[The post-IMF agenda]

BY ISHRAT HUSAIN | 7/13/2015

IN August 2016, Pakistan will complete the final review of its extended arrangements with the IMF. In the absence of major hiccups, the country would be able to heave a sigh of relief.

The crisis risks that loomed large in 2013 would have eased and stabilisation reduced macroeconomic imbalances. Fiscal deficit would be down to 3.5pc to 4pc.

Inflation would be around 5pc to 6pc. The current account deficit would be contained to less than 1pc. Forex reserves would cover three months imports.

The power to issue SROs has been transferred from the Federal Board of Revenue to parliament.

These are all positive changes, some of which have taken place due to exogenous factors such as declining oil prices, exceptional flows of external capital, greater than expected worker remittances.

Where the Fund finds lack of progress is in “the long-standing barriers to sustainable, strong and inclusive growth” as these relate to intractable structural policy and governance reforms. It has identified these as key risks for the future.

This agenda of policy implementation has to begin now and not wait for the completion of the IMF programme. These policies are well known and pertain to the energy sector, tax administration, civil services, export competitiveness, privatisation, financial inclusion, youth employment and devolution.

The time horizon will extend beyond this regime but a smart move by the present rulers can see them presiding over an economic turnaround at the time of elections in 2018. If short-term political expediency and succumbing to pressures continue to swing decision-making we can be sure that stagnation would persist.

Why is this agenda so important for economic survival? First, Pakistan’s growth record for the last 25 years is the worst among South Asian countries.

Since 2008, per capita growth has been around 1.5pc annually — unacceptable to an informed, connected population with high expectations.

Second, these stabilisation gains can soon dissipate if oil prices starting rising, external or domestic shocks or unanticipated adversities hit us and the international capital flows dry up.

Third, we have to generate enough fiscal and external resources domestically in order to service the debt which would become due for payment in 2017 and beyond.

If we rush again to the IMF for another bailout we would have earned the distinction of being the country with the most prolonged borrowing in the world. So for all these reasons we have to put in place an action plan that will have to be executed assiduously and consistently. Can this be done?

Economic decision-making is in fact political in nature. Finance ministers face a difficult task in convincing their fellow cabinet members and bosses about the efficacy of policy changes as these have serious political repercussions.

Let me illustrate this constant tension between political stewards and economic managers with some examples.

Policy implementation has to begin now and not wait for the completion of the IMF programme.

Prices of energy, food and fertiliser are to be raised to realistic levels to avoid pressure on fiscal accounts.

We have become used to untargeted subsidies that actually benefit the middle-income and well-to-do consumers and producers.

Electricity is used by only one million households below the poverty line out of 20m consumers but the arrears accumulated because of nonpayment, losses and subsidies amount to 2pc of GDP.

Any suggestion to increase the prices and target subsidies only for poor consumers through cash transfers under the Benazir Income Support Programme and to privatise DISCOs is resisted by the vocal middle and upper classes that dominate the civil service, judiciary, media and parliament.

As a result, power outages are hurting the production sectors and allocations for education, health and water supply that help the poor cannot be raised.

Speeches are made by business leaders at every forum lamenting the low tax-to-GDP ratio but when push comes to shove our real colours are exposed.

Each time an attempt is made to bring non-filers into the tax net or surveys are conducted in leading urban markets, our business leaders sabotage the efforts by going on strike.

Even military governments succumb to these tactics and give up the effort, thus bringing us back to square one. Urban-based parties do not want to touch their supporters while the rural-based parties do not want agriculture incomes to be taxed.

Public enterprises are causing fiscal hemorrhage and making the economy inefficient. The plans to sell PIA, Pakistan Steel , DISCOs and some commercial operations of Pakistan Railways are continuously rolled back to appease the workers of these organisations.

The fear that PIA planes will be left stranded at foreign airports, railway tracks occupied by angry workers or provision of electricity suspended during peak hours acts as a powerful brake.

It is hardly realised that these enterprises have devoured almost Rs2,000 billion during the last seven years in addition to paralysing the manufacturing and export sectors.

The root cause of most of our problems — security, law and order, revenue mobilisation, urban management, agriculture etc — can be traced to the dysfunctional institutions of governance but there is hardly any movement on the reform of the civil services that run these institutions.

A modern structure and system that needs to replace the present outdated system does not suit the interests of those who are its main beneficiaries.

Once they have cleared the competitive exam at the young age of 25-26 they have automatic career progression and reservations for top positions with all the perks, prestige and power.

Only a mad man can think of giving all this up for the sake of an uncertain future.

These examples show that politics has always trumped economics in Pakistan. These tensions and trade-offs can be resolved only by a visionary leadership capable of foreseeing the political dividends arising from a robust economy.

We should not be surprised if we once again approach the IMF after 2016 for getting the country out of another crisis.

The writer is dean and director at the Institute of Business Administration, Karachi.