Opinion

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One last loan

Pakistan's engagement with the International Monetary Fund (IMF) always creates panic among people as they find their going getting tough during an IMF arrangement. An IMF staff mission is in town yet again and people are panicking about 'possible consequences' if Pakistan signs another IMF arrangement.

However, we must keep in mind that the current visit of IMF staff is not in itself an indication that Pakistan wants to go for another arrangement. In order to maintain stability and prevent crises in the international monetary system, the IMF monitors member country policies as well as national, regional, and global economic and financial developments through a formal system known as surveillance. Part of this surveillance is 'Article IV consultations' that the IMF does bilaterally with its 189 members on annual basis. Through these consultations, the IMF attempts to assess each country's economic health and anticipates its future financial problems. The IMF mission is in Islamabad for these routine Article IV consultations.

Whether the current government will go to the IMF for a bailout package depends on the outcome of these Article IV consultations, the magnitude of anticipated Saudi investment/loan/grant, and loan/investment from China – among other factors. The finance minister has announced that a decision in this regard will be made by October 10.

The IMF has 189 members who can resort to it to secure fiscal stability. The borrowing country agrees to undertake certain measures at the time of borrowing from the IMF (usually called loan conditionalities). Immature termination of a programme implies that the borrowing country could not implement the loan's conditions. For such countries, the IMF imposes even tougher conditions for future engagements. Pakistan became an IMF member in 1950; since 1958, it has made 21 arrangements with the Fund. However, only one programme (the last programme during 2013-2016) could be successfully completed. The rest of the 20 programmes remained incomplete and had to be abolished.

The reason most people in Pakistan are scared of the government's engagement with the IMF is our track record of leaving IMF arrangements inconclusively, due to which the Fund wants us to take many actions in advance prior to the release of the loan. These actions restrict the government not to spend beyond its means. Moreover, the withdrawal of subsidies and restricted public-sector spending usually hurt the masses. The blame for these actions goes to the IMF.

One can rightly criticise the 'one-size-fits-all' approach of IMF policy prescriptions, which ignore each country's unique circumstances. The conditions of IMF prescriptions are quite standard and slow down the economy. This then results in reduced economic growth and creates severe hardships for the poorest people in borrowing countries. As the incumbent governments have to go to the IMF because of the policies of their predecessors, there is often a lack of political ownership of the IMF programme.

Another valid criticism on the IMF is its governance model, which empowers large global economies to shape the global monetary system. The members have quotas and special drawing rights (SDRs) according to the size of their economies. The SDRs determine the voting power. The US has more SDRs than any other member country. It has 16.52 percentage of total votes and virtually the veto power as all important matters need to be decided by 85 percent votes. The IMF is governed by an executive board comprising 24 executive directors and a managing director (the MD is appointed by the US). These directors are elected by member countries or by groups of countries based on their quota.

Thus the US, Japan, China, Germany, France, the UK, Russian Federation, and Saudi Arabia – by virtue of their shares – get one slot each. The rest of the 16 executive directors are appointed by the remaining 181 members. India, Bangladesh, Bhutan, and Sri Lanka jointly appoint one director, while Iran, Pakistan, Algeria, Morocco, Ghana, Tunisia, and Afghanistan jointly appoint one director.

During the last IMF arrangement, Pakistan had to seek waivers from the IMF board for release of loan tranches. The waiver pertained to Pakistan's inability to carry out energy-sector reforms and loss-making state-run enterprises reforms. US Secretary of State Pompeo's statement in the context of the American influence on the IMF is a reminder that chances for any waiver for Pakistan (if it decides to approach the IMF) in the near future are quite bleak.

Having said that, I believe Pakistan should consider going to the IMF for one more time. Any home-grown solution or conditions for the loan would not be much different than the reforms that the PTI government wants to bring in the FBR, the energy sector, loss-making public sector enterprises, governance, and in the cost/ease of doing business etc. In fact, the current government has the chance to deliver where previous governments failed in the last 21 IMF engagements – ie bringing about reforms.

The process of bringing reforms (through or without an IMF programme) may hit certain segments of society. That is where government needs to have a strong social protection and poverty reduction mechanism in place. To me, it would be much easier for the government to achieve macro-fiscal stability through an IMF loan, without neglecting the alternative sources of funding (Saudi and/or Chinese). It would give enough fiscal cushion to the federal government for delivering on its pro-poor agenda. I am sure, through the envisaged reforms, in a couple of years' time Pakistan's economy will not require another IMF bailout for a long time to come. However, it is about belling the cat – either through or without an IMF loan.

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