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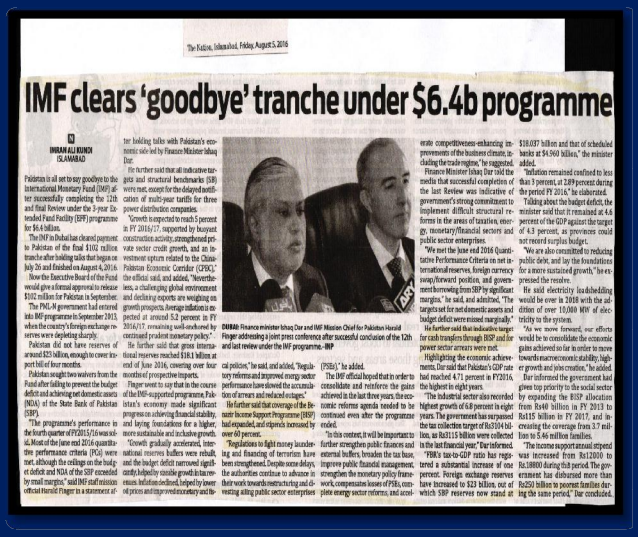

The Nation, Islamabad, Friday, August 5, 2016

IMF clears 'goodbye' tranche under $6.4b programme

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ISLAMABAD

Pakistan is all set to say goodbye to the International Monetary Fund (IMF) after successfully completing the 12th and final Review under the 3-year Extended Fund Facility (EFF) programme for $6.4 billion.

The IMF in Dubai has cleared payment to Pakistan of the final $102 million tranche after holding talks that began on July 20 and finished on August 4, 2016.

Now the Executive Board of the Fund would give a formal approval to release $102 million for Pakistan in September.

The PML-N government had entered into IMF programme in September 2013, when the country's foreign exchange reserves were depleting sharply.

Pakistan did not have reserves of around $25 billion, enough to cover import bill of four months.

Pakistan sought two waivers from the Fund after failing to prevent the budget deficit and achieving net domestic assets (NDA) of the State Bank of Pakistan (SBP).

"The programme's performance in the fourth quarter of FY2015/16 was solid. Most of the June end 2016 quantitative performance criteria (PCs) were met, although the ceilings on the budget deficit and NDA of the SBP exceeded by small margins," said IMF staff mission official Harald Finger in a statement after holding talks with Pakistan's economic side led by Finance Minister Ishaq Dar.

He further said that all indicative targets and structural benchmarks (SB) were met, except for the delayed notification of multi-year tariffs for three power distribution companies.

"Growth is expected to reach 5 percent in FY 2016/17, supported by buoyant construction activity, strengthened private sector credit growth, and an investment upturn related to the China-Pakistan Economic Corridor (CPEC)," the official said, and added, "Nevertheless, a challenging global environment and declining exports are weighing on growth prospects. Average inflation is expected at around 5.2 percent in FY 2016/17, remaining well-anchored by continued prudent monetary policy."

He further said that gross international reserves reached $18.1 billion at end of June 2016, covering over four months of prospective imports.

Finger went to say that in the course of the IMF-supported programme, Pakistan's economy made significant progress on achieving financial stability, and laying foundations for a higher, more sustainable and inclusive growth.

"Growth gradually accelerated, international reserves buffers were rebuilt, and the budget deficit narrowed significantly helped by sizable growth in tax revenues. Inflation declined, helped by lower oil prices and tight credit monetary and fiscal policies," he said, and added, "Regulatory reforms and improved energy sector performance have slowed the accumulation of arrears and reduced outages."

He further said that coverage of the Benazir Income Support Programme (BISP) had expanded, and stipends increased by over 40 percent.

"Regulations to fight money laundering and financing of terrorism have been strengthened. Despite some delays, the authorities continue to advance in their work towards restructuring and divesting ailing public sector enterprises (PSEs)," he added.

The IMF official hoped that in order to consolidate and reinforce the gains achieved in the last three years, the economic reforms agenda needed to be continued even after the programme ended.

"In this context, it will be important to further strengthen public finances and external buffers, broaden the tax base, improve public financial management, strengthen the monetary policy framework, compensate losses of PSEs, complete energy sector reforms, and accelerate competitiveness-enhancing improvements of the business climate, including the trade regime," he suggested.

Finance Minister Ishaq Dar told the media that successful completion of the last Review was indicative of government's strong commitment to implement difficult structural reforms in the areas of taxation, energy, monetary/financial sectors and public sector enterprises.

"We met the June end 2016 Quantitative Performance Criteria on net international reserves, foreign currency swap/forward position, and government borrowing from SBP by significant margins," he said, and admitted, "The target set for net domestic assets and budget deficit were missed marginally."

