

Country needs IMF bailout

The IMF negotiations for a \$6 billion bailout package sought by Pakistan concluded this week on the following note:

"We have covered 80 percent spadework in our parleys held with the IMF mission from November 7 to 20 and work is under way on the remaining 20 percent on which a mechanism was agreed for holding more rounds of talks in the weeks ahead," stated the Finance Division. The next rounds of negotiations are expected in the 2nd half of January 2019.

Reportedly, the 80 percent includes a broad agreement on the need for a comprehensive agenda of reforms and policy actions aimed at reducing the fiscal and current account deficits, bolstering foreign exchange reserves, strengthening social protection, enhancing governance and transparency and laying the foundations for a sustainable job-creating growth path.

The disagreement with IMF is reported to be on the regime it advocates for jacking up tax revenues, tightening of monetary and fiscal policies and sharing full details of the China Pakistan Economic Corridor (CPEC).

Further, differences persist on the quantum of financing requirements, front-loaded or back-loaded programme, raising tax-to-GDP ratio by 0.5 percent by taking additional tax measures, hiking electricity rate by 20 percent, free float of the \$ and Rs parity managed entirely by the SBP, plugging leakages in the power sector to arrest circular debt pile-up and erasing the 1.2 trillion circular debt under a clear roadmap and putting sustainability of debt into risk zone.

The IMF team had serious reservations on the inefficiency of power sector reforms plan, government interference in setting electricity tariff. It was also concerned at previous government's decision of depriving Nepra, the power sector regulator, of its independence.

The IMF was reported to be also critical of the fiscal federalism mechanism wherein the Centre has transferred all profitable taxes to the provinces while keeping all necessary expenditures of provincial nature as federal responsibility inclusive of Benazir Income Support Program (BISP), which is financed by the federal government.

The points of concern of the IMF are well known and have generated a debate among economists, including those who strongly support government's economic decisions. The issue is the mode and timing of its implementation and the political fallout for the incumbent government. But, the choices for the government are limited.

Pakistan's current account deficit widened 43 percent to USD 18 billion in the fiscal year that ended in June, while the fiscal deficit ballooned to 6.6 percent of gross domestic product (GDP).

Pakistan's current need for the bailout is \$ 9 billion of which \$3 billion has been pledged by Saudi Arabia reportedly for a period of one year and apparently there is no other authentic financial commitment from any other source - either from China or the UAE. A bailout of \$ 6 billion from the IMF appears inevitable. The Ostrich Syndrome is no longer an option.

The government has to put its economic order in place and it is required to do it within a period of one year.

The issues are challenging and complex - revolving around technical, fiscal, governance and structural dynamics demanding wisdom and expertise to manage them. The question is how well the government is equipped to manage this complexity in a given period of time.

Dr Ishrat Husain, Advisor to the PM on reforms in government bureaucracy, in his interim report has identified major gaps in the competence at all levels of bureaucracy and the need for reforms and training. The foremost challenge for the government is to build up and position a competent team to deal with the enormity or profundity of challenges as early as possible.

The other challenge for the government is to come up with realistic policies in long term public interest and align them - as best as possible - to IMF requirements.

The government policy of embracing the legacy of the past governments to manage the circular debt by financial means has not worked so far, nor will it work in future because the core issues for its emergence remain un-identified and unresolved. The solution lies in a technical, not financial, approach. For a lasting solution, the entire power sector supply chain - starting from the import of fuel for power generation, the conduct of IPPs and power generation and distribution companies in the public sector and ending with the receivables and conduct of the consumer - has to be audited and gaps so identified must be plugged and rectified.

The other critical challenge is the loss-making public sector enterprises. The incumbent government has decided to first restructure these units as profitable ones and then privatize these on better prices. The concept is good but appears unrealistic and is unlikely to translate into a reality in the present tenure of the government. Time and again, it has been attempted and failed. The public sector simply does not have the competence to achieve a viable and sustainable turnaround nor will the induction of professionals and private sector help achieve the targets in the given timeframe.

The government attempt of restructuring will at best take three years to conclude on 'Go/No Go' for privatisation. The 4th year of tenure is considered as an election year during which vote politics strongly dilutes national economic priorities, including a government's privatization agenda. For example, the last PML-N government pursued for three years its privatization process but aborted it in the 4th year of its tenure.

Privatisation of the public power sector is inevitable if the incumbent government wants to provide its industry and consumers reliable and affordable power. The initial outcome of the PML-N government's attempt to privatize power utilities in the public sector was quite promising and there was a good chance to carry out the sell-off of at least four distribution companies at favorable terms.

Privatisation of utilities all over the world has dramatically improved levels of service and brought down tariffs. The PTI Government can make a difference by privatizing the entire power sector and deregulate it within its tenure as was done in early 1990s when the telecom sector was privatised and deregulated. Not only is telecommunication affordable for all segments of our society today, it is also widely known for providing admirable service.

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