BUSINESS RECORDER
Founded by M.A. Zuberi

21st November, 2018

No deal is a good deal?

The summary departure of the International Monetary Fund (IMF) team on Tuesday without addressing a press conference indicates that no staff level agreement was reached with the Pakistan authorities. In effect: no bailout package.

Pakistan Tehreek-e-Insaf (PTI) supporters would no doubt maintain that the conditions proposed by the IMF mission to ostensibly stabilize the Pakistan economy and put in place conditions for achieving sustained inclusive growth were simply not doable – either politically or economically. IMF conditions are politically challenging even in better economic conditions than what prevail in Pakistan today, and given the twin unsustainable deficits – current as well as budget – the conditions would have been extremely harsh. However in the present scenario three other factors rendered the IMF proposed conditions even more challenging.

First, the IMF mission had recently completed the three year Extended Fund Facility (EFF) - September 2013-September 2016 - and undertook a mission in December last year as well as two in the current calendar year to assess the state of the economy. In contrast the PTI government has so far not exhibited any deep understanding of the state of the economy and this is reflected in u-turns taken by the Prime Minister (particularly with respect to his pre-election claims that he would never go a-begging for loans) as well as his finance minister's statement on the floor of the House explaining how price is set under perfect competition conditions not realizing that in Pakistan market imperfections prevail with cartelization, and influence exerted to access subsidies and/or manipulate taxes. What is even more disturbing is that Umar's supplementary budget envisaged generating 93 billion rupees from use of technology forgetting that the previous two administrations had attempted to widen the tax net through sending notices to high net worth individuals identified by Nadra but found out later that the majority of those were legally not allowed to file their returns – facts that the IMF team was aware of as the IMF had extended a bailout package during each of the previous two administrations. It is no wonder that the Pakistani authorities failed to convince the IMF that they would be able to achieve their revenue and expenditure targets through the same policies that their predecessors failed to implement.

Additionally the task forces established by the Prime Minister have so far not come up with a short list of recommended policies and hence the government refused to privatise the three white elephants – Pakistan International Airlines, Pakistan Steel Mills and Pakistan Railways. The mission was witness to previous administrations also claiming that they would first restructure and then privatise them with no success.

Second, Harald Finger was the mission leader for the EFF as well as for the team that visited Pakistan to negotiate the new bailout package, unsuccessfully as it turned out, and this time he reportedly insisted that the rupee be allowed to depreciate and its value set by market forces. This insistence was no doubt a lesson learned from Finger's failure to insist on this as a time bound condition under EFF whose price was paid by Pakistan through a steady decline in exports.

And finally the warning by Mike Pompeo, the US Secretary of State, that Pakistan should not expect a bail out package to pay off loans from China (Pakistan borrowed 13 billion dollars from China for balance of payment support during the previous administration), a warning that was taken up by the IMF Managing Director Lagarde which may have prompted the IMF mission to insist on conditions that would not be diplomatically or economically tenable from the perspective of the Pakistani authorities. The US China war of words escalated during the recently concluded APEC summit with the US Vice President accusing China of making countries indebted through its one road one belt initiative – a charge denied vehemently by China though several countries including Malaysia have pulled out of some projects associated with the initiative.

Be that as it may the PTI government appears to be hell bent on meeting its financial needs from friendly countries notably Saudi Arabia, China and UAE, and optimistic reports indicate that it may have succeeded in generating around 12 to 18 billion dollars. However these are loans and not grants and hence the need to formulate an economic strategy designed to stabilize the economy is all the more imperative. That appears to be lacking till now.

The PTI government must be aware that while the three friendly countries have the capacity to extend loans at favourable terms yet the bulk of our exports, the desired form of earning foreign exchange, is not to these three countries but to Western countries including the United States with which we enjoy a trade surplus. An IMF package would have enabled Pakistan to remain engaged with countries who import from us and who in turn extend bilateral grant assistance as well as offer markets where the diaspora bonds, envisaged by the PTI government as a source of foreign exchange earning, may be floated at lower rates of return if we are on the IMF programme.

The press release issued by the Ministry of Finance states that "substantive progress has been made by the Government of Pakistan and the IMF Mission towards developing a common understanding on the policy and structural reforms framework for the prospective IMF programme, including fiscal and monetary measures, corrective interventions for balance of payments sustainability, pro-poor spending, governance and development of a business-friendly environment…..positive engagement with the IMF will continue over the coming weeks to finalise the programme with the Fund." This was confirmed in an IMF press release. Be that as it may, it is unclear what the government has planned, if at all, however, what is clear is that no staff level agreement was reached.

(The views expressed in this article are not necessarily those of the newspaper)

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