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Policy-level talks with IMF

Repeated requests by Business Recorder to ascertain who is leading the visiting International Monetary Fund's (IMF's) mission to Pakistan tasked to negotiate a new bailout package with an associated set of programme conditions, have been stonewalled by both the Fund and the Ministry of Finance officials. It is imperative that the government verifies who is the mission leader because the man who led the three-year Extended Fund Facility (EFF) approved in September 2013 and completed in September 2016, must be held accountable for a flawed programme. To blame it entirely on Ishaq Dar, the then finance minister, is unfair as the IMF does have considerable leverage when a country is on its programme.

A comparison of the previous two IMF programmes is in order. The Zardari-led government negotiated a three-year Stand-By Arrangement (SBA) in the first year of its tenure mainly attributable to an unprecedented rise in the international price of oil, peaking at more than 140 dollars per barrel, and the waning power of dictator Musharraf that compelled him to hold general elections in the first quarter of 2008. The Musharraf-led PML-Q government decided to subsidize the price of oil in a bid not to alienate the electorate which led to a rise in the budget deficit to unsustainable levels, over 7.5 percent, though to no avail and Pakistan People's Party formed the government at the centre. The IMF mission leader for SBA was one Jeffery Franks whose programme conditions were designed to ensure that the country would implement the agreed reforms particularly in the power and the tax sectors. The PPP-led government hesitated in implementing the agreed structural benchmarks in these two sectors and Franks did not support disbursement of the last two tranches of the SBA thereby choking off assistance from other bilaterals and multilaterals that accounted for a sustainable external debt inherited by the PML-government in 2013.

The decision by Finance Minister Ishaq Dar to retire 480 billion rupee circular debt by borrowing from banks on the second last day of fiscal year 2012-13 increased the budget deficit to over 8 percent. And soon after the PML-N administration formed the government in the second week of June 2013, it formally requested an IMF bailout package. The IMF mission leader for the EFF Harald Finger did a grave disservice to the people of this country in four key areas: (i) by focusing on total revenue generation rather than on widening the tax system a heavier burden was placed on existing taxpayers that fuelled a cash economy and promoted capital flight. The withholding tax regime, ostensibly to compel the non-filers to pay taxes, was not on income but on items and services which implied that they were levied as indirect taxes which should not have been allowed to be credited to direct taxes; (ii) Dar borrowed heavily from external sources to shore up foreign exchange reserves. His flawed argument was that interest rates were lower abroad relative to local borrowing rates (without taking account of the natural annual erosion of the rupee) which accounts for the current unsustainable foreign repayments. Post-EFF completion, the PML-N administration began borrowing from the external commercial banking sector as concessional funding all but dried up due to failure to achieve reforms during the programme period. The Fund did not express any reservations on the issuing of sukuk/Eurobonds at rates well above the external market rates, though Finger did admit in a press conference that they constituted debt equity rather than equity as erroneously claimed by Dar; (iii) the rupee was kept overvalued during the five years of the PML-N government though Finger tried to cover himself by putting in a footnote in a quarterly review report that as per the IMF the rupee was overvalued from between 5 to 20 percent (a range too wide that obviously challenged the IMF's capacity); and (iv) ignoring the fact that an overvalued rupee would eventually make our products uncompetitive in the international marketplace while making imports attractive and this accounts for today's current account deficit of over 18 billion dollars.

This newspaper would urge the government in general and Finance Minister Asad Umar in particular to be wary of the programme design proposed by the IMF for consideration. The best option is to formulate a homegrown time-bound reform plan and adhere to it in letter and spirit.