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IMF says Pakistan committed to bold structural reforms

KARACHI: Some of the policies in the IMF's backed programme are tough but the PTI-led government is committed to implementing a wide-ranging reform agenda, an IMF official said on Monday.

Teresa Daban Sanchez, the Fund's resident representative for Pakistan said difficulties of implementing package were more complicated than assumed but "any delay in reforms programme will only delay providing services to the people".

"I am confident with the programme, I think the programme is strong enough to cater overdue issues Pakistan needs to tackle," Sanchez told journalists of Jang Group during a visit to Jang group/Geo offices. "I am positive; the (government) commitment is very strong right now."

The government had entered into an IMF $6 billion programme signed in May, and got approval for the same from the IMF board earlier this month in an attempt to restore fiscal balance to an economy dogged by deficits, high debt and slow growth, in exchange for tough austerity measures. Government officials said the programme, the 13th bailout since the late 1980s, would also unlock an additional $38 billion from international partners over the programme period. Sanchez said "the program 'targets are ambitious' but the goals are clear" and the program requires fiscal consolidation along with a multi-year plan to strengthen the country's weak tax system. "Pakistan has to build reserves, reduce debt, manage circular debt and increase tax revenue. If these would not happen there will be more new taxes later."

The country has long suffered from a weak tax base with only about 1 percent of its population filing income tax returns. The government has set an ambitious tax collection target of 5.5 trillion rupees in the current fiscal year of 2019/20, although it failed to meet the previous year's target.

"Tax net in Pakistan is very narrow and tax collection is less than 13 percent of the GDP - as compared to as much as 50 percent in some of the developed countries - the government is taxing those areas which are not in the net," Sanchez said. "This may be a difficult but necessary step."

She said agriculture tax was an old but important issue and the government was taking a step forward in the direction of taxation of livestock. "You need a strong government to make tax regime fair and keep provinces aligned."

Dominated by agriculture and textiles and with a large informal sector that pays no tax, the country is struggling to develop export industries and successive governments have spent heavily to defend an overvalued exchange rate.

Sanchez said the central bank was independent and there was no agreed level of interest rate with the IMF, but the imbalance in growth in previous years prompted central bank for hawkish rate instance.

‘… it is not a matter of agreeing (on interest rate) or not, it is a matter of State Bank of Pakistan now working on different kind of regime and its main goal is to bring price stability,” Sanchez said. “The growth of five percent (in fiscal 2018) was very much concentrated to consumption, while interest rates were very low.”

According to IMF forecasts, real GDP growth is expected to slow down to 2.4 percent in the current fiscal year to June 2020, down from 3.3 percent in the year just ended.

She said the inflation was now building up in the economy. “The idea (behind rate increase) is that the growth suffers less and shorter (period) because such actions require to check imbalances.”

Fund’s resident representative said Pakistan was facing significant economic challenges on the back of fiscal and financial needs and weak and unbalanced growth and the IMF planned to engage the country for technical assistance.

“We were not able to provide technical assistance in the past. Previously we had met in Dubai, but now the security situation has improved. My predecessor lived in a hotel for 2 years, but I have moved into a house. So we are also changing the way we worked for Pakistan after security situation, as well as the perception has improved.” She agreed that the Fund would have preferred not to have front loaded much of the impact of the austerity measures, but a difficult situation required difficult measures.

Our Correspondent