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The Next IMF Deal

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The IMF's board will be meeting tomorrow, 4th September, to review Pakistan's application for support. It is a foregone conclusion that the Board will approve the program designed by the Fund's Staff to grant us financing of at least US$6.6 billion over the program period and sanction the release of the first tranche of the loan on the grounds that the country has completed the 'prior actions' required to qualify for receiving these funds.

This writer has argued in these columns before that, contrary to general perception and the expectations of most commentators, the program will be a relatively soft one in terms of its coverage of the much long-overdue structural reforms needed to address our fundamental issues. This will essentially be for two reasons:

a) The Fund, despite all claims, does not really understand structural reforms, partly because of its restricted mandate and its short-term engagement with a country- a typical period of a Fund program is inadequate for carrying out structure and institutional reforms. It is only interested in attaining macro-economic stabilization, whose focus is limited to budget deficits and interest and exchange rates.
b) The fund would like to restructure its previous loan to us so that we can repay this debt, which would then obviously require an easy program for us to implement.
c) The greater part of the nature, scope and extent of stringency of the program actions and performance criteria that we will be required to meet will revolve around the timetable of the American retreat from Afghanistan.

So, what is this program likely to look like? My guess is that barring the upward revision in electricity tariffs (which I suspect, for obvious political economy reasons, will be mild and meek when it comes to the adjustment in rates applicable to domestic consumers) and a likely demand for fiscal adjustment measures to achieve a deficit reduction by 2% of GDP, as, somewhat ambitiously, already committed by the government in the budget for this year (admittedly a hard ask), the bulk of the supposed actions will be embodied in meaningless and innocuous sentences of English. And these will betray the underlying intent to bail us out to make the safe passage home for US troops less painful and less expensive.

This writer for one will be least surprised that to ease Pakistan's access to funds, so that we can avoid a default like situation and stem the growing pressure on the rupee, the majority of the 'prior actions, 'structural benchmarks' and 'performance criteria' will involve implementation of amusingly harmless and simplistic measures. This will also make it 'convenient' for the Fund to give us money and thereby also recover what it had lent to us under the previous program.

Examples of what we could be required to perform would be

a) sending out a few thousand tax notices to alleged tax evaders;
b) announcing a plan for rationalizing gas prices;
c) development of a strategy for restructuring state owned enterprises
d) if we are to believe the leaks in the press, the State Bank to buy US$125 million from the market (resulting in the fall in the rupee's exchange value);
e) maybe there could be a reference to the disposal of a small percentage of the shares of one or two government owned corporations- as a declaration of the intent to privatize some of these entities;
f) legislative amendments to give the State Bank additional autonomy (as if it has been able to exercise whatever autonomy it already has), etc.

All such 'brave' reform measures will have to be undertaken before June 2014 to become eligible for the financial assistance built into the program.

I, for one, doubt that the fresh deal will make any serious demand for key reforms like elimination of the SRO regime and government trade in commodities financed by borrowings from the banking system, steps to extend the span of GST further down the value-chain (to the retail level), etc.

Press reports suggest that there would be a reference to the need for provinces to generate cash surpluses from additional revenues, to enable the Federal Government to meet its expenditure obligations. A ludicrous demand, and which the provincial governments of Sindh and KPK will understandably ignore. How can the provinces be prevented from spending what they generate from own tax effort or for matter what they receive under the statutorily protected NFC Award? But then the failure to meet this conditionality will not result in any stoppage of the flow of IMF funds. If the country is found to have met say six out of eight conditionalities the IMF Staff and Board will, after due deliberations, take a sympathetic view and allow the release of funds, arguing that although program execution has been uneven the reforms are moving forward, the program is broadly on track and the authorities have reaffirmed their intention to achieve the targets and criteria. Allah be praised for the drafting options available in the English language and the wide array of vocabulary it provides if you wish to favour friends, even when they have clearly not achieved much by way of critical reforms.

To conclude, the fears of a tough IMF program, especially the toxic nature of its first year's conditionalities, are misplaced. Thus, the fulfillment of the requirements of the first year of the program and the quarterly disbursement basis are not likely to make us, yet again, a ‘one-tranche country’ with the IMF. Instead of feeling anxious we should relax in the express knowledge that it won’t be as bumpy a ride as is being dreaded. If we end up having to tighten our belts it will be in spite of the IMF. Meanwhile the US troops will be back at home with fewer casualties than the current apprehension and the Fund Staff which designed this program will get their customary promotions. We couldn’t hope for a more perfect confluence of interests of all potential stakeholders.