


Going to the IMF: when and not if

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The most critical ministry today is the finance; there are number of politically difficult decisions in offing, a few have been taken and others are in the pipeline. The most critical decision pending is on what external avenues to rely on to bail out the economy.

It is a matter of weeks before the dust clears on how to plug in the gross external flows; one thing is for sure, austerity is the order of early days of PTI government. Last week the government increased the gas prices which were on average two-third of OGRA's recommendation (30% percent against OGRA's prescription of 46%). The increase in electricity tariff is also believed to be around the corner.

The new government is taking the regulators seriously and has seemingly understood the gravity of the economic situation, taking the tough measures in early days. On taxation, the government has partially taken back the undue tax advantage given to individuals in the budget and concurrently is giving relaxation to exporting industries.

One decision being criticized is the reversing of the ban on non-filers' ability to buy real estate and automobiles. There are arguments for and against the decision. Some say it is the fundamental right of citizens to buy assets, and there are many types who are not required to file returns such as expats, widows or dependants. And where to stop the penalizing the non-filers – should they be banned from traveling or exercising other rights. Steps like disbarring the non-filers are short term and cannot sustain for long.

Apart from this they argue that these steps to further slowdown an already crippling economy – in days of austerity, it is not wise to arrest other economic activities which can compromise the growth momentum further. These are valid arguments; but a stand against parking grey wealth in real estate should have continued.

The PTI economic team has got enough criticism from media, civil society and opposition to review the decision. Let's hope that, as the case in raising energy prices, the government would find a midway in case of penalize the non-filers. A better outcome could be to reform the FBR in a way to directly penalize tax evaders and concurrently make a mechanism which makes every adult mandatory to file true returns.

Easier said than done. The whole idea introduced by Dar to penalize non-filers is in effect using a full and final taxation; but these steps did not compel them to file. The need is to have a simplified tax filing system and punish those who evade. The PTI government is on paper showing the will to do so; give them some time for implementation.

Enough on fire fighting; the immediate critical issue is to decide on the external bailout. The situation is nothing new as this has happened repeatedly in the past and invariably every time without exception, the country availed IMF's facility. The Fund is likely to be approached this time as well.

Apparently, the economic team of PTI is all for entering into an IMF programme. However, other faction within the party is adamant on exploring other avenues. That is why PTI is taking its sweet time before committing to a fund programme. The idea is to get some hard cash from KSA directly and some facility from IDB; this along with Chinese money may be sufficient to not knock the Fund's door.

The cost of the IMF loans is subsidized and it opens up conduits of the concessional lending from western multilaterals such as WB and ADB. Hence, it is beneficial to rely on IMF than to bank on others. And tough reforms are already on the agenda of PTI.

The currency has already depreciated by around 20 percent since Dec17, so the new government does not need an immediate correction in this head. The gas tariffs are revised and on taxation a few of IMF prescribed measures are taken. The government has shown that it does not need the shoulder of IMF to take tough decisions which is a good omen.

The hidden cost is non-financial and it is geopolitical in nature. It all started with Mike Pompeo's statement on not to allow IMF money to Pakistan for repaying Chinese loan. Although, the statement was factually incorrect, it has repercussions on Pak China relations.

The Chinese may fear that the IMF may ask for financial details of CPEC. So they may give more to Pakistan to stay away from political pressure of the US emanating via IMF. Recent Pakistan's Army Chief's meeting with Xi Jinping further strengthened the image of ties between two countries. Concurrently, KSA is ready for economically supporting Pakistan.

In such a scenario, there can be a case where Pakistan might not need IMF for next 6-12 months. It is difficult to assume that economic reforms could yield enough in a year to plug in the twin deficit. And Chinese and KSA money would not come forever.

Plus, there is no free lunch. If the IMF programme would have non-financial cost, there would be strings attached with money coming from China and KSA. It is better to diversify by not putting all eggs in Chinese and Saudi backsets, and to take IMF programme more seriously.

An article 4 consultation with IMF is due to start this Thursday, and most likely reform agenda and conditionalities of IMF for possible upcoming programme will come up. Asad would take notes from these meetings and also from the offers of KSA team coming to Pakistan next week, on PTI's leadership table to decide on bailout.

Let's hope that he and others in PTI understand that if we do not go to IMF today, it would be necessity in 6-12 months; but today we would have better negotiation powers than tomorrow.

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