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Clearance from FATF must for IMF loan: Dr Pasha

ISLAMABAD: Dr Hafeez Pasha, Pakistan's one of the distinguished economists and former finance minister, has said that the IMF press release following the staff level agreement on $6 billion loan programme with Pakistan, has indicated that the Executive Board of IMF will approve the loan only after the FATF clears Pakistan from anti-money laundering and terror financing charges.

Speaking his mind over the staff level agreement with IMF, Pasha mentioned a specific reference in the IMF press release, which has asked the government of Pakistan to show commitment against money laundering and terror financing, meaning thereby that FATF clearance is mandatory to qualify for the programme.

The Financial Action Task Force (FATF) is scheduled to be held in Beijing from May 15 to May 17 and will minutely examine Pakistan's compliance report on total 19 points, including risk assessment to currency smuggling for money-laundering and terror-financing through cash couriers. The executive board of the Fund, where US is the major shareholder of the total fund which is 16.52 per cent and has the voting power of 831,407, will go through the staff level agreement with Pakistan and will give their final nod. The Executive Board will approve the loan after keeping in view the FATF report about Pakistan on money-laundering and terror-financing conditions of the Fund that the government of Pakistan has accepted.

The DNA of IMF is quite different this time from the past as the US, NATO forces and India who are out to use the tools of FATF and IMF to tame Pakistan and more importantly force Pakistan to ensure the smooth exist of US forces from Afghanistan.

Coming to the loan programme of $6 billion that Pakistan will have 39 months from IMF, Dr Pasha argued in the first three months Pakistan will be groping in the dark and will have no tranche after the agreement as the tranches will start after three months provided Pakistan fulfills all the prior actions. He further said it is basically not $6 billion loan, instead it is $3 billion as Pakistan has to pay back to IMF $3 billion loan in next three years. The amount is meager and is not enough to help Pakistan bridge the financing gap. Astonishingly the Fund is not ready to roll over its loan, but it has asked Pakistan in the press release to ask its international development partners to rollover their loans.

Dr Pasha said the IMF has basically asked Pakistan to have commitment from China, Saudi Arabia and UAE to rollover their loans to Pakistan. He said on one hand the IMF is not willing to rollover its loan, but on the other hand it is asking Pakistan to arrange breathing space to cope with the financing gap from the said countries by arranging the rollover.

Dr Pasha said this is one of the prior actions which Pakistan has to complete prior to qualify for approval of loan programme from the Executive Board of IMF. He said China's loan stands at about $19 billion mainly in project financing and $7 billion are from Chinese commercial banks and $4 billion are parked in the reserves. Saudi Arabia has given Pakistan $3 billion and UAE $2 billion. The Fund wants the rollover of these loans. It is quite strange that IMF is not willing that Pakistan owns the said loan which is against the international norms and practices.

More importantly in the press release, the IMF asked the government to balance the NFC award between federation and provinces which is tantamount to breach of the Constitution of Pakistan. He said after the 18th Amendment the share of provinces in the NFC Award cannot be reduced.

The most alarming thing mentioned in the press release, he said, is that Pakistan government is bound to bring down the primary budget deficit to 0.6 per cent in next budgetary year from over 2 per cent. 'This simply means that IMF has asked Pakistan to place cut on the defense budget which is not possible as our forces are engaged on both the eastern and the western borders of the country.'

Pasha explained the primary deficit means total revenue less non-interest expenditure. This means that Pakistan will have no option but to place huge cut on defense budget. The IMF wants Pakistan government to ensure the primary budget surplus of 2.5 per cent by reducing the defense budget and keeps central bank away from the exchange rate leaving it to the market forces.

Meanwhile, Arif Habib Limited Research on expected features of IMF programme worked out that in the wake of free float of exchange rate, US dollar will appreciate to Rs147 by June 2019 that will further increase to Rs152 by December this year. This will yield additional devaluation of Pak rupee by 10-13 per cent. The research also said the discount rate from existing level will also increase by 50-75 basis points. And to lower the fiscal deficit, and to ensure the higher revenue, GST will be increased to 18 per cent and a Value Added Tax will be introduced.

Once we went into Fund's programme, the growth will remain stagnant at 3 per cent, and the middle class will squeezed more and more people will go down below the poverty line.

According to Dr Hafeez Pasha about one million people be unemployed because of slowing down of the economy whereas 4,000,000 people have already gone down the poverty line so far and in next two fiscal years, about 8000,000 more people are feared to go down below the poverty line. During the IMF three years period, the growth will remain at 3 per cent in the next two years and a generation of Rs700 billion through taxation measures in next budgetary year will serve nothing but ruin the economy as people will not pay more when the growth will be at the lowest ebb.

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