

IMF package to bring \$38bn from other creditors

ISLAMABAD / WASHINGTON: Pakistan on Thursday welcomed \$6bn bailout package approved by the executive board of the International Monetary Fund (IMF), saying it would lead to inflows of \$38bn from other lenders in three years.

Speaking at a hurriedly called news conference, PM's Adviser on Finance and Revenue Dr Abdul Hafeez Shaikh said the approval of 39-month reform programme by the IMF executive board without opposition from any member would provide stability to Pakistan. "The board has given us trust to prove ourselves good partners and deliver on reform promises," he said.

He said this had improved the country's standing and other institutions had also started extending their financial support. He said the Asian Development Bank would disburse about \$2.1bn out of \$3.4bn agreed funds to Pakistan this year and the World Bank had also agreed to additional assistance purely for budgetary support. Discussions with the World Bank were in progress for assistance only for the purpose of government expenditure, he said.

Giving a breakdown of \$38bn expected financial support from lenders other than IMF, Dr Shaikh said about \$8.7bn funds had been lined up against project loans, \$4.2bn for programme loans, about \$14bn of rollover loans and up to \$8bn in commercial loans. He did not go into details and sources of these loans.

Fund's new boss hopes that Pakistan's reforms programme could bring economic stability

Responding to a question, he said Pakistan's outflows for debt-servicing amounted to \$9.5bn during the last financial year and projected at \$11.8bn during the current fiscal year.

The adviser said there had been different exaggerations and unfair comments about IMF conditions while the government was in talks but it would also become clear as to what are the conditions when the IMF releases full details of the programme.

He said the government decision to enter into the IMF programme was a message to the world and other lending agencies that Pakistan was serious and ready to prove its responsibility towards managing expenditures, enhancing revenues and taking difficult decisions while protecting the vulnerable segments.

Dr Shaikh said there was also no condition or IMF demand in the programme about the privatisation as it would become clear from the documents to be released by the Fund. Instead Pakistan has to develop a comprehensive programme to decide which loss making entities could be improved and run in the public sector, which can be better run by the private sector and which require liquidation.

Pakistan has said this programme will be completed by September 2020, but there was also a possibility that we finalise the restructuring plan before this target. This is because these entities are a direct burden on the public finance and should be tackled at the earliest and if the Pakistan State Oil and Pakistan International Airlines are not being run in an efficient manner then this is not in the interest of our people.

The adviser said what should matter to all was that the IMF was an international institution from whom Pakistan could secure financial support and by taking benefit from this fiscal space set the stage for sustainable reforms in the long-term interest of the people and the country and ensure how to learn lesson from the past and not to repeat mistakes.

He said the government had given independence to the State Bank of Pakistan so that it emerged as a strong institution like others in the world.

Reading the IMF programme

Dr Shaikh said the IMF would release about \$1bn to Pakistan by July 8 and roughly around \$1bn every year envisaging an interest rate of about 3 per cent. He said the government now wanted to build a platform on the basis of which the country could return to sustainable growth trajectory.

He said it was important for Pakistan to tackle the energy sector bleeding as circular debt had gone beyond Rs1,200bn. He said build-up of this debt was being addressed and had already been reduced from Rs38bn per month to Rs28bn and would be eliminated by the end of 2020.

In a statement the IMF's new boss David Lipton hoped that Pakistan's reforms programme could bring economic stability and catalyse international financial support for the country.

"The programme aims to tackle longstanding policy and structural weaknesses, restore macroeconomic stability, catalyse significant international financial support, and promote strong and sustainable growth in Pakistan," he said.

Mr Lipton, an American economist, was made the IMF's interim leader on Wednesday, replacing Christine Lagarde who was nominated to head the European Central Bank.

"Pakistan is facing significant economic challenges on the back of large fiscal and financial needs and weak and unbalanced growth," said Mr Lipton while explaining why did the IMF board endorse the bailout package for Pakistan.

Noting that the adoption of the FY 2020 budget was "an important initial step" towards reforming the Pakistani economy, he said that a decisive fiscal consolidation was key to reducing the country's large public debt and building resilience.

"Achieving the fiscal objectives will require a multi-year revenue mobilisation strategy to broaden the tax base and raise tax revenue in a well-balanced and equitable manner," he said.

"It will also require a strong commitment by the provinces to support the consolidation effort, and effective public financial management to improve the quality and efficiency of public spending."

The IMF also released a brief assessment of the current economic situation in Pakistan, along with a summary of the IMF programme for the country, noting that the Pakistani economy was at a critical juncture.

"The legacy of misaligned economic policies, including large fiscal deficits, loose monetary policy, and defence of an overvalued exchange rate, fueled consumption and short-term growth in recent years, but steadily eroded macroeconomic buffers, increased external and public debt, and depleted international reserves," the IMF observed.

"Structural weaknesses remained largely unaddressed, including a chronically weak tax administration, a difficult business environment, inefficient and loss making state-owned enterprises, amid a large informal economy," it added.

The IMF warned that "without urgent policy action, economic and financial stability could be at risk, and growth prospects will be insufficient to meet the needs of a rapidly growing population."

Mr Lipton, however, assured in his statement that protecting the most vulnerable from the impact of adjustment policies will be an important priority of the IMF programme.

“This will be achieved by a significant increase in resources allocated to key social assistance programs, supporting measures for the economic empowerment of women, and investment in areas where poverty is high,” he said.

Mr Lipton said that a flexible market-determined exchange rate and an adequately tight monetary policy will be key to correcting imbalances, rebuilding reserves, and keeping inflation low.

He also suggested strengthening the SBP’s autonomy and eliminating central bank financing of the budget deficit, which, he said, will enable the SBP to deliver on its mandate of price and financial stability.

Mr Lipton said that the government’s ambitious agenda to strengthen institutions and remove impediments to growth will allow Pakistan to reach its full economic potential.

He also underlined the need to address structural weaknesses in the energy sector and improving the governance of state-owned enterprises to ensure efficiency and better services, thus boosting economic activity.

Improving the business climate, strengthening efforts to fight corruption, and enhancing the AML/CFT framework will create an enabling environment for private investment and job creation, he added.

The IMF chief noted that the strong financial support to the authorities’ policy efforts by Pakistan’s international partners was essential to meet the large external financing needs in the coming years and allow the programme to achieve its objectives.

The IMF also released a summary of the programme its board approved on Wednesday, which includes: A decisive fiscal consolidation to reduce public debt and build resilience, starting with the adoption of an ambitious FY 2020 budget. The adjustment will be supported by comprehensive efforts to drastically increase revenue mobilisation by 4 to 5pc of GDP at the federal and the provincial level over the programme period.

Expanding social spending: This target is to be achieved through the strengthening and broadening of safety nets to support the most vulnerable.

A flexible, market-determined exchange rate: The IMF emphasised that this was necessary to restore competitiveness, rebuild official reserves, and provide a buffer against external shocks. This will be supported by an appropriate monetary policy to shore up confidence and contain inflation, conducted by an independent central bank.

Energy sector reforms: The reforms aim to eliminate quasi-fiscal losses and encourage investment, including by depoliticising gas and power tariff setting and over the programme period, gradually bringing the sector to cost recovery.

Structural reforms: These reforms will be implemented through strengthening institutions, increasing governance and transparency, and promoting an investment-friendly environment necessary to improve productivity, entrench lasting reforms, and ensure sustainable growth.

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