He further said that indicative target for cash transfers through BISP and for power sector arrears were met.

Highlighting the economic achievement, Dar said that Pakistan's GDP rate had reached 4.71 percent in FY2016, the highest in eight years.

"The industrial sector also recorded highest growth of 6.8 percent in eight years. The government has surpassed the tax collection target of Rs3104 billion, as Rs3115 billion were collected in the last financial year," Dar informed.

"FBR's tax-to-GDP ratio has registered a substantial increase of one percent. Foreign exchange reserves have increased to $23 billion, out of which SBP reserves now stand at $18.037 billion and that of scheduled banks at $4.960 billion," the minister added.

"Inflation remained confined to less than 3 percent, at 2.89 percent during the period FY 2016," he elaborated.

Talking about the budget deficit, the minister said that it remained at 4.4 percent of the GDP against the target of 4.3 percent, as provinces could not record surplus budget.

"We are also committed to reducing public debt, and lay the foundations for a more sustained growth," he expressed the resolve.

He said electricity load-shedding would be over in 2018 with the addition of over 10,000 MW of electricity to the system.

"As we move forward, our efforts would be to consolidate the economic gains achieved so far in order to move towards macroeconomic stability, higher growth and jobs creation," he added.

Dar informed the government had given top priority to the social sector by expanding the BISP allocation from Rs60 billion in FY 2013 to Rs115 billion in FY 2017, and increasing the coverage from 3.7 million to 5.46 million families.

"The income support annual stipend was increased from Rs12000 to Rs18000 during this period. The government has disbursed more than Rs250 billion to poorest families during the same period," Dar concluded.

DUBAI: Finance minister Ishaq Dar and IMF Mission Chief for Pakistan Harald Finger addressing a joint press conference after successful conclusion of the 12th and last review under the IMF programme. -INP

(Dawn, The News, Business Recorder and Daily Times also carried the story)

2. DAILY JINNAH

Daily JINNAH Islamabad Rawalpindi

روزنامہ جناح اسلام آباد راولپنڈی

جمعۃ المبارک 5 اگست 2016ء

انکم سپورٹ امداد جلد مستحقین تک پہنچائی جائے، گورنر بلوچستان

پسماندگی کو نظر انداز کرنے سے صورتحال مزید گھمبیر ہو جائیں گی، محمد خان اچکزئی

کوئٹہ (اے این این) گورنر بلوچستان محمد خان اچکزئی نے کہا ہے کہ غربت کے خاتمے کیلئے بے نظیر انکم سپورٹ پروگرام ایک اقدام ہے، بی آئی ایس پی کی فہرست میں درج شدہ 4لاکھ 49ہزار مستحقین تک جلد از جلد امداد پہنچائی جائے، پسماندگی کو نظر انداز کرنے سے صورتحال مزید گھمبیر ہو جائیں گی۔ ان خیالات کا اظہار انہوں نے جمعرات کے روز بینظیر انکم سپورٹ پروگرام کے ڈی جی عبدالمالک دہانی اور ڈائریکٹر عبدالرؤف سے گفتگو کرتے ہوئے کیا۔ گورنر بلوچستان نے کہا کہ صوبے میں غربت اور پسماندگی کے خاتمے کیلئے بینظیر انکم سپورٹ پروگرام (بی آئی ایس پی) کو پوری سنجیدگی کے ساتھ صوبے بھر کے غریب اور نادار افراد کے گھر کی دہلیز تک پہنچانے کے لئے بھرپور اقدامات کیے جائیں۔ بی آئی ایس پی کے 2010ء کے سروے میں جن مستحقین کی نشاندہی کی گئی ہے ان کی اب تک معاشی امداد سے محرومی پر تشویش کا اظہار کرتے ہوئے گورنر بلوچستان نے متعلقہ ذمہ داران پر زور دیا کہ بی آئی ایس پی کی فہرست میں درج شدہ 4لاکھ 49ہزار مستحقین تک جلد از جلد معاشی امداد پہنچائی جائے، پسماندگی اور غربت کو نظر انداز کرنے سے صورتحال مزید پیچیدہ اور گھمبیر ہو جائے گی۔

3. EDITORIAL PUBLISHED IN DAWN

DAWN ISLAMABAD, FRIDAY AUGUST 5, 2016

OPINION

BY SAKIB SHERANI

Poverty of our reform ambition

Pakistan's vision and appetite for reform is too limited

THE passage of the integrated Goods and Services Tax (GST) legislation in the Indian *Rajya Sabha* is a landmark measure. Years in the making, it has taken a clear-headed determination by prime minister Modi's government to steer it through both houses of parliament. By reducing the complexity of the Indian tax system, this reform will decrease the cost of compliance for Indian businesses and lead to a reduction in their overall costs. It also moves India closer to being a true "common market", hence unlocking economies of scale for its businesses. The resulting improvement in their competitiveness is estimated to add between 1 to 2 percentage points a year to India's economic growth.

