DAWN

13th May, 2019

Headwinds of our own making

The stock market lost almost 1,400 points and the prices of essential items skyrocketed after Prime Minister Imran Khan carried out the second shakeup in the country's economic team.

Pre-budget changes had begun earlier with the removal of Asad Umar as finance minister soon after he returned from Washington waiving victory signs over 'successful' negotiations with the International Monetary Fund (IMF) and castigating people who talked about his exit from the Ministry of Finance.

State Bank of Pakistan (SBP) Governor Tariq Bajwa was then replaced by the IMF's mission chief for Egypt, Reza Baqir. The Federal Board of Revenue (FBR) chairman Dr Jehanzeb Khan was replaced by Syed Shabbar Zaidi of A.F. Ferguson, a chartered accountancy firm, as the talks with the IMF were still halfway through. They need a fair time to grasp the ground situation.

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The timing of such a massive reshuffle is mindboggling to say the least: two of the three key inductees had perhaps never met the prime minister before.

With blessings from influential quarters outside the PTI, Mr Umar has since been persuaded to lead a parliamentary panel on finance to keep a watch on the new economic team.

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Thus, markets continue to remain jittery as small suppliers and middlemen take advantage of the supply-demand dynamics at the start of Ramazan. Small investors and poor consumers remain at the receiving end.

The so-called agreement with the IMF could not be reached until the 'scheduled deadline' of May 10 as the new negotiating team comprising Dr Abdul Hafeez Shaikh and Reza Baqir haggled with the IMF staff mission. The political cost of a steep adjustment and the credibility of the deliverables on international commitments demand a trade-off.

This becomes more relevant because of a related and parallel challenge posed by the Financial Action Task Force (FATF), the Paris-based watchdog on financial crimes. A top-level delegation of the Ministry of Finance, assisted by relevant agencies, will spend almost a week in Colombo to convince the FATF about the 'success stories' in Pakistan's fight against money laundering and terror financing.

The intervening uncertainty amid a leadership gap has already caused the government a major setback on the FATF front. The National Assembly's Standing Committee on Finance and Revenue

rejected a bill seeking amendments to Anti-Money Laundering (AML) Act 2010. The amendment would have helped the FATF in dealing with the on-site verification of Pakistan's actions in the upcoming May 15-17 meetings.

The opposition parties in parliament dubbed the government team non-serious on the AML amendment for not providing safeguards against the misuse of the law by investigation officers who could arrest anybody on suspicion of being involved in money laundering. Given Pakistan's changing environment, many parliamentarians suspected such a blanket power to investigation offices could be used even against political workers unless there were checks and balances.

The government's side gave the examples of Saudi Arabia, China and Afghanistan where similar laws were in place to fight money laundering and terror financing. But some members of the National Assembly believed the democratic credentials of these countries were not of acceptable standards. Strangely, the government's side wasted almost two weeks to incorporate some changes to the proposed amendments to ensure the need for a warrant or magisterial oversight for an arrest.

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The parliamentarians have, meanwhile, castigated Mr Khan for allegedly reporting wrong debt numbers. They have demanded that the National Assembly's Standing Committee on Finance should give a briefing to the prime minister.

This came after testimony before a panel by the director general of the finance ministry's debt office, Abdul Rehman Warraich, in which he said the total public debt stood at Rs6.2 trillion or 58.4pc of GDP at the end of 2007-08, which increased to Rs14.29tr or 63.8pc of GDP by 2013. He reported that total public debt increased to Rs24.95tr or 72.5pc of GDP at the end of 2017-18 and reached Rs28.61tr or 74.5pc of GDP by March.

In the near future, the total public debt as a percentage of GDP is expected to increase further. But it will start coming down thereafter. The debt-to-GDP ratio will be around 65pc after five years, subject to the improvement in macroeconomic conditions.

His argument was based on the expectation that the accumulation of public debt would slow down under the IMF programme. The era of high interest rate was likely to end soon following steep fiscal adjustments in coming years to help contain the public debt.

Under the IMF programme, Pakistan has to address the issue of negative net international reserves of about $12bn through foreign currency flows of eurobonds, sukuk and telecom licences besides increasing the next year's revenue collection to Rs5.3-5.5tr, curtailing the current account deficit to $8bn and increasing electricity and gas prices massively.

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