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Risks to EFF high despite safeguards: IMF

The International Monetary Fund (IMF) has stated that in spite of safeguards, risks to the $6 billion Extended Fund Facility (EFF) are high and managing the transition to a market determined exchange rate successfully will be crucial to ensure popular support for ensure popular support for the programme. Pressures to reverse policies may quickly emerge, which must be resisted to allow reforms to take hold and restore confidence. Similarly, the fruits from structural reforms may take years to materialise, possibly leading to reform fatigue and backtracking of policies.

The IMF Staff Level Report approved by the Fund Executive Board on July 3, 2019 and uploaded on website said failure to maintain an adequately tight monetary policy could lead to exchange rate overshooting and second-round effects on inflation. Fiscal slippages and resistance to some of the fiscal measures could undermine the programme"s fiscal consolidation strategy, thus putting debt sustainability at risk and progress in governance and institutional building may be opposed by vested interests, weakening structural reforms and medium-term growth prospects.

Moreover, the absence of a majority by the ruling party in the Upper House of the Parliament may hinder the adoption of legislation needed to achieve programme"s objectives. Also, there is a risk that provinces may under deliver on their commitments to budget parameters and relevant objectives over the programme period. The large amount of short-term debt implies significant rollover needs in the near-term.

These risks are mitigated by (i) the upfront adoption of key policy measures, especially on greater exchange rate flexibility; (ii) securing formal and public agreements with the provinces on the overall fiscal strategy, including procedures to address deviations; (iii) prudent phasing of purchases; (iv) increasing social spending to protect the most vulnerable from the impact of reform and garner support for these measures; (v) and strong commitments of support from the World Bank, ADB, and key bilateral partners and conservative assumptions on private financing flows. Other risks, including those related to domestic security conditions, global trade, growth in major trading partners, oil prices, and tighter global financial conditions, could exacerbate these challenges.

The report also pointed out that Pakistan"s track record on programme implementation has been weak, punctuated by incomplete reforms and policy reversals. The authorities" upfront efforts, exchange rate flexibility, fiscal consolidation and tariff adjustments in particular, may be received with strong backlash from vested interests and the wider population as the benefits may not be immediately obvious.

Strong ownership and an unwavering commitment to programme implementation will be critical to ensure programme success and turn Pakistan"s economy around. In this context, international support will hinge crucially on the implementation of these reforms. Other political and external shocks may further complicate an already challenging environment.

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