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Spadework for IMF bailout

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According to Caretaker Finance Minister Dr Shamshad Akhtar, the government has begun the technical process to seek International Monetary Fund (IMF) bailout package, however, the decision to do so would rest with the elected government. She added that the country needs that the extensive economic policy and institutional reforms to ensure growth and stabilization are well sequenced however the caretakers are undertaking "diagnostics of the situation and analysis which hopefully will serve as useful input for the incoming government to take appropriate decisions and required measures."

There is no doubt that a Fund bailout package with associated conditions would have serious political implications as well as negatively impact on the expenditure priorities that have been ambitiously earmarked in the manifestoes of the three major national parties for the duration of a new programme which is usually for a three-year period. Thus it stands to reason that the decision to go on an IMF programme must be deferred till the next government due to be installed in less than two to three weeks if elections are held on time. Dr Akhtar, however, did not clarify what precisely she meant by the technical process to seek an IMF programme loan having begun, given that it involves commencement of Article IV consultations, an annual exercise of IMF member countries, which identify the major lacunae in the state of the economy and suggest measures for their resolution.

Article IV consultations are long over due. The IMF mission's consultations with Pakistani authorities ended on 5 April 2017 and the subsequent report is dated July 2017. Thus the minister's comment may lead one to assume that perhaps Article IV consultations have begun though there has been no indication that an IMF mission is in town. The last Article IV consultation report left a lot of room for concern and noted that: "following completion of the program (Extended Fund Facility - September 2013-16), there has been progress in implementing staff's policy recommendations, although policy implementation has weakened and macroeconomic vulnerabilities have begun to re-emerge: fiscal consolidation slowed, the current account deficit widened, and foreign exchange reserves declined. On the structural front, the accumulation of arrears in the power sector has resumed, financial losses of ailing public sector enterprises continue to weigh on scarce fiscal resources, and exports remain low. Despite progress, poverty and inequality are still significant, and growth needs to become more inclusive." These disturbing trends further worsened as indicated in the first post-program monitoring report dated March 2018 substantiated by the macroeconomic data.

Dr Akhtar's contention that diagnostics of the situation and analysis are being undertaken by the caretakers is welcome; however in the event that the next government opts to go on another IMF program, (and there appears to be little option in this regard given the fact that the current account and fiscal deficits continue to widen with serious implications on the foreign exchange reserves, the external value of the rupee and the rising borrowing needs of the government) the Fund will determine the conditions on which it is willing to extend the package which are expected to be extremely harsh. Diagnostics of what ails the economy have been prepared in the past and administration after administration has opted for the easy way out in terms of relying on taxes that are relatively easy to collect as opposed to being fair and equitable; and not changing the existing expenditure priorities in spite of an urgent need to do so. One can only hope that the next elected government has the mandate to undertake major re-haul of the existing revenue and expenditure system as well as on scaling down its political agenda in favour of dealing with the major institutional and structural challenges that have faced this country for decades.