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### **Serious issues in current programme with IMF**

Falling among a select list of countries, Pakistan has been a prolonged or frequent user of International Monetary Fund (IMF) resources. Research has indicated that such countries form a strong inclination to approach the IMF to deal with recurring balance of payments of crises, as an easy way, rather than going for hard economic choices or reforms.

Although some call them ‘tough conditionalities’, yet in reality IMF programmes are highly imbalanced reform packages, since they are strongly tilted in focusing on the aggregate demand-side of the economy, with little policy prescription dealing with any reform on the aggregate supply-side. Hence, programmes more often than not have left recipient countries with a stagflationary condition – simultaneous increase in both inflation and unemployment, along with reduction in economic growth rate.

Policy negotiated under the Extended Fund Facility (EFF) programme with Pakistan, along with both in terms of the country meeting pre-conditions to the IMF programme – as alluded to in the programme document recently produced – and the one earlier being pursued, all are perpetuating the stagflationary phenomenon in the country in the light of the above.

At the same time, as the EFF programme with Pakistan goes underway, it is important to highlight a related aspect, whereby, the IMF has been criticised for following this pattern of ‘adverse selection’ in terms of negotiating frequent programmes with countries that have a poor completion rate – as is the case of Pakistan. This attitude on the part of the IMF has apparently allowed political and economic leadership of recipient countries to adopt a ‘moral hazard’ situation, whereby they have preferred to postpone carrying out needed institutional, organizational and market reforms on both the aggregate- demand and supply sides, since they somewhat easily got bailed-out time and again through IMF programme funding.

Economic history in Pakistan of relationship with IMF is quite similar since the late 1980s, when for the first time the country got into negotiating relatively bigger IMF programmes in terms of conditionalities and funding. Will the current government be able to discontinue this moral hazard concern, is yet to be seen; although the current programme being the usual run of the mill kind, this appears to be highly unlikely, especially if the government does not bring in parallel some sort of home-grown supply-sided, institutional reform and economic stimulus-providing package.

What is more worrisome to see is that even in the current IMF programme, the focus is on the same The Washington Consensus/Neoliberal style of structural-adjustment policies: squeeze the aggregate demand side especially through primarily a) adopting tight monetary policy and within it by increasing the policy rate basically, b) adopting some form of a flexible exchange rate, and c) pushing for austerity (or lack of development spending primarily) to overall reduce inflation.

At the same time, not much focus is laid on improving the supply-side, which together with the above means that growth rate is sacrificed disproportionately to achieve gains on reducing inflation. Yet, data has amply indicated that in developing countries like Pakistan- with significant market failures in the real and financial markets, weak regulatory and institutional arrangements, and high levels of information asymmetry and transaction costs- where inflation is at least equally a fiscal phenomenon (and not just monetary), means overall that inflation has continued to remain stubborn, and growth has been falling. Macroeconomic data of the country since at least January 2018 clearly indicates this, along with highlighting the situation of very limited role of policy rate, since there has been a lack of strong negative correlation between policy rate and inflation.

Moreover, unlike what a developing country like Pakistan needs- where markets are weakly positioned and require active governance/regulation- the negotiated programme with the IMF considerably plans to limit the role of government through for example such measures as follows.

Firstly, preparing state-owned enterprises for privatization predominantly, which takes PTI-led government away from its stated desire to learn from the Scandinavian model where under the social-democratic thought process- and that has been gaining currency since the global financial crisis of 2008, not to mention the tremendous success it has brought for these countries in terms of poverty and inequality- the government has successfully run state-owned enterprises.

Secondly, giving even more independence to State (or central) Bank of Pakistan through an act of parliament due to be passed by end of this calendar year. This will further weaken the control of government over two very important channels affecting both growth and inflation- policy rate and exchange rate- and in turn will lead to further disenfranchisement of electorate from policy.

Thirdly, virtually disallowing the government to borrow from the central bank, where the programme intends to use this to reduce crowding-out of the private sector, which is contradictory since high policy rate deters private sector borrowings anyways.

There is another serious issue with the programme: there is not much focus on the 'equity' concerns facing the economy, even when as highlighted in the programme document that not only is poverty level around one-third of the population, but that the labour force participation rate is also low. The demand-side over-emphasis in the programme, along with high policy rate and market-determined exchange rate all leading to keeping the economic growth rate depressed- expected valued of which for FY19 is virtually equal to the population growth rate- means that lack of supply-side spur and with lesser employment opportunities and stubborn inflation, will all impact adversely on the poverty and inequality levels.

Add to it the limited focus of the programme to deal with the weak institutional framework- including the extractive nature of institutional design, otherwise called elite capture in the Ehsaas (or welfare) programme document- and the situation of lacking governance and incentive structures, is being only slightly challenged through curtailing the role of SROs (Statutory Regulatory Orders) by requiring parliamentary backing for allowing them. This in turn means that the programme lacks on both adequately meeting efficiency and equity concerns in the economy. One wonders then, how the economy will be put on sustainable growth trajectory that delivers for most. At the same time, the imbalanced programme will have future economic costs, for which the government should plan for in advance.

The programme limits the role of government, lowering both direct prospects of public-private partnership, and also indirect ones at the back of programme persisting with policy rate on the higher side only adding to the cost of private sector borrowing and future domestic debt repayments. Without economic activity and needed market and institutional reforms, it will be difficult to reduce inflation, or raise much tax revenue, improve exports, or reduce poverty. What's more: higher policy rates would also mean greater mortgage rates for the PM's housing scheme. Lastly, the programme lacks focus on labour market reforms, and also falls short of introducing ingenuity in the shape of social protection policies like social credit.