

In the line of economic fire

On the day of the State Bank of Pakistan's (SBP) decision, the finance minister had announced the government would no longer artificially control the value of the rupee — something for which he criticised former finance minister Ishaq Dar to have pumped over \$7 billion for from official reserves.

The announcement stirred sentiments including some leaks that Mr Umar had offered to, or been asked to, step aside as finance minister during the course of an internal party meeting. The markets, which were already under pressure after the SBP's decision, were subject to further uncertainty following the rumours.

Such a major change at such an early phase of a new political government and at the start of economic policy adjustment could have been disastrous, more so because Mr Umar is considered a central character of Prime Minister Khan's PTI in its formative days and is credited to have roped in leading figures from the private sector such as Razak Dawood.

But politics is cruel game. Within hours of the rumours, the economic team's replacements had been discussed at various levels in Rawalpindi and Islamabad and across the country. A host of prospective financial and economic advisers started reviving contacts at the 'right places' that they deemed influential and even exchanged resumes.

Then the rumour that the SBP governor was also in the line of fire despite having a constitutional position spread.

Interestingly, because of his experience and reputation Governor Tariq Bajwa has been given a leading role rare for an SBP chief, one traditionally assigned to the finance secretary, of negotiating financial support packages and finalising the terms of engagement with Saudi Arabia, China and the International Monetary Fund (IMF).

Since his monetary policy announcement last week, Mr Bajwa has visited Saudi Arabia to finalise the schedule and terms of the remaining part of the economic support, followed by a visit to China to crystallise arrangements for \$2bn yuan denominated Panda bonds.

As the rumours spread Prime Minister Khan had to come to the rescue of his economic team comprising the ministries of finance, commerce and planning for performing well in difficult times. He did not name anyone from the ministries including Finance Minister Asad Umar.

The prime minister will be holding a day-long session of the cabinet today (Monday) to provide an opportunity to each cabinet member to show their first 100-day performance and set targets for the next 100 days. There does not appear to be any threat to the finance minister.

On the economic front the currency depreciation, interest rate hike, increase in energy prices and other similar steps are considered to be actions needed to qualify for an IMF bailout package.

The progress on some of the desired steps has already revived contact with the Fund at the management level following the conclusion of staff mission's discussions last month without a formal agreement except a commitment to 'stay engaged'.

Circles close to the Fund are critical of the narrative being built in the country for political objectives that the size of the IMF programme had something to do with the Fund's conditionalities such as a smaller programme having lenient conditions while a larger bailout having tough terms.

"This is not a professional approach," explained an experienced IMF negotiator saying the Fund programme has to be simulated and calibrated on various models, policy actions and objectives, disbursements and repayment mechanisms.

The Fund's suggestions of complete autonomy to the central bank and free float of the exchange rate based on market forces is a requirement for all client states in order to engage with the IMF as it leaves market forces and the central bank in full control rather than political governments.

Interestingly, a number of conflicting forces have been in play ever since the prime minister started to allow subsidies to different sectors soon after the supplementary budget and sought policy advice from economists and business leaders, from both home and abroad. There are various groups and conflicting vested interests — from sugar to fertiliser, from textiles to realtors and from stock brokers to key players of the Musharraf - Shaukat Aziz government — trying to find a place of dominance and influence.

On the other hand, more than the external account, the government's fiscal side has been in dire straits with the first quarter concluding on 1.4 per cent deficit, higher than runaway expenditure of 1.2pc in the last year of the previous government. This was marked by a 21pc increase in defence spending, 13pc rise in interest payments and overall current expenditure going up by 19pc even though development spending plunged 36pc.

Fiscal adjustments are always painful and carry a cost to political capital but the prime minister needs to reduce his reliance on external advisers to restore the trust of his own team which is necessary for them to deliver.

Khaleeq Kiani

Published in Dawn, The Business and Finance Weekly, December 10th, 2018