

IMF: to go or not to go

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Lately, the debate is heating up whether Pakistan should enter into an IMF programme or not. The question is not one-sided as it also depends upon what kind of conditionalities the Fund may impose, especially related to loans repayment to China.

In order to evaluate the merits or demerits; the need is to see the country's experience with the IMF and explore why the Fund programmes are urged by independent economists and commentators.

The first and foremost need is to meet the external funding gap. There is no doubt that the country is in dire need of external financing to find some breathing space.

In the past, such situations occurred multiples times and virtually always the country was bailed out by the IMF. The lender-of-last-resort never said no to the ailing economy; and the situation is not likely to change this time around. Yes, the US is saying that IMF may not allow US taxpayer money to repay Pakistan loans to China. This does not mean that IMF would not bail out the country.

The to-be PTI government has not yet extended formal request to the IMF for a bailout; if the government does, the Fund would come to rescue, albeit, with some conditions to not deploy IMF fund to repay Chinese or other commercial loans. This may not create any problem for Pakistan's economic managers as the Chinese conduits are not going to close even after embracing the IMF.

Thus, one can establish that if the country asks for IMF's help, the Fund's response would be in the affirmative. The ball is in Pakistan's court to opt for the bailout package. The country needs flurry of loans and aid from other sources if it chooses against approaching the IMF.

The Saudi friends, after a considerable lull, are expected to come up with \$2 billion while the Chinese are likely to keep on pouring enough for the country to keep floating. The IDB facility of \$4.5 billion, if implemented, will ease the pain for sure. Apart from these, the key for Imran Khan is to call for help to Pakistani Diaspora by issuing bonds. Cumulatively, all these sources, and a few others, can give the country \$8-10 billion in 2-3 months' time. That fades away the immediate need to go to the IMF.

However, apart from the money from the IMF – which is primarily for balance of payment support – the key is to obtain a letter of comfort from the Fund. The LoC is a green-signal for western multilateral and bilateral institutions to continue fulfilling their commitments to the country. However, if the Imran wave of anti-corruption and strengthening the institutions gains traction, the comfort may establish without the LoC from the Fund.

However, it is pertinent to note that it's hard to get along with the World Bank and the Asian Development Bank without the nod from the IMF. It's a dicey situation and the PTI team might have to give adequate weight to this very factor before making any decision of not going to the IMF.

Having said that; the other factor critics have historically cited is that the IMF programme is

imperative to implement tough reforms. But that ploy never worked in the past two decades or so. No key reforms which were part of IMF conditions were implemented in letter or and spirit – be it the VAT reform, privatization, SBP autonomy and other tax and business reforms.

The point is that there was never any reformist, political will present in the PPP or the PML-N tenure; the IMF used to give waivers based on influence of the US. The US used to gain political and military support in the region while the tough economic reforms remained elusive.

Any variable that can change the equation this time is the political will at home to instill reforms. If the PTI regime puts its foot down on leakages, then why does the government need the IMF's push for reforms? Hence, if Imran forms a nimble and competent cabinet that is free from the controversial electable lot, and also appoints able and clean technocrats at the right positions, there is no reason the team can work on implementing growth and reform agendas.

The foremost need is to put the fiscal house in order and to bring efficiencies in energy and agriculture chains, apart from improving the score on ease of doing business. The civil services reforms, especially in the FBR, are at the heart of any meaningful reforms.

The upcoming articles will cover these aspects in detail. Coming back to the IMF question, in a nutshell, the country can survive without the IMF if the inflows keep on coming from other sources. However, a balanced, cautious approach is advised. Asad Umar, right after taking briefings from the Ministry of Finance and the SBP, should approach the IMF for negotiation.

It's a good time to negotiate because Pakistan would be doing so on its own terms. But there is no need to go for a \$12 billion package – instead, strive for \$6-8 billion, get the letter of comfort for extracting liquidity form World Bank and the ADB, make a realistic tax and PSE reforms package, and just do it.