Pakistan and IMF Programme

Why in news?

Given its poor state of economy, Pakistan is in the process of making a deal with the International Monetary Fund (IMF).

How strained is Pakistan's economy?

- Pakistan's economy has been ruined in the last 8 months, and almost every indicator has deteriorated substantially.
- It is marked since Imran Khan became Prime Minister and his party, the Pakistan Tehreek-e-Insaf (PTI), formed the government.
- Inflation, at 9.4%, is at its highest level in five-and-a-half years and is likely to rise to double digits for the months ahead.
- The rupee continues to lose value every other day, which adds to further inflation especially with the oil price on the way up.
- The fiscal deficit is about to hit more than 6% of GDP.
- Even a cut in development expenditure will not stop this trend, as defence spending and interest payments continue to rise.
- Pakistan's exports, stuck at around $26 bn for years, despite the 35% devaluation of the rupee over one year, have barely recovered.
- Besides, the government owes power producing companies huge amounts of money and the debt continues to accumulate.
- Interest rates are also going up making the cost of business even more uncompetitive.
- The GDP grew by 5.8% in the last fiscal year, the highest in 13 years.
- But the State Bank of Pakistan recently lowered the expectations of GDP growth for the current fiscal year to an 8-year low, to around 3.5%.
- This was reduced further by the IMF and the World Bank to a dismal 2.9% for the current fiscal year.
- It is expected to fall further over the next 3 years.
- By all accounts, Pakistan's economy is in a dismal state.

What is the key reason?

- A major reason for the worrying state of economy is the mismanagement and incompetence of the government.
- It was almost certain that whichever party would have won the elections of July 2018, it would ask the IMF for a major structural adjustment loan.
- But Mr. Khan's said he would rather commit suicide than go to the IMF.
- Mr. Khan’s strategy was to run to a few of Pakistan’s friends asking for money, and to not go to IMF.
- A non-IMF policy and programme was preferred as a better option in August, 2018.
- The newly-elected government thus did not do what it should have done.
- But the incompetence of the government did not allow for reforms to be undertaken, and has only made matters far worse.
- By not submitting to the IMF then, they now have no option but to submit almost a year later.

What is the recent happening?

- Asad Umar, Finance Minister of Pakistan, attended the Spring meetings of the International Monetary Fund (IMF) and the World Bank in Washington.
- He was unable to finalise an IMF deal when he was in Washington.
- Also, due to the poor performance in running the economy, he has been demoted to be the petroleum minister.
- Dr. Abdul Hafeez Sheikh, a former Adviser under General Musharraf, has been named the adviser on finance.
- At a moment when Pakistan’s economy is facing a major crisis, it also has no finance minister now.
- Whoever will take the new job will have to face challenges they may neither be prepared for nor experienced enough to deal with.

What next?

- The IMF deal is now a certainty given the poor state of economy.
- Failing at alternatives to revive its economy, Pakistan has to find ways to convince the IMF now that Pakistan needs it.
- So although the finance minister has been replaced, there is probably no need for a replacement.
- It's so because when the IMF implements its strict conditionalities and adjustment programme the finance minister becomes redundant.
- The country is supposedly to ‘agree’ to the terms.
- The finance minister is then simply the bearer, and the new finance Adviser will fit this role.

What is the likely effect of IMF's programme?

- If finalised, this will be the 13th IMF rescue package for Pakistan's governments in less than four decades.
- [One of the stumbling blocks to the deal this time has been the IMF's insistence that Pakistan reveal the financial deals made with China.
- It demands details including financial loans, as well as the $60 billion China-Pakistan Economic Corridor.]
- The new IMF programme is the biggest Pakistan is expecting to receive, likely to be between $6-$10 bn.
- However, this is going to make things far worse for all Pakistanis.
- This is true especially for the working people already dealing with prospects of a marked economic slowdown and high inflation.
- Defence spending will remain a matter of 'national security' and not be touched.
- But the IMF will further cut the minuscule development expenditure left.
- It will ensure austerity, stabilisation and will cut the growth rate further.
- It will insist on further devaluation, causing greater inflation, and will insist on raising utility prices.
- In every respect, the people of Pakistan will face the prospects of fewer jobs, and rising prices.
- They will have to cope up with an economy which is now the worst performer in all of South Asia.
- If Pakistan takes the IMF loan or not, it is sure to be amidst troubles and challenges for some time.

Source: The Hindu