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In defence of Hafeez Sheikh

Eight months after forming the government in the centre Pakistan Tehrik-i-Insaaf (PTI), like the Pakistan People's Party (PPP), was compelled to hire the same technocrat, Dr Hafeez Sheikh, to lead its economic team but with one critical difference: Sheikh was not allowed as much latitude in the three years he held the finance portfolio during the Zardari-led government (18 March 2010 to 19 February 2013) as he has exhibited since Imran Khan-led administration issued the notification appointing him as the Advisor to the Prime Minister on Finance effective 18 April 2019.

There are some lessons the Khan administration would do well to learn from Sheikh's previous performance and take mitigating measures to ensure that his academic background and past experience is used for the maximum benefit of this country.

Before Sheikh was given the finance portfolio in April 2010 the first three staff mandatory reviews had been successfully completed under a 23-month 5.12 Special Drawing Rights (SDRs) Stand-By Arrangement (SBA). The arrangement was augmented on 7 August 2009 to 7.2359 SDRs after the massive floods in Pakistan with programme completion date extended till December 2010. The fourth review was completed on 14 May 2010 and, as per the IMF website, the availability of SDR purchase became conditional on the observance of end March 2010 agreed performance criteria.

Sheikh requested an extension on 17 December 2010 for another nine months "to allow sufficient time to complete the remaining fifth and sixth reviews under the SBA." He failed to deliver on this pledge and the SBA was suspended with no further disbursements. In April 2011 while attending the spring World Bank/IMF annual meeting Sheikh accused parliament of being the biggest obstacle in the way of government achieving fiscal reforms and parroted the then President Zardari's mantra 'we want trade not aid.' In October the same year Sheikh stated that after a joint assessment of the Fund programme Pakistan has decided not to negotiate a new programme and instead to "go ahead with its own reform programme" arguing that the economy was resilient as it was growing at 3.5 percent and did not require IMF support (for the record the PTI government has projected a 4 percent growth rate for 2019-20 and a budget deficit comparable to 2012-13 however external indebtedness was more than 40 billion dollars lower and permanent domestic debt less than half of what it is today).

The general consensus at the time was that the then President Zardari refused to implement the tax and energy sector reforms agreed under the SBA as they were considered politically challenging. In 2011, 2012 and the month and a half of 2013 that Sheikh held the finance portfolio his performance did not reflect any out-of-the-box thinking (revenue targets based on existing tax measures remained grossly over optimistic while expenditures conformed to priorities set by his predecessors). This was one of the major reasons why the country was poised to go back on an IMF programme by end 2012, a fact acknowledged by Sheikh; and the PML-N negotiated an Extended Fund Facility within a few months of taking over the reins of government. Therefore the question whether he is the right man to ensure that the country never goes on another IMF programme, a common enough refrain of the PTI senior leadership including the Prime Minister, is therefore moot.

After Sheikh resigned, lured by Zardari's offer of his nomination for caretaker prime minister's post, a promise that the then President did not fulfill, Sheikh made a series of statements. In April 2013 he contended that "President Zardari never remained comfortable with me for a variety of reasons as I never tried to become part of the inner circle of the presidency during my stay as the finance minister for three years...I preferred professionalism over getting closer to the ruling arithmetic.... (and) tried to strike a balance between professionalism and not being dubbed disloyal." Many of Sheikh's critics would no doubt scoff at this claim given that the then President Zardari showed little hesitation in dismissing any cabinet member who did not follow instructions - the reason why many argue Shaukat Tareen resigned (though he claimed personal reasons) leading to SBA suspension. Sheikh was then asked why he did not resign given 'his difficult situation' to which he replied "I thought of it on three occasions but figured that it would not resolve problems and may aggravate the situation and I was not comfortable leaving something half way." On a facetious note thinking of resigning three times maybe reminiscent of Julius Caesar refusing the crown thrice however a technocrat whose advice is not heeded cannot make a situation worse by resigning; instead he/she may make it better as it would highlight where the lacuna lay.

So where did Sheikh make a difference for the better he was asked during an interview to which he responded during Economic Coordination Committee (ECC) meetings claiming that President Zardari always desired to discuss the agenda of the ECC prior to its meeting but he, Sheikh never accepted the President's viewpoint because it was against the norms of 'transparency and fair play.' This claim cannot be verified independently however Sheikh occasionally did set up committees during ECC meetings as purported delaying tactics when pressured to undertake an economically unviable action. ECC decisions are based on summaries submitted by line ministries for approval and if they were led by those close to the then President Zardari the committees would simply endorse the demand of the ministry.

Hafeez Sheikh is accused of manipulating the consumer price index data by reducing the food weightage by 6 percentage points thereby halving the rate of inflation at the time from around 23 percent. However to Sheikh's credit he was unwilling to incur commercial loans or issue sukuk/Eurobonds at the high rates that Dar eventually issued.

The foregoing is not to challenge Imran Khan's choice of a de facto finance minister but to highlight his weaknesses with the over arching objective of maximizing his effectiveness as an economist.

During his previous tenure Sheikh consistently failed to convince the cabinet (or the President) or indeed the IMF to stagger the agreed energy and tax reforms in 2010-11 - agreed by his predecessor Tarin. During recent negotiations with the IMF Sheikh apparently did not propose a viable home grown strategy to the mission (at best due to lack of time and at worst because he did not bother to develop one) and his focus was entirely on accessing the bailout package to ensure that the country did not go into default. His team members (particularly the then Secretary Finance Dagha who was then barred from attending the negotiations and later transferred) did try to negotiate the extent of utility rate rises, taxes, cuts on military spending/running of civilian government, etc., but there were no counter proposal to the framework prepared by the IMF. To this day Hafeez Sheikh has not shared details of what he agreed even with members of the cabinet stating that till the agreement is approved by the Fund Board he cannot divulge details - a self imposed limitation as the IMF is not likely to be affected by any leaks.

While appreciating Sheikh's focus on staving-off default there are serious concerns that the prior conditions alone that he has signed the country off on and which have begun to be implemented, leave alone actual programme conditions which would be revealed as and when the loan is approved, would have major socio-economic fallout that no political government, however popular, would be able to withstand.

To conclude, Dr Hafeez Sheikh has the necessary economic degrees and experience to deliver but it would be up to the government to make the best use of him which requires keeping him realistic both in terms of economic projections and the political cost of policies that may simply not be doable. He must be compelled to formulate a homegrown economic framework, in contrast to the IMF's that he has signed off on, which should be designed to cater to our unique socio-economic conditions. He must then sell the framework to the cabinet and the parliament. Sheikh must also be forced to update the framework every six months as macroeconomic indicators change (particularly as and when the scepter of default evaporates) thereby enabling the government to revisit the IMF programme.

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