

## Dealing with new IMF programme

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What are some of the things that the incoming government needs to consider for the IMF programme that Pakistan is expected to sign in a few months? This question was partly answered in yesterday's coverage where it was emphasized that civil service reforms that have historically been a third-year programme condition should be made a first-year condition. Below are some additional points to ponder!

Studies have shown that IMF's standard economic model, which calculates the demand compression needed to restore macroeconomic stability and the ensuing GDP growth rate, can be way off target. The more-than-needed austerity causes economic growth to falter far more than planned or envisaged under the IMF programme's economic model. The austerity's first casualty is the development spending that in turn can result in high social and economic costs to the economy. The government, therefore, needs to ensure that this time is different.

One of the ways that can be achieved is by engaging independent economists, which in some cases the government already does. Another step that should be taken is to take the matter to public by discussing it in the parliament. It is rather unfortunate that macroeconomic framework does not become a subject of budgetary or non-budgetary debates in the parliament. This needs to change.

Second is the timeframe of the programme. According to a report by IMF's Independent Evaluation Office (IEO), the fund has been successful in pushing for structural reforms in areas like public debt management; interest rate liberalisation; and liberalisation of external transactions such as the trade and tariffs profile.

However, the report titled 'Evaluation of prolonged use of IMF Resources' maintains that other areas such as "the implementation of a broad-based GST, taxation of the agricultural sector, liberalization of administered prices, and the setting of utilities tariffs, the reform process was very protracted" and achieved little.

But even if any government is able to roll out structural reforms on timely basis and on strong footing, the macroeconomic fruits of the reforms take longer time to bear than the standard IMF repayment schedule, leaving the country vulnerable once again. Therefore, it would be prudent to explore how a longer programme period could be arranged or at least how repayment schedule could be spaced out over a longer period on favourable terms.

Two important points need attention. First, markets, businesses, media and other stakeholders should not get blinded by temporary relief that IMF's first few tranches provide.

They should ask how the fund's monies will be repaid; and what's to ensure sustainability after the programme. Historically, getting the IMF programme under 'good conditions' is hugely publicised by incumbent governments but the sanity of the repayment plan isn't. Failure to question the repayment plan, therefore, might mean going back to square one in a few years.

Second, would it not make more sense to initially agree on a much smaller programme, form a

home-grown medium-term strategy and then, if needed, go to the IMF again for a longer program but at least with a stronger bargaining position.

The medium strategy could include remittance bonds, giving power sectors discos to provinces and then privatising FESCO, IESCO and LESCO (where there is less opposition to privatisation and whose sell-off plans are already under way), and attracting one or two big ticket FDI transactions. It's surely not as easy as it sounds, but hey, whoever said that climbing out a crisis is ever easy.