The IMF mission has reached a staff-level agreement with the Pakistani authorities for a $5.3 billion bailout package. The duration of the programme is three years, and the resources will be provided to Pakistan under the Extended Fund Facility (EFF).</p> <p style="text-align: center;" />

</p> <p style="text-align: justify;">The agreement will be reviewed by the IMF management and once it is cleared, it will be presented to the board during the first week of September 2013 subject to the timely completion of prior actions by the Pakistani authorities.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">The new programme is good for Pakistan for the following reasons. In the first instance, it will remove uncertainty surrounding the country's economy. It will also help prevent a crisis of confidence and the resulting capital outflow as well as help prevent further depletion of foreign exchange reserves and pressures on the exchange rate. Additionally, the agreement will save Pakistan from defaulting on its external debt payment obligations and protect the poor and the middle class from suffering on account of this default.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">I have been advising our authorities to seek IMF support since September 2011 as the writing on the wall was absolutely clear. It was simply a matter of time. The previous regime was bent upon committing financial hara-kiri, and as such it was in no mood to seek IMF assistance. I commend the efforts of Finance Minister Ishaq Dar and his team in finally reaching an agreement with the IMF for a new programme.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">The critical elements of the programme include: i) broadening of tax bases and phasing out of the SROs, ii) strengthening tax administration, iii) addressing issues pertaining to fiscal decentralisation, iv) reforming the energy sector by focusing on resolution of the circular debt, prevention of electricity theft, recovery of electricity bills and support of investment in the power sector.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">Other elements of the programme include restructuring and privatising the rotten PSEs including the Discos and tightening the monetary policy to control inflation and prevent capital outflows. Budget deficit target has been reduced to 6 percent of GDP instead of 6.3 percent for 2013-14. It will further be reduced to 3-4 percent of GDP by the end of the programme period. Improving investment climate and protecting the poor segment of society from the cost of adjustment through strengthening social safety nets are also critical elements of the programme.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">In short, resource mobilisation through tax-base broadening, addressing issues of fiscal decentralisation, energy sector reform, investment climate improvement, fiscal deficit reduction and reducing public debt burden are some of the major objectives of the programme. Other major objectives are aimed at strengthening the financial sector, strengthening corporate governance, building foreign exchange reserves to provide stability to the exchange rate and bolstering social safety net programmes.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">If these reforms are successfully implemented, Pakistan may see its economic growth approaching 7-8 percent per annum with relative macroeconomic stability in the next five years. But there are serious challenges to the implementation of the programme as well as to achieving all its performance targets.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">As

a result of the NFC Award, the success of the programme depends crucially on the provinces. The initiative to maintain fiscal discipline and reduce budget deficit has been shifted to the provinces as they receive 60-65 percent of the resources collected by the Federal Board of Revenue (FBR). This is what I had been stating all along since the finalisation of the new NFC Award in 2010, but the country's financial managers never paid any attention and as such fiscal indiscipline has been allowed to continue.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">Realising its importance for the success of the programme, both the IMF and the Pakistani authorities have agreed to address the issue as a prior action for the programme. In other words, some binding constraints on the part of the provinces to generate targeted surplus will have to be instituted and approved by the Council of Common Interest (CCI) by early September 2013.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">This will be the most challenging task for the finance minister � to bring all the four provinces to agree on the binding constraints and get the approval of the CCI. I hope the provinces agree to these binding constraints in the larger interest of the economy. Failure to this agreement is not an option. The other prior actions may include tightening of the monetary policy by raising discount rate in the range of 100-150 bps and raising the power tariff to prevent re-emergence of circular debt.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">The success of the programme will also depend on the ability of the FBR to collect targeted revenues, which has been made even more challenging in the IMF programme. It is well known that the FBR is in a bad shape. Infighting among different tax groups has reached to an unprecedented level. The quality of staff, including senior staff members, has deteriorated significantly over the recent years. Economic experts seriously doubt the ability of the FBR to collect targeted revenues.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">If not handled properly, the power sector has the ability to derail the programme by creating slippages on the expenditure side. The Rs150 billion allocated for inter-Disco tariff differential in the 2013-14 budget is most likely to be breached, thus creating slippages on the fiscal deficit target.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">Slippages on the non-tax revenue side are high as well. The government has targeted receiving Rs120 billion through the sale of 3G licences. This revenue is not likely to be realised for two reasons. First, the existing telecom operators do not see this as a viable investment at the back of heavy increase in the tax burden of cell phone users in the budget, and further tightening of regulatory requirements.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">I would urge the finance minister to discuss these issues with the CEOs of the existing telecom companies. Second, increase in taxation on the telecom industry has reduced their revenue and hence purchase of 3G licences is no longer a profitable venture.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">To monitor implementation and progress towards the programme, I would recommend the finance minister to appoint a senior level officer in the Ministry of Finance to coordinate with the concerned ministries and monitor the progress.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">Finally, I would also recommend the separation of tax collection and tax policy. Currently, the FBR is performing both responsibilities and, given its deteriorating state, none of the tasks is likely to be performed to satisfaction. The government may consider appointing a secretary-level officer to take care of the tax policy. This division will serve as a think tank for tax policy, work on broadening the tax base and analyse its economic implications, prepare tax-forecasting model to forecast revenues, and also work as a think tank for the National Finance Commission.</p> <p style="text-align: justify;">�</p> <p

style="text-align: justify;">Reaching an agreement at the staff level is the first step towards an IMF programme. Meeting prior action will be the second. Successful implementation and achieving the programme targets will depend crucially on the provinces, the FBR and, most importantly, the law and order situation in the country � Karachi in particular.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">The writer is principal and dean of NUST Business School, Islamabad. Email: ahkhan@nbs.edu.pk

Courtesy: �The News</p>