prompted Nawaz Sharif in December 2016 to direct his cabinet to abandon plans for privatisation of four state-owned entities that incidentally are also on the priority list of privatisation of the incumbent government; (iii) taxes to be raised and with tax reforms still not having been implemented, the focus of the Fund would be on generating higher revenue from existing sources. The government, like its predecessors, may be compelled to raise those taxes that are easy to collect which unfortunately are withholding taxes imposed in the sales tax mode whose incidence on the poor is greater than on the rich; and (iv)

allowing the rupee value to be set by the market with minimal, if any, State Bank intervention; here perhaps an agreement may be reached on a wide band of rupee value that may be acceptable to the Fund and the Pakistan authorities.

These decisions, if agreed, would no doubt raise the inflation rate further which at present is around 9.4 percent. Part of the pressure on domestic prices may be attributed to imports, especially with respect to higher international price of oil on the back of US sanctions on those countries that were exempted from buying Iranian oil, as well as continued import of non-essential items (though with a higher rate of tax) which uses up our scarce foreign exchange reserves. Additionally, domestic profiteering, especially during Ramazan are also factors that the general public has to contend with. In such a scenario for the public to sustain its goodwill towards the Khan administration may be unrealistic. One can only hope that the new man in the Ministry, Dr Hafeez Sheikh, has the capacity to negotiate effectively with the IMF. We wish him success.

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