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Money Matters
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Sustainable development

Pakistan remains a 'prolonged' user of International Monetary Fund's (IMF) resources – in the 36-year period from 1980 to 2016 it was under IMF support programmes for over 25 years. The 39-month Extended Fund Facility (EFF) Arrangement of about $6 billion agreed in July 2019 further extended this period by three years.

The immediate impact of the current IMF programme was improvement in reserves, balance of payments position, and business confidence. These, however, came at a cost – steep depreciation of rupee, upward revision of fuel and energy tariffs, and higher State Bank of Pakistan's (SBP) policy rate (13.25 percent)– which adversely impacted the people and economy. The cost of living and production rose, investment, and business activities slowed down, and cost of government debt servicing jumped.

It may be pointed out that hike in SBP policy rate, which was intended to control inflation through demand-management, has not been effective. The current inflation is not 'demand-driven' but mainly 'cost-push' (a combination of such elements as upward revision in fuel and energy prices, shortfall in production of some essential items and sharp depreciation of rupee), backed by market expectations.

In the first six months (July-December 2019) of the programme, economic performance is reported to be on track and producing early results. The IMF Executive on December 19 completed the first review of the arrangement and observed that 'decisive policy implementation by authorities was helping to preserve economic stability aiming to put the economy on the path of sustained growth. Transition to a market-determined exchange rate had been orderly; inflation has started to stabilize, mitigating the impact on the most vulnerable group of population. The authorities remain committed to expanding the social nets, reducing poverty, and narrowing the gender gap'.

Following the last review, the second installment of SDR 328 million ($452.4 million) was released on December 26, bringing the total disbursement to SDR 1,044 million ($1,440 million), including the first tranche of SDR 716 million (about $1 billion) released on July 8. This helped in raising the foreign exchange reserves of State Bank to $11.361 billion by the end of December 2019.

The IMF review highlights the following areas of the program: Fiscal reforms to support revenue mobilization and fiscal consolidation; decisively address anti-money laundering and counter-terrorism financing issues; energy sector issues which also have linkage with budget, and financial and real sectors; and further improve business environment, enhance governance, and reform state-owned enterprises.

It identifies global growth and trade prospects and political and security instability as likely external and internal risks to program implementation.

The IMF arrangement aims at 'restoring economic sustainability and laying the foundations for balanced growth'. It is strategically anchored on: (i) effective macroeconomic stabilization with protection to the most vulnerable; (ii) governance and structural reforms to strengthen institutional framework and foster stronger growth; and (iii) adequate new financing to support the policy efforts. The program covers fiscal policy, poverty reduction and social protection, monetary and exchange policy, energy sector policies, and structural policies (state-owned enterprises, business environment, regulation and governance, corruption, suspicious transactions).

The arrangement also lays down quantitative performance criteria, indicative targets, and structural conditionality that will be monitored before release of funds. The performance criteria set quarterly limits for international reserves, budgetary borrowing from SBP, and government guarantees. Indicative targets are set for government spending on Benazir Income Support Program, general health and education, FBR revenue collection and power sector arrears payment; and the structural conditionality envisages a number of measures in fiscal, monetary, SOEs, and social areas.

The IMF has projected that between 2019-20 and 2023-24 the GDP growth will improve (from 2.4 percent to 5.0 percent), inflation will subside (from 11.8 percent to 5.0 percent), fiscal deficit will come down (from 7.5 percent to 2.6 percent of GDP), current account deficit will fall (from 2.4 percent to 1.8 percent of GDP), and foreign exchange reserves will go up (from $11.2 billion to $30.5 billion).

The next one-and-a-half year (January 2020 to June 2021) is crucial. In addition to ensuring effective implementation of the IMF-supported program, the authorities should address other urgent important matters from people's perspective; curb inflation, create job and income generating opportunities, improve the availability and quality of basic services (education, health, sanitation, water supply, environment), and expand social safety net for targeted groups.

The second half of the current year should be utilized in improving performance as well as initiating such policies and measures that should turn the next fiscal year into a springboard for economic consolidation and sustained and inclusive development.

The deterioration in the external sector led to the current arrangement with IMF, which helped in improving the situation. However, as past experience shows, by itself the program may not be able to attain its declared aims of 'restoring economic sustainability and laying the foundation for balanced growth'. This view is supported by the following factors:

• Improvement in reserves will mainly depend on external borrowings.

• Reduction in current account deficit is due to import compression, which may not continue.

• Stock of external debt and its servicing will remain high.

• Inflation is eroding export-competiveness, requiring downward adjustment in exchange rate.

• SBP high policy rate is restraining investment and business prospects.

• Projected rise in growth rate is below potential and inadequate to address such critical issues as unemployment and poverty.

• Growth will also continue as 'debt-driven' and thus the possibility of falling back on IMF support again cannot be ruled out. Pakistan needs to move, as early as possible, from 'debt driven' to 'investment and innovation driven' strategy.

Thus while program commitments should be adhered to, high expectations for stability, sustained development and greater self-reliance should not be linked with it. More needs to be done within a medium framework.

Firstly, urgent measures should be taken to increase foreign earnings through exports of goods and services, home remittances and other sources. Secondly, other commitments including on China-Pakistan Economic Corridor, Sustainable Social Goals, environment and climate change should also be pursued to accelerate the development pace. Thirdly, reforms of institutions and systems, and improvement in governance should be expedited. Fourthly, these efforts should be integrated and harmonized in a 'Perspective Plan' and 'National Agenda' comprising objectives/vision, roadmap, measures, goals/targets, and in particular, specific and innovative measures to enhancing substantially the level of human and capital resources.

Finally, the current atmosphere of mistrust and confrontation be abandoned and attempts made to build as wide a consensus and people's participation as possible in this 'National Agenda'.

The writer is former chief economist of Pakistan