DAWN

Govt to seek IMF bailout programme

ISLAMABAD: Ending long drawn-out uncertainty, the government on Monday announced its decision to approach the International Monetary Fund (IMF) for balance-of-payments support and enter into a stabilisation programme.

Finance Minister Asad Umar left for Indonesia on Monday night to participate in the annual meetings of the IMF and World Bank at Bali, scheduled to run from Oct 9 to 12, and formally request a bailout programme.

Other members of his team included State Bank of Pakistan Governor Tariq Bajwa, Economic Affairs Secretary Ghazanfar Abbas Jilani and Special Finance Secretary Noor Ahmad.

`The government has decided to approach the IMF for stabilisation and an economic recovery programme,` said the finance ministry in a statement after the stock market suffered an over 1,300-point plunge, losing almost Rs270 billion of its capitalisationthe highest single-day loss in a decade. The market capitalisation is estimated to have shrunk by almost half a trillion rupees during the current month as the 100-index dropped to a 10-month low.

Finance Minister Umar and Noor Ahmad were not available for comment.

Talking to Dawn on Saturday night, the finance minister had said that the government had not begun work on a letter of intent, or any kind of a strategy document to help guide programme negotiations. When asked whether it would notbe better to land in Bali with some sort of a strategy document in hand, he said: `When a decision on whether to go to the IMF has not even been made, how can I start drafting a policy document?` During that conversation, he said if any programme discussions were to take place in the Bali meetings, they would only be to convey the in-principle decision of the government to seek the IMF support. `A few weeks later a team from the Fund will come and the realnegotiations will begin then,` he said.

An official requesting anonymity claimed that Monday`s stock market crash had forced Prime Minister Imran Khan to allow the finance minister to seek the IMF support. He said Mr Umar would formally request the IMF management for a bailout programme and the process would take four-five weeks to reach an agreement to work out the exact size, tenure and conditionalities of the programme.

The official said the finance ministry expected a three-year programme of $7.5bn based on the conclusion of a recent weeklong visit to Pakistan of an IMF staf f mission.

The mission had noted that Pakistan began taking corrective measures in December last year that it described as `a step in the right direction` but insuf ficient, and hence the country required `decisive policy action and significant external financing` to stabilise its economy, indicating a significant slowdown in economic growth and higher inflation.

`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 tarif fs,` the IMF mission had said.

Sources said members of the federal cabinet having economic background had been insisting for weeks that Pakistan should seek the IMF help immediately because every passing day was adding uncertainty and nervousness to the market because of falling external reserves, declining exchange rate and losing share values and market capitalisation.

The sources said that Prime Minister Khan wanted to first delay the IMF route until after the first 100 days in of fice and then after Oct 14 by-elections, but had to change his mind af ter the falling reserves and capital market.

The finance ministry said the government had expressed serious concern over the dire economic situation and promised to undertake a quick evaluation of all possible options. It said the decision to approach the IMF had been made af ter taking into account the current situation and consultations with leading economists, adding the government had engaged with friendly countries in the lead up to this decision and this engagement would continue.

The finance ministry said that the PTI government had inherited a 6.6pc 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 $2bn a month. `To correct the underlying imbalances, fiscal and monetary actions needed to be undertaken without delay,` it said.

In this regard, the Finance Supplementary (Amendment) Act, 2018, and an increase in the policy rate are actions taken to stabilise the macroeconomic situation. In addition, regulatory duties on non-essential imports had to be introduced to curb unnecessary growth inimports.

The finance ministry said there had been 10 IMF programmes since 1990s in one shape or the other, and Pakistan had a history of repeatedly going to the IMF, with every new government forced to go for an IMF programme 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 programme every few years is broken once and for all,` it added.

By Khaleeq Kiani | 10/9/2018 12:00:00 AM