

Govt must shape up to fulfill IMF terms after signing programme

LAHORE: Pakistan has been habitually opting out of IMF programmes mid way, because the agreed terms were not fulfilled by the governments. This time around it is a front loaded painful facility and leaving it midway would bring more pains.

We messed up our economy by trying to avoid the IMF therapy for nine months. It is ironical that we took almost all those steps on the economic front that IMF would have asked us to take.

The rupee was massively devalued and interest rates increased by five percent to 10.75 percent. These would have been the major IMF conditions for granting an extended loan facility. The ruling party thought that by taking these measures it would soften the IMF demands. This well could have happened had the government not slipped on revenue targets.

Increasing the revenues was equally important, because it was the major cause of trouble for the government. Instead, this government failed miserably to even meet its own revenue targets. At the same time it could not bring any improvement in loss making public sector enterprises.

This government increased power and gas tariffs, but did not take corruption in these two utilities seriously. The result was that the losses further aggravated.

These three negatives nullified the benefits of devaluation and increased mark-up. The government expenses increased substantially and revenues remained massively below target.

This put the IMF in a more strong position than when this government assumed power. Now they want further adjustment in rupee value, increase in policy rates.

They desire heavy taxation measures in next budget. On top of that they want enhancement in electricity and gas tariffs.

More importantly, they want most of these measures to be taken before the IMF board meets to approve the extended financial facility. Now the public is in for another shock in less than a year. This could have been achieved 10 months back at half the cost had we approached the IMF in a timely manner.

Pakistan has been getting away in the past by abandoning the IMF programmes midway. The then governments managed to achieve enough stability to sail through the next election. But after almost all elections, we needed a bailout package from IMF. This has gone too far.

IMF recipe is a bitter pill; you have to complete the course (programme) or do not sign it. The measures suggested by the IMF are very harsh, but when we implement those very measures half heartedly they aggravate the pain to the masses.

This time around, we are being asked to take harshest measures before the approval of the loan facility and we will take those measures. However, since \$6 billion would be dispersed to Pakistan in quarterly instalments spreading over 39 months; the authorities would have to be extremely careful in implementing the remaining conditions according to the schedule given by the Breton Wood institution.

If we do not follow the schedule, the next instalment would be stalled that may ultimately end up in folding of the programme.

Pakistan cannot afford to do that now. We will have to mobilise our resources, do away with concessions and exemptions. Some exemptions may be politically harmful but there is no way out.

Similarly, many subsidies provided to cover inefficiency would have to go. Sugar mills may not be able to get subsidy on sugar import. The IMF has asked for strengthening of the institutions; probably no time line would be given in the IMF programme. Barring autonomy to the State Bank of Pakistan, it has not stressed much, though strengthening of the institution is as important as increase in revenues.

We must realise that relief to the poor would only be possible if the government institutions work efficiently and transparently.

Transparent and fair police, quality public schools and caring health facilities could provide much needed relief to the poor under harsh economic conditions.

Pakistan also expects to get around \$5 billion loans from the World Bank and the Asian Development Bank after IMF deal goes through.

Here again we must know that the amount would be disbursed in instalments. The instalments could be stopped if we leave the IMF deal midway. We should either sign the deal with the IMF with an aim to take it smoothly to 39 months or abandon it before getting any tranche.

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