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Editorial

A vote of confidence from IMF?

Pakistan seems to have secured high marks for its faithful adherence to the targets under the dollar 6 billion Extended Fund Facility (EFF) of the IMF for the period ended September, 2019. A statement issued by the Fund's staff after the completion of the 1st review stated that Pakistan had met all the performance criteria with comfortable margins, progress continues to be made towards meeting all structural benchmarks and government's policies had started to bear fruit, helping reverse the buildup of vulnerabilities and restore stability. External and fiscal deficits are narrowing, inflation is expected to decline and growth, although slow, remains positive. However, sustaining sound economic policies and advancing structural reforms remain key priorities to enhance resilience and pave the way for stronger and sustainable growth. International partners remain committed to supporting the authorities' reform efforts and providing necessary financing assurance but additional work is needed to improve the AML/CFT framework before March, 2020.

On the macroeconomic front, signs of economic stability are gradually taking hold, external position is strengthening, underpinned by an orderly transition to a flexible, market-determined exchange rate and a higher-than-expected increase in SBP's net international reserves. Budgetary collections are growing despite the ongoing compression in imports, inflationary pressures are expected to recede soon, measures to strengthen the social safety net are being implemented and development spending is being prioritised. However, domestic and international risks remain while structural economic challenges persist. Fiscal vulnerabilities, in particular, need to be reduced by implementing the new public finance management legislation and continuing to broaden the tax base by removing preferential tax treatments and exemptions while protecting critical social and development spending. The IMF Mission Chief acknowledged the government's efforts in meeting targets and praised it for introducing far-reaching economic reforms in a challenging environment.

We feel that this is probably the best economic review the authorities of the country could aspire or hope for in a challenging economic environment and that too from the IMF that is arguably the top-ranking institution in the world, famous for its in-depth and dispassionate analysis of the situation. It may be noted that such a review was necessary to get further funding under the EFF arrangement. The Fund Mission led by Ernesto Ramirez Rigo had visited Islamabad from October 28 to November 8, 2019 to conduct discussions on the first review of the EFF. An agreement reached between Pakistan and the Fund Staff is now subject to approval by the IMF management and Executive Board of Directors. A satisfactory completion of the review will enable the Fund to disburse SDR 328 million or around dollar 450 million to Pakistan besides helping unlocking significant funding from other multilateral and bilateral sources. This is so because the analysis of the economic situation by the IMF is usually considered a gospel and other donors and investors generally follow its lead. Although nobody could say with 100 percent certainty, there seems to be no doubt that Fund's Board of Directors will now approve the second tranche of EFF without raising any objections. There was also no need to request the Board for waivers as all the conditionalities have been met. However, the IMF Mission seems to be rightly concerned about the progress on AML/CFT. If enough progress is not made by March, 2020, Pakistan could face a serious situation. The Fund also appears to be worried about improvement in fiscal situation and rightly concerned about the vulnerabilities in this regard. The present government seems to be trying its level best in this area even at a great political cost but tough resistance from certain groups and the opposition parties is making the task of the fiscal authorities much harder. Of course, if the present dispensation finds itself in a very tough spot and is forced to change its course in this area, the economy of the country could again destabilise and reach a critical point. In order to avoid such a possibility, the government needs to take the opposition parties into confidence and publicise and remind the people again and again that the direction of the economy has now been changed for the better, twin deficits have been narrowed, foreign exchange reserves have reached a conformable level, rupee rate has been stabilised, development spending has been prioritised and international financial institutions are no more avoiding the country. The rate of inflation about which all the opposition parties are making a hue and cry is also coming down. In any case, inflation rate of about 11 percent in a year, though not very desirable, is not something catastrophic, especially when it is likely to move downward in the near future with the right mix of policies.