FIVE POINTS TO REFLECT UPON - RECENT IMF STAFF REPORT ON PAKISTAN

ONE

CURRENT ACCOUNT DEFICIT TILL 2025-26 IS PROJECTED TO BE AROUND $ 12 BN EACH YEAR AND "EXTERNAL FINANCING NEEDS" TO REACH AT A LEVEL OF $ 37 BN FROM $21BN IN 2020/21

The questions that need to be asked then a) are we as a country satisfied with this continued deficit on our external account b) If yes, then is it correct to assume that the recommendations from IMF are not for the purpose of enabling a country to reduce its reliance on external financing c) If No, where is the plan to come out of this deficit if not in 5 years then when and how.

IMF acts as an Economic & Financial Advisor - in lighter terms - (as can be easily observed from this staff report) for the Government of Pakistan and chips in to bring financial stability to the country. If the purpose is to make an economically stable Pakistan, either these projected numbers do not reflect the result of any policy measures or the policy at the outset is not designed to address this.

For record CAD was around $ 20 billion as at 2017/18 and reduced to around $ 2 bn at 2020/21. From the start of this fiscal year owing to increase in domestic demand, expansionary policies and increase in international commodity prices CAD started ballooning again.

In support of the CAD projections above, IMF predicts Cumulative Average Growth Rate (CAGR) over a **period of 5 years till 2025-26** to be around 23% for imports and only 13% for exports. This is where the government needs to come up with a plan and show how are we going to make CAD positive over a period of 5 years. If we stay in a comfort zone of being externally financed there would not be any urgency to significantly improvise this important indicator

TWO

PAKISTAN AMONGST WORLD TOP 20 GREEN HOUSE GAS EMITTERS YET WITHDRAWAL OF SALES TAX EXEMPTION ON RENEWABLE EQUIPMENT – EXAMPLE OF INCOHERENCE AMONGST VARIOUS POLICY RECOMMENDATIONS

The report mentions the climate change implications for Pakistan indicating the fact that country is amongst the top 20 largest emitters world - wide on absolute basis, yet under the umbrella of keeping sales tax rate uniform; exemption on import of renewable equipment is withdrawn. Tax policy is an important lever through which government supports the private sector in achieving larger economic ambitions but what we have seen here is the exact opposite of the same.

Chances are that the government may not have even put up the case that this withdrawal would not be in line with overall economic objectives.

THREE

MONETARY POLICY – A SCIENCE, AN ART, OR A PUZZLE NO ONE HAS A CLUE ABOUT

Increase in interest rates tend to decrease money supply in the economy and hence the inflation. However, these numbers from the IMF report depicts otherwise. Increase in interest rate neither toned down the inflation nor the money supply.

More discussion on it for some other day

	2017/18	*2018/19*	*2019/20*	*2020/21*
Broad Money (Percent change)	9.7	11.3	17.5	16.0
Six-month Treasury Bill rate (period average, in percent)	6.0	10.2	11.9	
Consumer Prices (percentage change)	5.2	8.0	8.6	10.0

FOUR

CONTRARY TO GENERAL BELIEF GOVT. DOES DEVIATE FROM WHAT IMF SAYS BUT THEN BENDS AGAIN

Example to the above is Petroleum development levy that was reduced from Rs. 30 per liter to Nil against the IMF wishes, however again starting from Nov it was increased by Rs. 4/liter and will be brought back to the previous level of 30.

FIVE

INDEPENDENCE OF A CENTRAL BANK DOESN'T MATTER MUCH, IT'S ROLE DOES

In general, an independent central bank is a step in right direction. Much of the debate in a country has been on this matter. But a larger question is about the role of central bank. Do we need inflation to be dependent only on the relative demand and supply of real goods or what a group of 10 persons think of as to what should be the price of a piece of paper? The situation becomes more critical When more than 40% of our tax revenue goes towards debt servicing and needless to mention the interest rate set by SBP can swing our fiscal position either way.