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Renewed efforts: moving from crisis to stability

After a brief detour, conventional wisdom is back with full force for shaping policies and programmes to tackle the external sector cyclic crisis. But the challenge for the country's new and revitalised economic team is to absorb changing realities and ensure robust outcomes.

Given ground realities, the prime minister's search for alternative options proved futile, as many had predicted from the very outset. Access to IMF bailout was inevitable to pull the economy out of the woods.

The 'empowered' advisor on finance Dr Hafeez Shaikh hopes to strike a 'reasonable' programme with the IMF to get 'stable, predictable and sustainable macroeconomic stability.' He will be required to walk the talk in a complex situation embedded with baffling problems.

Luckily for him, Shaikh's stipulation coincides with a statement by a senior US official that "Pakistan is not only saying the right things but it had taken some right steps… we support the civilian government and nascent democratic system." America is the IMF's largest shareholder.

Shaikh's team is being strengthened with like-minded technocrats that have exposure to problems facing the debt-addicted economy such as ours. That will help him both in negotiating a deal with the IMF and in implementing a stability and austerity programme. The Fund would also feel comfortable working with such a team.

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Dr Reza Baqar has resigned from the IMF to take over as State Bank governor. He will be sitting on the other side of the fence and working under domestic pressures.

As a Fund official he helped countries design debt and fiscal policies. Retired World Bank officials, hired by Asian Development Bank, are now placed in the Ministry of Finance, says Dr Ashfaque Hasan Khan.

An eminent tax expert and senior partner of AG Ferguson, Shabbar Zaidi has been named the Federal Board of Revenue (FBR) chairman. But his induction has been opposed by the Inland Revenue Officers Association

The association contends that the appointment of any person from the private sector is illegal as declared by the Islamabad High Court in the case of Mr Arshad Ali Hakeem. The government however intends to go ahead with the notification of its decision.

Mr Zaidi considers 'building trust between the state and the taxpayer' as the foremost challenge. He listed measures that could lead to 'voluntary tax compliance.'

In its 'Pakistan Revenue Mobilisation Project' report, the World Bank has suggested that the PTI-government reforms should include 'security of tenure' for the FBR chairman 'for a fixed mandate'.

This time the country went to the IMF with a somewhat different approach to its own fallout. The PTI leadership kept on changing its public stance while its government was carrying out the IMF's prior preconditions for a bailout.

That sparked a great public debate, as seldom seen before, on issues such as privatisation, job creation, interest rate hikes, devaluation, tax amnesty, power and gas tariffs, petroleum prices and the ensuing inflation.

The well-articulated views featuring in the debate were related to: concerns of common citizens, rent-seeking and extractive practices, centralisation at the cost of fiscal federalism and high inflation eating into the vitals of the industrial economy. The underlying message was a call for culture change or change management in ways that crises could be resolved.

In his article published by this newspaper some time ago, Sakib Shirani had pointed out that 'the (IMF) adjustment programme is not embedded in the broad strategy of economic development that engages a wider range of stakeholders in society.' Perhaps this missing crucial factor has been responsible for Pakistan exiting most of the 22 earlier programmes half way through, under immense domestic pressure.

In the introduction to the book Pakistan at the Crossroads — Domestic Dynamics and External Pressures, scholar Christophe Jaffrelot looks at Pakistan's 'ability to navigate into the interface of domestic and external dynamics.' He notes that 'countries of the same league are less dependent on outside support and less porous to foreign influence' than Pakistan.

The lobbying by those who will be losers has been intensified. On May Day, labour unions rejected the IMF's reported agenda including privatisation that has been virtually held up for the past 13 years.

Hafeez Shaikh says efforts to improve fiscal and macroeconomic sectors are doomed to fail "if public sector enterprises continue to haemorrhage the economy. Public sector corporations continue to dominate key areas of the economy even though they do not perform." He wants these bleeding enterprises to be privatised.

Though at a very late stage, the government's decision to include the provinces in the talks with the IMF was a welcome move. Especially since the decision allows the federating units to present their points of view to the IMF regarding the integration and harmonisation of sales tax on services at the federal level.

According to former Senate chairman Raza Rabbani, the central governmesnt has agreed with the IMF to withdraw collection of sales tax on services from the provinces within one year.

This responsibility will be entrusted to a proposed centralised single tax agency. The provinces are unlikely to surrender their constitutional jurisdiction.

Both Sindh and Punjab are not against harmonisation of the sales tax collection but differ from the methodology proposed by the IMF. Punjab's Finance Minister Hashim Jawan Bakht agrees on the need for the harmonisation of tax regimes for the ease of doing business but argues that 'this can be done without all these taxes clubbed under one source.'

Without a well-thought-out home-grown, socially sustainable development strategy and the IMF programme acting as a stepping stone, will the country's economic managers led by Hafeez Sheikh achieve a 'stable, predictable and sustainable macroeconomic stability' as envisioned by him? Only time will tell.

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