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EDITORIAL

Parliament and the IMF

It was extremely disturbing for the jointly held National Assembly and Senate finance standing committees to, first, invite the International Monetary Fund (IMF) staff for an interaction and, second, to then urge the Fund to soften the conditions of its 6 billion dollar 39-month ongoing Extended Fund Facility (EFF) programme that are triggering inflation and unemployment in the country. It is the prerogative of the government and the government alone to negotiate the terms and conditions of any donor programme and by directly interacting with the Fund staff, who are answerable to their board of directors and not to our parliament, the powerful finance committees of the two houses of parliament unnecessarily raised the stature of the Fund staff while, at the same time, demeaning their own standing within a democratic framework.

Our parliamentarians must acknowledge that any political repercussions of the conditions agreed with IMF, hard or soft, are borne by the government and that parliament is the forum where the government is answerable to the people and where opposition and/or the government backbenchers may express their concerns on the design of a programme and its sequencing. True that the PTI government, like its predecessors, does not engage in meaningful discussions in parliament and has opted for the path of issuing ordinances instead of getting approval from parliament yet that wrong does not make direct interaction with IMF right.

Additionally, our economic team leaders have shown a complete disregard for informed criticism of the agreed programme and insist on the veracity of their flawed narrative by convincing the Prime Minister that their assessment alone is the true one. Business Recorder continues to urge the Prime Minister to keep an open mind with respect to the relevance and efficacy of his economic team's narrative.

Be that as it may, the IMF has come under considerable criticism from several Nobel laureates, including those like Jo Stiglitz who worked for the Fund and highlighted its deficiencies inclusive of insistence on standard normal conditions that do not reflect a country's unique socio-economic conditions. An example is the Fund staff's insistence that privatisation is the cure for dealing with all issues of state-owned entities (SOEs) with Stiglitz arguing that this is not always the case especially in countries with a limited number of people with purchasing capacity that may lead to surfacing of accusations of selling the family silver cheaply.

In the case of Pakistan and the recent Fund programme there are serious concerns with respect to its completion given the high rate of inflation and rising unemployment – the two indicators that can fuel socio-economic unrest; planning minister Hammad Azhar's contention that only large-scale manufacturing (LSM) sector has witnessed a negative 7 percent growth while small and medium enterprises (SMEs) have witnessed growth is inaccurate for two reasons: (i) the downstream industry associated with LSM is significant, categorised as SMEs, has naturally also witnessed a massive decline; and (ii) surveys carried out in the twin cities reveal that SMEs operating in the service sector have been forced to lay off staff with their sales down due to the erosion of the value of each rupee earned as well as the inability of the private sector to raise salaries due to the economic slowdown.

In terms of the macroeconomic policies supported by the Fund for the ongoing programme it is baffling why expenditure has not been curtailed – current or development – while the onus of minimizing the budget deficit is placed on revenue generation or on the taxpayers (and poor taxpayers at that, given the fact that indirect taxes remain the largest source of revenue whose incidence is greater on the poor than on the rich). Azhar refers to State Bank of Pakistan profit budgeted last year at 280 billion rupees (with a shortfall of 133 billion rupees) arguing that it was overestimated in the budget presented by PML-N; however, he ignored the fact that the PTI government could and should have presented its own budget when it assumed power instead of merely tweaking some expenditure and revenue items; the budgeted amount as SBP profit for the current year of 406 billion rupees is unlikely to be realised unless the SBP resorts to some innovative accounting. To argue that this would be achieved as the government will not borrow from the SBP is flawed logic and Azhar must understand that this standard IMF condition was agreed by the previous administrations when on a Fund programme as well and besides his government continues to indirectly borrow from the SBP through open market operations.

What is unfortunate is that our economic team leaders, with long time experience working for donor agencies, are convinced of the Fund's standard prescriptions. That is where the mindset needs to change if any change in the IMF conditions is to come.