This is a big move, a bold measure by the Modi-led government — but not the only one. It follows on the heels of the successful launch of the "Make in India" campaign, spearheaded by the Indian prime minister himself. That initiative, just within its first year, has attracted US$ 65 billion in "greenfield" (i.e. into new projects) foreign direct investment into India, helping it leapfrog China by a big margin as the top FDI destination in emerging markets in 2015. (What a difference leadership can make. While Mr. Modi has been busy constructing policies for taking India to the next level, and travelling the world to attract investment (and isolate Pakistan), our "Metro-vision" prime minister has been busy buying Rolexes and suits in London).

India is, of course, playing catch up with China. China's economic reforms, while weak in certain areas such as the financial sector, have produced some stellar overall results over a four decade period. One of its most recent big moves has also been the integration of the value added tax. China's tax reforms have yielded additional revenue equivalent of 11 percentage points of GDP between 2008 and 2014 — increasing the tax-GDP ratio from 18pc to over 29pc. More than revenue considerations, the Chinese also appear to understand the demands of the global marketplace and have responded via their policy framework.

No such compulsions or considerations appear to clutter the minds of Pakistani policymakers. While some "big moves" (by Pakistani standards) have been made of recent on the tax front, most notable being the re-valuation of real estate – for which the finance minister and his team deserve kudos and full praise — the primary motivation appears to be revenue-generation. Since the revenue measures taken since 2013 have been without an over-arching design, nested within a growth strategy and framework, the cumulative result has been that the cost of doing business for formal firms (documented businesses) has increased significantly. As a result, Pakistan's global ranking on the World Bank's *Cost of Doing Business* index has slipped 10 places since 2013 to 138. On the "ease of paying taxes" the country's rank is now 171st in the world — virtually at rock bottom. On the measures of "number of tax payments" and "number of hours spent on tax matters", Pakistan's latest global rank is 168 and 177 respectively.

More perniciously, the "tax arbitrage" — the difference between what a documented business has to pay in taxes and the advantage accruing to a non-tax paying firm — has widened to the point where the informal economy is growing at the expense of the formal economy. Clearly this is not an intended or beneficial outcome of the current policy framework. Hence, one of the foremost reform areas that needs to be addressed to improve Pakistan's international competitiveness and to re-invigorate economic growth, is tax policy and administration.

At the core of this reform should be a vision for a modern, independent, professional, IT-enabled FBR administering an integrated (covering goods as well as services) Value Added Tax across Pakistan. The fragmentation of the tax bases and split assignments is creating distortions and coordination issues. Pakistan has moved from a position of strength to weakness relative to China and India in terms of how growth-supportive its tax framework is.

Pulling off big-ticket economic reform requires vision, understanding, commitment, patience and the willingness to expend time, effort and political capital. Fortunately, the China-Pakistan Economic Corridor (CPEC) provides a mega-opportunity and an entry point into the kind of meaningful, wide-ranging internal reform of economic governance and management that Pakistan so desperately needs. These reforms encompass the financial sector, logistics and transport, overall competition in the economy, tax policy as well as administration, among a host of others.

Beyond these specific areas, over-arching reform is required in one aspect of economic governance without which CPEC or any other initiative relating to the economy will not be able to succeed: overhauling and modernising Pakistan's civil service.

The most anti-reform constituency in Pakistan, contrary to popular perception, is not the politicians but the bureaucracy. Barring occasional, individual reform champions, the bulk of Pakistan's civil service has become an entrenched vested interest that is protecting unimaginably huge rents, and for whom serious and meaningful reform that will alter the *status quo* for the better is anathema. While the FBR bureaucracy is the most obvious example, it is not an outlier: the entire civil service has over the years appeared to align itself to protecting its "empire of rents". This empire straddles everything from public procurement to land allotment to tax-exempt or concessionary plots, perks and privileges, to re-employment on contract.

With the politicians becoming wiser since 2008, these rents are being shared — but the pie appears to have grown to accommodate new demands. Hence, any reform effort that attempts to ignore the "elephant in the room" — institutional reform – will have little chance of succeeding. And if institutional reform is the elephant in the room, the 700-pound gorilla sitting in the corner is civil service reform. Without slaying these dragons, Pakistan's quest for a modern, vibrant, globally-connected and inclusive economy will remain a pipe dream, CPEC notwithstanding. ■

The writer is a former economic adviser to government, and currently heads a macroeconomic consultancy based in Islamabad.