

Editorial

IMF waivers

In a not so unexpected development, Pakistan is likely to ask the IMF's executive board for waivers for missing out on two performance targets. It was clear that the government had overstated its targets when agreeing the deal with the IMF, which has become clearer as the FBR has gone about trying to fulfil the impossible task of collecting Rs5,500 billion in taxes. In a shrinking economy, doubling the tax targets was always going to be a difficult task. Not only has the government missed tax collection and refund arrear reduction targets, it has also failed to curb circular debt and resorted to pursuing 'hot money' from foreign investors.

While the government has followed much of the IMF programme to the letter in terms of what it can do, there are aspects of the programme that are related to the broader health of the economy that it cannot fulfil. However, it should be clear that decisions to acquire foreign currency reserves by promising over 14 percent in interest rates is a move that even the PML-N did not undertake. The previous government correctly came under criticism for offering dollar bonds at over eight percent interest. If that was the case, then the 'hot money' acquired by the PTI government should be a matter of serious debate.

Dollar lending should not take place at such high interest rates. This will create a much greater debt repayment burden which Pakistan has already been in no position to pay off. Moreover, it is worrying that the government has not met the target of curtailing the increase in circular debt to Rs23 billion by the end of September. Instead, circular debt has gone up by Rs60 billion in the last three months. This means that the price hikes in the power sector have not worked, which is a state of affairs that needs to be explained to the public. Why are the tariff hikes in the power sector having no effect on reducing circular debt? This is a serious question.

The import compression is continuing to hit the FBR's collection targets, while FBR officials seemed to claim that the Rs75 billion refund arrears target was inserted by the IMF without doing their homework. But once again, the agreement was inked by the government, which insisted that it was in complete agreement with the IMF programme. The larger problem still seems to be that it was the current government that did not do its homework before agreeing to the IMF deal. There is no other explanation for why the IMF targets could need to be revised only months after signing the deal.