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Sanchaz explains what constitutes IMF programme

ISLAMABAD: Fiscal consolidation through revenue mobilisation, market-based exchange rate and social sector protection through increase in social spending are the three pillars of the ongoing International Monetary Fund (IMF) programme.

This was stated by the IMF Resident Representative Teresa Daban Sanchaz. She said that fiscal consolidation has to be revenue-based to deal with the problems of fiscal deficit as the country's low tax to GDP ratio needs to be increased. This is being done through removing tax exemptions and giving privileges to individuals and institutions. She added that there is a need for greater coordination with the provinces for lesser spending by them to provide budget surplus to the Centre.

The second most important pillar of the IMF programme, she said, is market-based exchange rate with central bank in the background to achieve price stability by taking forward-looking actions to deal with inflation.

She said that reforms of the IMF programme included; (i) implementation of financial management to instil fiscal discipline in the public sector; (ii) autonomy to the State Bank of Pakistan (SBP); (iii) reforming energy sector; (iv) and strengthening anti-corruption institutions and reforms in Financial Action Task Force (FATF) issues. Goals of the programme, she said, are debt sustainability, stronger tax collection, independent central bank, market-based exchange rate, moderate inflation trajectory as well as efficiency in power sector, and others.

She said that risks to the IMF programme are; (i) absence of majority of ruling party in the Parliament; (ii) fiscal slippages; (iii) large amount of rollover need for short-terms debt; (iv) Pakistan needs to get out of the grey list as FATF could have implications of capital inflows to Pakistan and jeopardise the financing assurances under the IMF programme from World Bank (WB), Asian Development Bank (ADB) and key bilateral partners.

She said that first review of the 39-month Extended Fund Facility (EFF) would be held before December 2019 and then it would be onward before every disbursement.

However, in response to a question about slippage in Federal Board of Revenue's projected tax collection for the first month – July 2019 – and whether the IMF would press the country for mini-budget if this trend continues, she said that Fund did not make its projection for the first month.

About increase in utilities prices, she described the issue as complex because increase in circular debt stiffens liquidity issue for all the involved in the power sector apart from necessitating the government for taking loans to deal with the issue.

This eventually contributes to overall public debt, which is already at alarmingly high level of 80 percent. She said that the power sector efficiency is very critical for the country's industrial sector and its growth.

She said that around 30 percent of the revenue collection is allocated for interest payment and consequently, there is very little room for increasing allocation for social sector, especially in health and education.

About FATF, she said, “We as an institution have to make sure that the countries have legal framework conducive to prevention of money laundering.” She added that the IMF has to look at this aspect when a country approaches to it. “We are in-charge of the financial stability in the country and FATF is a big issue because of its connotation with taxation issues.”

About the China-Pakistan Economic Corridor (CPEC), she said that CPEC is mostly private sector energy and infrastructure related investment and the IMF has access to the information of borrowing and maturity terms of the CPEC projects. About sustainability, she said that energy projects in the CPEC helped the country deal with the issue of load shedding and this is something very positive of the CPEC projects.