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Economy in virtual control of IFIs: Dr Ashfaque

ISLAMABAD: After the virtual takeover of the country's economy by the International Financial Institutions (IMF and World Bank), Pakistan has outsourced its policy-making to them.

In addition to Adviser on Finance, Revenue and Economic Affairs Dr Hafeez Shaikh, who is from the World Bank, other World Bank retirees hired by the Asian Development Bank are also being placed in the Ministry of Finance.

So much so the European Union has also joined hands to this effect and its candidates have also been placed in the ministry. More importantly, even the young non-cadre staff hired by these IFIs have been attached with the Prime Minister's Office.

This has been disclosed by Dr Ashfaque Hasan Khan, member of the dysfunctional Economic AdvisoryOunciland Principal and Dean of Social Sciences and Humanities at the National University of Sciences and Technology (NUST), Islamabad.

Talking excessively to The News on Sunday, he opined that Prime Minister Imran Khan's claim that people from abroad will get employed in Pakistan had turned true by handing the finance ministry over to Dr Hafeez Shaikh and State Bank of Pakistan (SBP) to Raza Baqar from the IMF.

He apprehended that Mr Baqar might bring few more economists from the IMF as his advisers. 'So there is a virtual takeover of Pakistan's economy by the IFIs.' Now the new economic team, he said, coming from the IFIs will be negotiating the fate of Pakistani economy with their colleagues on the other side of the table which is indeed strange. He said there are news that IMF is asking for more increase in discount rate, downward adjustment in exchange rate, and hike in electricity and gas prices.

'It is an undeniable fact that the present government has inherited economy which was never in such a bad shape in the history with over $19 billion current account deficit and over 7 percent budget deficit with low and declining resources.

The management of economy became a challenging task for the new government,' said Dr Khan adding that Pakistan had two options either to go to IMF --- 22nd time in its history — or make an effort to live without the IMF clutches.

He was of opinion that Pakistan should learn to live without the IMF. His argument was based on the fact that Pakistan has been one of the prolonged users of the IMF resources as it has lived under 21 programmes since 1958 and 4 programme since 2000. And three out of four programs are fully completed, but the fourth one is suspended during the tenure of Dr Hafeez Shaikh who was the Finance Minister under Zardari regime from 2010 to 2013.

The last program (2013-16) was completed in August-September 2016. In fact, the IMF launched it report for the year 2018 in DEVOS and was upbeat on Pakistan. The report said: ''Pakistan can manage without IMF support.'' It has all the praise for the then economic managers of Pakistan's macro-economic stability and it is poised for higher economic growth.

Dr Khan expressed surprise saying that within two years of successful completion of IMF program that Pakistan had no option but to go to IMF once again. If a patient suffers a relapse so soon after remission Dr Ashfaque said we have every right to raise question about the authenticity of the claim on bill of health given by IMF after the so-called 'successful completion' in the first place. Since Pakistan is again going to the fold of IMF, Dr Khan said, it is legitimate to question the efficacy of the medicine given to the patient. Therefore, he raised the question that will the same medicine prove to be effective 22nd time or will history repeat itself or even worse. From the point of view of IMF, Dr Khan said, whenever a country faces balance of payment crisis it is because of the excessive demand prevailing in the economy. The IMF has standard prescriptions of the 1980s vintage of stabilization policy which is commonly known as demand management policy or austerity policy or anti-growth policy. "'There are three key instruments of stabilization policy," Dr Khan said, adding that these include 1) floating/flexible/ market based exchange rate policy; 2) tight fiscal policy and 3) monetary policy.

Eliminating all kinds of subsidies are part of tight fiscal policy. Floating exchange rate policy invariably leads to devaluation which is inflationary by definition as all the landed cost of the imported items in local currency increases and to encounter the inflationary pressure, the central bank immediately tightens the monetary policy by raising the discount rate which in turn increases the interest rate of economy. The higher interest rate discourages investment in the country. Tight fiscal policy on the other hands prevent the government to spend more.

Given the situation when in the interest payments, defence and running civil administration are on the higher side, Dr Khan said that the axe of spending cut falls invariably on the development expenditures. Therefore under the IMF program, the design of the policy is such that neither private sector nor public sector invest which results in leading to the decline in investment to GDP ratio. This means that slow investment slows the economy that fails to generate the jobs even for new entrants approximately 1.5 million each year. 'So it gives rise to unemployment and poverty and becomes a fodder for socio-economic unrest in the country.'

Devolution on one hand increases the dollar dominated public debt in Rupee term which increases the overall public debt too. And tight monetary policy on the other hand raises the discount rate increases the financing cost—budget deficit which in turn increases the interest payments, current expenditures and total expenditures. And anti-growth policy leads to a slowdown in the economy that fails to give resources resulting it increases budget deficit. More borrowing and more accumulation of debt to finance the deficit becomes the recipe and in turn country enters into the vicious cycle.

"The bottom line is that IMF program will bring more harm than good to the economy and to the country," Dr Khan said.

Khalid Mustafa