

### **Govt finally decides to rush towards IMF**

ISLAMABAD: Terming it a hard pill to swallow, the government has decided to approach the International Monetary Fund (IMF) for economic stabilization through a bailout package to deal with the prevalent financial crisis.

Finance Minister Asad Umar said in a video message that talks with IMF will start immediately as Prime Minister Imran Khan has given a go-ahead to approach the Fund.

PM Khan had convened a meeting to consider economic strategy options on Monday. Sources said that after getting input from the Economic Advisory Council (EAC), Khan decided to approach the IMF for a bailout package.

The negotiations will be aimed at reaching a “stabilization recovery program” which can be used to tackle the economic crisis, the minister said.

With the IMF programme, the government will aim to have a “minimum impact” on low-income classes, while passing on the burden to wealthy citizens.

The country is going through a tough time, which has been left behind by the previous government, he said. “We have to find a way to get out of this difficult situation,” he added.

The minister said that the government will have to take difficult decisions that will help stand national economy on its feet. He went on to say that the government wants to create such an environment where the cycle of going to international financial institutions is not repeated by successive governments. He said that efforts are afoot to protect the interests of lower income segments of society.

The finance minister stated that immediately upon assuming the office, the present government had expressed serious concerns on the dire economic situation of the country and had committed to undertaking a quick evaluation of all possible options.

The government inherited 6.6% fiscal deficit, more than a trillion rupees of unaccounted for losses in the energy sector and an unprecedented and debilitating current account deficit running at \$2 billion a month. To correct the underlying imbalances, fiscal and monetary actions need to be undertaken without any delay, he said.

In this regard, the Finance Supplementary (Amendment) Act, 2018 by the government and the policy rate increases by the State Bank of Pakistan are actions taken to stabilize the macroeconomic situation. In addition, regulatory duties on non-essential imports have had to be introduced to curb the unnecessary growth in imports.

After taking into account the current situation and consultation with the leading economists, the government has decided to approach the IMF for stabilization and an economic recovery program. It should be noted that the government is engaged with the friendly countries in the lead-up to this decision and this engagement will continue.

There have been 10 IMF programs since 1990s in one shape or the other. It is essential to remember that there is a history of Pakistan repeatedly going to the IMF with every new government being forced to go with IMF program due to legacy of those who held power in the previous government.

The challenge for the current government is to ensure that fundamental economic structural reforms are carried out to ensure that this spiral of being in an IMF program every few years is broken once for all.

In this regard the finance minister shall hold meetings with the top leadership of IMF during the annual meetings of World Bank / IMF at Bali later this week.

A Pakistani delegation led by the finance minister is scheduled to attend the annual meeting of the IMF and World Bank in Bali, Indonesia, this week, said sources adding that the meeting will take place from October 12 to 14. On the sideline of the annual meeting, Pakistan will place a formal request to the IMF, said Finance Ministry officials, adding that IMF team is likely to visit Pakistan within 10 days. The negotiations are expected to complete in 4-6 weeks, and agreeing with the Fund's conditions, the country may go for a three-year programme and can ask for \$6-7 billion.

A day earlier, reports surfaced stating that the government is in need of \$9 billion to fulfill the country's fiscal needs. It was also said that the government wants to approach the IMF for a bailout package.

In an interview in September last, the finance minister said that they are not in a rush to approach the IMF for a bailout package.

“Pakistan is not in an emergency situation that requires it to rush to the IMF to seek a bailout,” the finance minister had said during the interview.

The IMF last week completed article IV discussions with Pakistan and at the end issued a press statement saying that additional decisive policy action, anchored in a comprehensive strategy and significant external financing will be needed in the near term. Policies should include more exchange rate flexibility and monetary policy tightening, further fiscal adjustment anchored in a medium-term consolidation strategy, and strengthening the performance of key public enterprises together with further increases in gas and power tariffs. Together, these steps would help reduce current account pressures and improve debt sustainability. Importantly, to protect the more vulnerable segments of society, there is a need to further strengthen social protection through Benazir Income Support Program. These policies will help stabilize the economy and lay the foundations for sustainable and inclusive growth.

Reuters adds: The finance ministry did not specify how much in emergency financing the government would seek, but Umar earlier said the government would need at least \$8 billion to cover its external debt payments through the end of the year.

Pakistan's foreign currency reserves dropped in late September to \$8.4 billion, barely enough for those debt payments.

The new government blames the previous administration for the country's economic woes.

“ABOUT TIME”

Khan's decision came after the Pakistani stock markets tumbled by 3.4 percent on Monday after Khan said the day before that he was still exploring options outside the IMF.

Khan's government had been seeking economic lifelines from its allies, including new bridge loans from China and a deferred payments scheme for oil with Saudi Arabia, but there were no large-scale deals.

Pakistan's current account deficit widened 43 percent to \$18 billion in the fiscal year that ended June 30, while the fiscal deficit has ballooned to 6.6 percent of gross domestic product.

The rupee has fallen by more than 20 percent in four devaluations since December. On Monday, the currency was trading at 128 per U.S. dollar on the open market and 124.20 in the official interbank rate.

Monday's news was welcomed by brokers as a clear signal that could help steady markets tired of nearly two months' of uncertainty since Khan's government took office.

“It was much needed and about time,” said Saad Hashemy, research director for Pakistani brokerage Topline Securities

“Now what remains to be seen is the amount of funds and the associated to-do list,” he added. “That is, how much more currency devaluation, extent of further interest rate hikes, energy tariff hike, taxation measures etc.”

As the world's lender of last resort for governments, the IMF typically sets such conditions on its assistance.

If a package is agreed on, it would be Pakistan's 13th IMF bailout since the late 1980s.

“The challenge for the current government is to ensure that fundamental economic structural reforms are carried out to ensure that this spiral of being in an IMF program every few years is broken once and for all,” the finance ministry said.

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